



# Intersect

SECTIONAL TITLE SERVICES



# GUIDELINES FOR TRUSTEES OF SECTIONAL TITLE SCHEMES

*(Please note that this document is simply a guideline, references to the prevailing Acts and the registered rules of the scheme must always be made.)*

## Contents

<b>Trusteeship:</b> .....	3
<b>Finance:</b> .....	5
<b>Budgeting:</b> .....	8
<b>Meetings:</b> .....	9
<b>Repairs and maintenance:</b> .....	10
<b>Maintenance, repair and replacement plan (MRRP):</b> .....	14
<b>Reserve Fund Forecast (RFF):</b> .....	15
<b>Insurance:</b> .....	16
<b>Rules and the enforcement thereof:</b> .....	17
<b>Do's and don'ts for trustees:</b> .....	18
<b>Disclaimer of Liability</b> .....	19
<b>Annexure A</b> .....	20
<b>Annexure B</b> .....	22
<b>Annexure C</b> .....	23
<b>Annexure D</b> .....	24

## Trusteeship:

The functions and powers of the body corporate must, subject to the provisions of the Act, the rules and any restriction imposed or direction given at a general meeting of the owners of sections, be performed and exercised by the trustees of the body corporate holding office in terms of the rules.

Trustees are elected at each Annual General Meeting (AGM), and at that AGM the number of trustees that will hold office for the ensuing year, is determined.

Each trustee stands in a fiduciary relationship with the body corporate, broadly speaking, the fiduciary responsibilities are as follows, refer Prescribed Management Rule 8.2, as follows:

*(2) Without derogating from the generality of the expression “fiduciary relationship”, the provision of subsection (1) implies that a trustee—*

- a) must in relation to the body corporate act honestly and in good faith, and in particular
  - i. exercise his or her powers in terms of this Act in the interest and for the benefit of the body corporate; and*
  - ii. not act without or exceed those powers; and*
  - iii. must avoid any material conflict between his or her own interests and those of the body corporate, and in particular—*
  - iv. not receive any personal economic benefit, direct or indirect, from the body corporate or from any other person; and*
  - v. notify every other trustee of the nature and extent of any direct or indirect material interest which he or she may have in any contract of the body corporate, as soon as such trustee becomes aware of such interest.**

A trustee need not be a member of the body corporate, however, the managing agent may not be a trustee unless he or she is a members of the body corporate.

A trustee ceases to hold office if that trustee:

- a) by written notice to the body corporate, resigns from office;
- b) is declared by a court to be of unsound mind;
- c) is or becomes insolvent and the insolvency results in the sequestration of that trustee's estate;
- d) is convicted, or has been convicted in the Republic or elsewhere, of theft, fraud, forgery, perjury or any other offence involving dishonesty;
- e) is sentenced to imprisonment without the option of a fine;
- f) is removed from an office of trust on account of misconduct in respect of fraud or the misappropriation of money;
- g) is removed from office by ordinary resolution of a general meeting; provided the intention to vote on the proposed removal was specified in the notice convening the meeting;

- h) is or becomes disqualified to hold office as a director of a company in terms of the Companies Act, 2008 (Act No. 71 of 2008); or
- i) fails or refuses to pay the body corporate any amount due by that trustee after a court or adjudicator has given a judgment or order for payment of that amount.

A trustee may, at any time, call a trustee meeting, provided that at least 7 days' notice is issued to all trustees, unless the matter is of an urgent nature.

Members, registered bondholders, holders of future development rights and the managing agent may attend trustee meetings, and may speak on any matter on the agenda, but they are not entitled to propose any motion or to vote; provided that such persons are not entitled to attend those parts of trustee meetings that deal with:

- a) discussions of contraventions of the Act or rules; or
- b) any other matters in respect of which the trustees resolve that the presence of any such persons would unreasonably interfere with the interests of the body corporate or any person's privacy.

The Chairperson is elected at the first meeting of the trustees after the AGM, and his or her principle role is to manage the meetings in an orderly fashion.

It must be noted that the Chairperson's role is not an executive one, however, each trustee is entitled to one vote; provided that if the deliberative votes of the trustees, including that of the chairperson, are tied, the chairperson has a casting vote, unless there are only two trustees.

Holding office as a trustee is a considerable responsibility.

Contrary to popular belief, it is in fact the Trustees that are responsible for all matters relating to the body corporate, not the managing agent. The trustees may delegate responsibilities and tasks to the managing agent, or any other person or party, but, at no stage, may they abdicate their responsibilities.

The Act requires that the body corporate indemnifies the Trustees against all costs, losses and expenses arising as a result of any official act that is not in breach of their fiduciary obligations, failing that a trustee may be held accountable in his or her personal capacity. So, always err on the side of caution.

## Finance:

The Trustees are responsible for determining and raising contributions (levies) for the scheme.

Levies on sections must be calculated in terms of the participation quota, which is found on the last sheet(s) of the sectional plan, and levies on exclusive use areas may be calculated using a number of methods, the most common being a percentage of the average rate on which levies for sections are calculated.

Example: (refer to Figure 1 of **Annexure A**):

A scheme has 10 sections. The total square meterage of the sections amounts to 1000 sqm. Therefore, each section is 100 sqm. The participation quota is calculated by dividing the square meterage of the section by the total square meterage of all the sections i.e.  $100/1000 = 0.1000$ . A total monthly levy income required on the sections, in terms of the most recent budget approved by the Trustees or body corporate in the case of an annual general meeting, is then multiplied by the participation quota allocated to each section.

Using the example above, let's assume that a total monthly levy income of R10,000.00 per month is required for the sections. This will result in each section being responsible for a levy of R1,000.00 per month. See figure 1 in **Annexure A**.

The levies allocated to exclusive use areas are different, as exclusive use areas do not form part of the participation quota but are part of the common property.

Exclusive use areas could include any (or more) of the following: storerooms; garages; gardens; parking bays; patios; balconies etc.

Obviously, the levy required to maintain, insure and cover the costs of rates and taxes of the above areas would be lower than that of sections due to their physical nature, therefore the Trustees would typically determine a percentage of the levy allocated to sections that may be used to calculate the levies to be allocated to exclusive use areas.

This is most easily done by calculating the rand per square metre of levies on sections and multiplying it by the percentage agreed to by the Trustees for levies on the exclusive use areas.

Example (refer Figure 1 in **Annexure A**):

Using the example above, let us assume that the scheme known as 'Example Court' has all of the above exclusive use areas.

The rand per square metre charged for the sections amounts to R10.00.

Let's assume that the Trustees have determined the following percentages for calculating the levies on exclusive use areas:

Structures:

Storerooms - 20%

Garages - 25%

Balconies - 20%

Patios - 15%

Land:

Gardens - 15%

Parking areas - 10%

Once the percentage, and therefore the rand per square metre, is determined for exclusive use areas, the rand per square meter for each area is multiplied by the square meterage of the area concerned.

Determining the percentage is based on the physical nature of the exclusive use area concerned, i.e. a typical garage has a roof, four walls and a door, whereas a parking bay is merely an area of tarmac or paving. Therefore, the costs involved to maintain, insure, and cover the costs of rates and taxes for a garage would be higher than those of a parking bay and so on. The Trustees of each scheme would need to ascertain their specific needs, as some garages have windows and automated doors, and some parking bays have carports or covers over them etc. Once all the above have been determined and agreed upon, a total monthly and annual levy can be determined.

**NOTE:**

*Some schemes do vary from the above and have what is known as a notional participation quota. This a participation quota which is calculated and agreed upon by means of a resolution and is usually adopted if there are various inequities in the original participation quota as calculated when opening the sectional title register and reflected on the section plan.*

For the most part, levies are due on the first day of each month and are paid in advance. Given that most managing agents too work on this premise, it is not recommended that the management rules or Trustee resolutions be altered to accommodate a date other than the first.

Defaulting owners are responsible for all costs incurred in the recovery of outstanding levies, including collection commission, and interest is usually applied, at a rate determined by the Trustees from time to time, though rules do apply to the application of interest.

Special contributions ("special levies") too are determined and raised by the Trustees. Sections 3(3)&(4) of the STSMA read as follows:

*(3) Any special contribution becomes due on the passing of a resolution in this regard by the trustees of the body corporate levying such contribution and may be recovered by the body corporate by an application to an Ombud, from the persons who were owners of units at the time when such resolution was passed: Provided that upon the change of ownership of a unit, the successor in title becomes liable for the pro rata payment of such contributions from the date of change of such ownership.*

*(4) "Special contribution", for the purposes of this section, means any contribution levied under subsection (1) other than contributions which arise from the approval of the estimate of income and expenditure at an annual general meeting of a body corporate, determined to be a contribution to be levied upon the owners during the current financial year.*

Special levies are also allocated in accordance with the participation quota and hardly ever are the exclusive use areas taken into account, unless the special levy is raised in order to directly attend to maintenance or an improvement specifically for those areas, such as the installation of canopies over parking bays etc.

When raising a special levy, the Trustees must pass a formal resolution at a meeting of the Trustees, and a letter must be sent to all owners. If raised to implement an improvement, a letter in this regard providing all details (such as the need and desirability for the improvement, the manner in which it will be funded, the cost and the service provider selected, etc.) must be issued to all members, not less than 30 days before the anticipated improvement takes place. This is due to the fact that owners do have the right to object to the proposal and, in such a case, a special general meeting must then be called whereby the Trustees must ratify their decision. The Act also differentiates between luxurious and non-luxurious improvements, and different rules apply to each.

Special levies raised to cover the costs of urgent, extraordinary and/or unforeseen repairs and maintenance need not be handled in such a manner, but must also not duplicate that which has been catered for in the approved budget.

## Budgeting:

Preparing the annual budget is a primary task of the Trustees.

Budgets should be drafted 2 months prior to the financial year end of the scheme and include all foreseen expenses for the year, excluding any capital or major repairs, maintenance or replacement of equipment that may be provided for in the maintenance repair and replacement plan (MRRP), more fully explained later.

Once the foreseen expenses have been provided for, the levy required to offset same may be determined.

A typical sectional title budget may look similar to the example in **Annexure B**.

If the budget is approved by the Trustees 2 months prior to the end of the financial year, then levy increases, of up to 10%, may be applied at the beginning of the financial year, rather than awaiting the AGM, some 4 months later.

Waiting for the AGM before implementing levy increases, if needed, would either require the increase to be backdated or may cause cash flow difficulties, as the expenses may increase at the beginning of the financial year.

The ideal budget breaks even and does not provide for a (material) deficit or surplus, however, if building reserves is a priority, then a projected surplus can be explained and ratified at an AGM.

Once the budget is approved at an AGM, the Trustees must operate within those budgetary parameters, or, if a material variance (over expenditure) is envisaged, the members should be notified thereof and ratify same.

Some schemes, at an AGM, may impose certain restrictions on the Trustees, over and above the requirement to operate within the budgetary parameters, so always refer to the minutes of the previous AGM to ensure that you are not falling foul of any restrictions imposed.

Budgets determine the levies, which are the lifeblood of the scheme, the more attention and thought that is applied to the budgeting process, the better.



## Meetings:

The Act makes provision for decisions to be taken at different types of forums. These forums are trustee meetings, annual general meetings and special general meetings.

### Trustee meetings

Trustees meetings may be called by any trustee, giving at least 7 days' notice, unless the meeting is of an urgent nature and the notice period needs to be waived. Typically, the Chairperson will call the meetings – not the managing agent, as is often believed.

Each trustee, including the Chairperson, has one vote at the trustee meetings, regardless of how many units they own in the scheme.

Votes are counted by a show of hands and are passed by a majority vote. If there is an even number of trustees and no majority vote is achieved, the chairperson has a casting vote to determine the outcome of the vote.

We, typically, advocate quarterly trustee meetings.

### Annual general meeting

All meetings, other than the annual general meeting (AGM), are special general meetings (SGM).

AGM's must be held within 4 months of the preceding financial year end. At least 14 days' clear notice must be given to all members and bondholders.

Rules apply to the notices, quorum requirements and voting procedures. Refer to Section 6 of the Act for more details, and, if not silent on the topic, refer also to the management rules of the scheme.

The quorum requirement for any general meeting, including the AGM is 1/3 (33.33%), of the members entitled to vote, calculated in value.

The Act prescribes minimum agenda items, however the trustees may choose to add items to the agenda for discussion at the AGM.

The prescribed items are laid out in **Annexure D**.

Voting is determined by majority vote at an AGM, calculated in value. Each vote is allocated a value based on the participation quota (PQ), calculated based on the size of the member's unit(s).

Voting may take place by a different method, but only if rules have been established to that effect as required in the Sectional Titles Schemes Management Act.

### **Special general meeting (SGM)**

Special and unanimous resolutions are tabled at special general meetings.

Like the AGM, a quorum of no less than 1/3 (33,33%) is required when a special resolution is tabled.

For a unanimous resolution, a quorum of no less than 80% is required.

A quorum is calculated by using PQ values and the number of sections represented at the meeting.

A special resolution passes when 75% of the members present vote in favour of a motion, whereas a unanimous resolution requires 100% of the members present to vote in favour of a motion.

### **Repairs and maintenance:**

Please note that this guideline is merely to assist the Trustees when making decisions regarding the repairs and maintenance of the scheme, very often precedent has been set with regards to some issues, and these, as long as they are both reasonable and within the ambits of the Acts and rules, may be applied in future cases.

Remember that when making decisions the Trustees are setting precedents all the time.

Each case should be based on its merits, and the Trustees are often required to use their discretion when deciding how to go about a particular task, and how the costs thereof will be funded. There are many 'grey' areas when dealing with Sectional Title repairs and maintenance, the most typical one being the differences between owner (private) and body corporate (common property) costs, liabilities and obligations.

The Body Corporate's obligations in general are:

- The body corporate is responsible for the repairs and maintenance and upkeep of common property.
- All pipes, ducts, wiring etc. for the common property, or which services more than one unit, must be repaired and maintained by the body corporate.

The Owner's obligations in general are:

- The owner must maintain and keep in a good state his section. He must also keep neat and tidy any part of the common property to which he has a right (i.e. exclusive use areas – such as gardens, patios, balconies, parking areas, garages etc.).
- The owner is responsible for the costs and remedy of all damages to his section, however, if the damage is caused as a result of an external factor, then the owner may have a claim against another owner and or the body corporate and, if caused by an insured peril, then a claim may be made against the body corporate policy for damages to the fixtures and fittings within his section.

**Note:**

*Trustees should be wary of involvement in disputes between owners. Such matters should be referred to the Ombud, (CSOS). The body corporate does however get involved if the costs of repair of the damage of the affected section are claimed via the body corporate's insurance policy.*

Specifics:

Window Frames:

The costs of replacement/repair are generally split on a 50/50 basis between owner and body corporate. If the repair/replacement to the frame is as a result of owner's negligence, then the body corporate could refuse to pay half the costs. By the same token, if the repair/replacement is as a result of the body corporate's negligence, then the owner could refuse to pay half of the costs.

This is where the question of precedence is very important. Some schemes have formally resolved, or even amended their rules to negate arguments in this regard.

Suggestion: It is often best to stick to the 50/50 split, as often negligence is difficult to prove.

Windowpanes:

This is almost always a cost for the owner. There are exceptions, but they are few and far between.

Broken panes as a result of an insured event are often not worth claiming for, as the cost of the excess outweighs the cost of replacement. In many instances, where panes are broken as a result of wind, the owner did not properly close or tighten the window.

Suggestion: It is best to adopt a policy that owners pay for window panes and that window frames are split on a 50/50 basis.

Geysers:

The Act points out that if a hot water installation services only one unit, then the maintenance and or replacement of that installation is for the owners' account. But, having said that, geysers are fixtures and are, more often than not, included in the body corporate's insurance policy.

All insurance policies differentiate between burst and leaking geysers (the same rule applies for all water, sewerage and drainage pipes too). Many insurance policies include cover for both eventualities, however some only cover burst geysers. Any consequential damage caused as a result of either a leaking or a burst geyser or leaking or ruptured pipe is covered under the insurance policy. Insurance is dealt with in more detail later.

If a geyser bursts, the owner may claim from the insurer, and will be liable for the excess, which may be determined on the age of the geyser (on a sliding scale).

Arguments often ensue regarding excesses, but the answer is that if a member is claiming, he's likely due to pay an excess.

Suggestions:

If a geyser bursts:

1. Get the owner to have a new geyser installed.
2. Claim from the insurer
3. Claim for consequential damage, if any
4. Get the owner to pay 100% of the excess in terms of the claim.

If a geyser leaks:

1. Get the owner to have the geyser repaired
2. Check if the policy covers repairs
3. Claim for repairs (if covered) and consequential damage, if any
4. The owner covers the costs of repair
5. The owner pays the excess of the consequential damage, if applicable

Replacing geysers prior to them bursting or leaking is for the owner's own account.

Doors:

All doors within a section are to be repaired and maintained by the owner.

Doors on the common property are to be repaired and maintained by the body corporate.

Doors on both the common property and within a section (i.e. front doors), may be attended to on the same basis as windows, as the doors (like windows) form part of the median line, i.e. the line between a section and the common property, or the line between sections.

Suggestion: External doors should be replaced/repared on a 50/50 basis, and this includes doors to common property or to exclusive use areas, unless the rules, specifically, state otherwise.

Trees:

All trees on common property are to be maintained/removed by the body corporate. Trees in exclusive use areas to be maintained by the owner enjoying that area, but removal (as the roots are actually in common property) should, in effect, be performed and paid for by the body corporate.

Remember that removal of trees does interfere with the harmonious appearance of the scheme and should only be done if necessary.

Regular or routine maintenance that should be undertaken by Trustees (other than daily and or monthly ad-hoc repairs and maintenance):

**Annual:**

- Rain gutters: Inspect for secure fastening and clean out
- Roofs and Flashing: Inspect and repair
- Water Heaters: Inspect, drain and descale
- Fire Extinguishers: Inspect and recharge
- Smoke Alarms: Inspect and test battery
- Storm Drains: Inspect and clean
- Lawn Sprinklers: Inspect, test, replace heads, and reset timers
- Exterior Doors: Inspect weather stripping, thresholds, hinges, door closers and locks
- Parking Lot: Inspect for cracks and potholes
- Balcony and Stairwell Railings: Inspect for secure fastening
- Exterior of buildings: Inspect for wood rot, loose or damaged trim, paint deterioration and loose or damaged siding
- Audit of the lifts, if applicable, by the service provider
- Tree trimming
- Drain/stack pipe cleaning and clearing of roots that may damage the drains

**Quarterly:**

- Swimming Pool: Inspect filters and pumps, oil and adjust
- Exterior, Common Area and Signage Lighting: Inspect and adjust timers or photocells.
- Pest control
- Servicing of the electric fence, including removing/cutting back vegetation that may damage the fence

**Maintenance, repair and replacement plan (MRRP):**

In the past, many schemes found themselves without sufficient funds to perform maintenance projects, forcing them to either delay the project - leading to further deterioration - or to raise special contributions to finance the project.

Prescribed Management Rule 22 of the Sectional Title Schemes Management Act basically requires bodies corporate to draw up 10-year plans, in which they estimate the total maintenance costs needed and raise contributions to offset the required amount.

The trustees are obliged to prepare a MRRP for the common property, in writing, setting out, inter alia, the following:

1. the major, capital, items expected to require maintenance, repair or replacement within the next 10 years;
2. the present condition or state of repair of those items;
3. the time when those items or components of those items will need to be maintained, repaired or replaced;
4. the estimated cost of the maintenance, repair or replacement;
5. the expected usable life of those items or components once maintained, repaired or replaced;
6. any other information the body corporate considers relevant.

When regular maintenance is planned for, it allows for time and finances to be managed more efficiently. Moreover, if it is carried out regularly the maintenance tasks will become less demanding and the costs are distributed more evenly over time. Taking a preventative approach with maintenance tasks tends to be more cost-effective in the long run compared to the cost of emergency repairs. An example of a summary of an MRRP can be found in **Annexure C**.

### **Reserve Fund Forecast (RFF):**

Along with the MRRP, bodies corporate need to maintain a reserve fund that is used to fund the MRRP. Both the MRRP and the RFF have to be presented at the AGM, and approved by the members.

The MRRP should also be amended as and when capital or major repairs are completed, and/or replacements made and/or acquisitions made.

There are statutory minimum contributions to the reserve fund, depending on the ratio between the reserve fund balance and the administrative fund contributions.

Fortunately, the Act has taken the guesswork out of the equation.

Regulation 3 to the Act explains exactly how to calculate the reserve fund for a financial year, (except if it's the first financial year), in the following 3 possible scenarios:

### Scenario A

If the amount in the reserve fund at the end of the last financial year is less than 25% of the total levies collected by the body corporate in the last financial year, then the budgeted contribution to the reserve fund for the current year must be (at least) 15% of the total budgeted contribution to the administrative fund.

### Scenario B

If the amount in the reserve fund at the end of the previous financial year is the same as, or greater, than 100% of the total contributions to the levy fund for the previous year then there is no minimum contribution required for reserve fund.

### Scenario C

If the amount in the reserve fund at the end of the previous financial year is more than 25%, but less than 100%, of the total levies paid by the members for the previous financial year; then the budgeted contributions to the reserve fund must be (at least) the same amount that the body corporate has budgeted to be spent on normal repairs and maintenance during the year.

An example of a simple RFF can be found in **Annexure C**.

#### NOTE:

We recommend the services of a professional, preferably a quantity surveyor, to draft the aforementioned plans, after which the trustees can update, adjust or edit as needed. A regular update, but the same professional, is also recommended. For a full-scale building audit which reveals structural defects, rising damp, exposed asbestos, roofing and guttering problems, plumbing and electrical issues and the existence and damage of termites and borers, we recommend the service of a specialist contractor.

### Insurance:

The body corporate's insurance covers the buildings and common property, as well as all fixtures and fittings within the sections.

Movables are not covered, unless specifically endorsed in the policy wording.



Trustees should always weigh up the costs of a claim against the effect of claiming from insurance, as claims histories do affect the rate applied (which determines the premium) at renewal.

Public liability, trustee indemnity and employer liability should always be part of the policy.

At each AGM, owners may require additional items to be added to the insurance policy.

Renewal terms should be discussed with the appointed broker 6-8 weeks prior to renewal.

## Rules and the enforcement thereof:

There are two types of registered rules, namely management and conduct rules, some schemes also have house rules, but these are not registered.

### Management Rules:

These deal with the management of the scheme and includes *inter alia*: the duties and functions of the Trustees, owners and managing agents; the determination and allocation of levies; proceedings at general and Trustees meetings etc.

### Conduct Rules:

These deal with the conduct of members in the scheme and includes *inter alia*: letting of units; pets; occupancy; signage; laundry etc.

### House Rules:

Although the new Act and regulations do not provide for house rules, the old Acts did, and these are basically guidelines for members and a condensation or summary of the above rules.

The enforcement of rules can be difficult, and often contentious, most particularly those of the conduct rules. Some rules give the Trustees certain powers with regards to the enforcement of rules, such as implementing fines or penalties for breach, however, for the most part, the Trustees may do all things necessary and reasonable in pursuit of enforcement of the rules of the scheme.

If the Trustees and/or their agents are unsuccessful in the enforcement of a rule, or an owner is in continual breach, and or a dispute arises, then referral to CSOS for dispute resolution or, in some instances, legal action, may be an option, but often legal action too is unsuccessful not to mention very costly.

## Do's and don'ts for trustees:

### 1. Do budget correctly

Correct budgeting is an important aspect of financial management and the scheme's ability to pay all of its accounts every month. If this is done correctly there should be no need to raise special levies for unforeseen projects as there will be a healthy and positive cash flow, and a reserve fund.

### 2. Do play an active role in the running of the scheme

Don't pay any contractors without first checking their invoices and the actual work completed.

Know what the job at hand was and what is being paid for.

It is very important to know what is happening within the scheme and what maintenance or repairs are being undertaken, as well as by whom. Those who do not take an interest or ask questions cannot complain later if things do go wrong.

### 3. Do appoint the right people to help in the management of the scheme

Competent people will do the job correctly the first time round and should not have to be micro-managed.

### 4. Don't neglect to increase the monthly levies

If the financials show that this is necessary, it is good financial practice to adjust the levies as soon as it is seen that the amounts received each month need to be increased in line with inflation or any cost increases. Keeping members happy by keeping the levies low does not do anyone any favours. Low levies often lead to certain maintenance or repairs being neglected through lack of funds, or special levies having to be raised to cover large unforeseen bills.

### 5. Don't raise special levies for budgeted items

In terms of section 3(3) of the Act and prescribed management rule (PMR) 21(3)(a) the trustees may from time to time raise special contributions for expenses which are necessary but were not budgeted for in the estimated expenditure approved at the last AGM. Trustees do not have the power to raise a special contribution when a budgeted expense exceeds the approved estimate. They can only raise a special contribution for unexpected expenses which were not included in the budget. These special contributions may be payable in one lump sum or by such instalments as the trustees think fit.

It is important to note that the trustees alone have the power to raise special contributions for genuinely necessary and unbudgeted expenses. Many owners think that because they were not consulted by the trustees or did not vote in favour of a special contribution, that it was invalidly raised. Not so! Trustees are under no obligation to consult owners in this regard and are entitled to raise special contributions in accordance with the provisions of PMR 21(3)(a).

#### **6. Don't be too quick to pay contractors**

Correct budgeting is an important aspect of financial management and the scheme's ability to pay all of its accounts every month. If this is done correctly there should be no need to raise special levies for unforeseen projects as there will be a healthy and positive cash flow, and perhaps even a reserve fund.

Don't pay any contractors without first checking their invoices and the actual work completed. Know what the job at hand was and what is being paid for.

#### **7. Don't neglect regular maintenance to the buildings, grounds, or equipment**

Neglecting maintenance can very quickly lead to deterioration, which then leads to the value of the scheme and the properties within it decreasing.

### **Disclaimer of Liability**

With respect to this document, neither Intersect, nor any of its employees, makes any warranty, express or implied, including the warranties of merchantability and fitness for a particular purpose, or assumes any legal liability or responsibility for the accuracy, completeness, or usefulness of any information, apparatus, product, or process disclosed, or represents that its use would not infringe privately owned rights.

## Annexure A

(for illustrative purposes only)

FIGURE 1

### LEVY AL LOCATION FOR THE SCHEME KNOWN AS EXAMPLE COURT

Section	Area	PQ	Levies	R/Sqm
1	100	0.1000	R1,000.00	R10.00
2	100	0.1000	R1,000.00	R10.00
3	100	0.1000	R1,000.00	R10.00
4	100	0.1000	R1,000.00	R10.00
5	100	0.1000	R1,000.00	R10.00
6	100	0.1000	R1,000.00	R10.00
7	100	0.1000	R1,000.00	R10.00
8	100	0.1000	R1,000.00	R10.00
9	100	0.1000	R1,000.00	R10.00
10	100	0.1000	R1,000.00	R10.00
<b>TOTALS</b>	<b>1000</b>	<b>1</b>	<b>R10,000.00</b>	<b>R10.00</b>

#### Exclusive Use Areas:

Description	Area	% of levy on sections	Rand per square meter	Levy payable
Garage 1	25	25%	R2.50	R62.50
Garage 2	25	25%	R2.50	R62.50
Garage 3	25	25%	R2.50	R62.50
Garage 4	25	25%	R2.50	R62.50
Garage 5	25	25%	R2.50	R62.50
<b>TOTALS</b>				<b>R312.50</b>

Storeroom 1	7	20%	R2.00	R14.00
Storeroom 2	7	20%	R2.00	R14.00
Storeroom 3	7	20%	R2.00	R14.00
Storeroom 4	7	20%	R2.00	R14.00
Storeroom 5	7	20%	R2.00	R14.00
<b>TOTALS</b>				<b>R70.00</b>

Patio 1	5	15%	R1.50	R7.50
Patio 2	5	15%	R1.50	R7.50
Patio 3	5	15%	R1.50	R7.50
Patio 4	5	15%	R1.50	R7.50
Patio 5	5	15%	R1.50	R7.50
<b>TOTALS</b>				<b>R37.50</b>

Description	Area	% of levy on sections	Rand per square meter	Levy payable
Balcony 1	15	20%	R2.00	R30.00
Balcony 2	15	20%	R2.00	R30.00
Balcony 3	15	20%	R2.00	R30.00
Balcony 4	15	20%	R2.00	R30.00
Balcony 5	15	20%	R2.00	R30.00
<b>TOTALS</b>				<b>R150.00</b>

Parking Bay 1	17	10%	R1.00	R17.00
Parking Bay 2	17	10%	R1.00	R17.00
Parking Bay 3	17	10%	R1.00	R17.00
Parking Bay 4	17	10%	R1.00	R17.00
Parking Bay 5	17	10%	R1.00	R17.00
<b>TOTALS</b>				<b>R85.00</b>

Garden 1	65	15%	R1.50	R97.50
Garden 2	65	15%	R1.50	R97.50
Garden 3	65	15%	R1.50	R97.50
Garden 4	65	15%	R1.50	R97.50
Garden 5	65	15%	R1.50	R97.50
<b>TOTALS</b>				<b>R487.50</b>

**TOTAL LEVY INCOME:**

MONTHLY	R11,142.50
ANNUALLY	R133,710.00

## Annexure B

Example of a simple budget

<b>Income:</b>	<b>Total</b>
Interest Received	R 60 000
Levy Apartments	R 2 875 352
Levy Garage	R 30 404
Levy Maids Room	R 117 676
Levy Parking Bay	R 286 252
Levy MRRP (see provision)	R 740 912
	<hr/>
	<b>R 4 110 596</b>

<b>Expenditure:</b>	
Managing Agents Fee	R 223 832
Accounting Fee	R 4 320
Tax Return Fee	R 1 650
Audit Fee	R 20 000
Bank Charges	R 100
Consumables	R 4 500
Electricity	R 310 000
Insurance	R 228 200
Pest control	R 17 500
Printing and Stationery	R 2 500
Professional Fees	R 15 000
Sundry expenses	R 15 000
Refuse removed	R 105 400
Security Services	R 556 200
Sewerage	R 186 000
Water	R 236 000
Water Connection charge	R 39 320
Salaries - Body Corporate staff	R 870 628
Repairs and Maintenance - General	R 30 000
Repairs and Maintenance - Security	R 15 000
Repairs and Maintenance - Fire Equipment	R 15 000
Repairs and Maintenance - Plumbing	R 45 000
Repairs and Maintenance - Electrical	R 35 000
Repairs and Maintenance - Doors and Windows	R 50 000
Garden Services	R 78 480
Lift Maintenance Contract	R 265 000
MRRP - Provision	R 740 912
	<hr/>
	<b>R 4 110 542</b>

<b>Surplus / (deficit)</b>	<hr/> <b>R 54</b> <hr/>
----------------------------	-------------------------

## Annexure C

Example of a simple MRRP and RFF

### MAINTENANCE REPAIR AND REPLACEMENT PLAN SUMMARY (MRRP)

YEAR	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	1	2	3	4	5	6	7	8	9	10
<b>BUDGET SUMMARY</b>	<b>R 1 055 970</b>	<b>R 489 566</b>	<b>R 49 870</b>	<b>R 47 876</b>	<b>R 1 302 664</b>	<b>R 65 926</b>	<b>R 106 055</b>	<b>R 70 095</b>	<b>R 77 104</b>	<b>R 84 815</b>
Electrical Systems	R 0	R 0	R 0	R 0	R 0	R 0	R 36 480	R 0	R 0	R 0
Plumbing and drainage	R 0	R 0	R 6 347	R 0	R 0	R 7 996	R 5 853	R 0	R 0	R 0
Painting and waterproofing	R 20 000	R 0	R 0	R 0	R 1 250 000	R 0	R 0	R 0	R 0	R 0
Carpet replacement (180m2)	R 0	R 200 000	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0
Replace the entrance doors	R 0	R 250 000	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0
Waterproofing the podium	R 1 000 000	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0
Roofs	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0
Lifts	R 9 136	R 10 049	R 11 054	R 12 160	R 13 376	R 14 713	R 16 184	R 17 803	R 19 583	R 21 541
Access and comms	R 2 313	R 2 544	R 2 799	R 3 079	R 3 386	R 3 725	R 4 098	R 4 507	R 4 958	R 5 454
Security Systems	R 4 489	R 4 938	R 5 432	R 5 975	R 6 573	R 7 230	R 7 953	R 8 748	R 9 623	R 10 586
Generator	R 17 991	R 19 790	R 21 769	R 23 946	R 26 341	R 28 975	R 31 872	R 35 060	R 38 566	R 42 422
Sump Pump	R 2 041	R 2 245	R 2 469	R 2 716	R 2 988	R 3 287	R 3 615	R 3 977	R 4 374	R 4 812

### RESERVE FUND FORECAST (RFF)

<b>Opening Balance</b>	<b>R 2 000 000</b>	<b>R 1 244 030</b>	<b>R 1 069 464</b>	<b>R 1 350 344</b>	<b>R 1 649 756</b>	<b>R 711 743</b>	<b>R 1 028 702</b>	<b>R 1 324 676</b>	<b>R 1 676 711</b>	<b>R 2 042 843</b>
<i>ADD: Maintenance Levies Received</i>	<i>R 300 000</i>	<i>R 315 000</i>	<i>R 330 750</i>	<i>R 347 288</i>	<i>R 364 652</i>	<i>R 382 884</i>	<i>R 402 029</i>	<i>R 422 130</i>	<i>R 443 237</i>	<i>R 465 398</i>
<i>LESS: Projected Expenses</i>	<i>R 1 055 970</i>	<i>R 489 566</i>	<i>R 49 870</i>	<i>R 47 876</i>	<i>R 1 302 664</i>	<i>R 65 926</i>	<i>R 106 055</i>	<i>R 70 095</i>	<i>R 77 104</i>	<i>R 84 815</i>
<b>Closing Balance</b>	<b>R 1 244 030</b>	<b>R 1 069 464</b>	<b>R 1 350 344</b>	<b>R 1 649 756</b>	<b>R 711 743</b>	<b>R 1 028 702</b>	<b>R 1 324 676</b>	<b>R 1 676 711</b>	<b>R 2 042 843</b>	<b>R 2 423 427</b>

## Annexure D

Order of business at an AGM:

1. confirm proxies, nominees and other persons representing members and issue voting cards;
2. determine that there is a quorum;
3. elect a person to chair the meeting, if necessary;
4. present to the meeting proof of notice of the meeting or waivers of notice;
5. approve the agenda;
6. approve minutes from the previous general meeting, if any;
7. deal with unfinished business, if any;
8. receive reports of the activities and decisions of trustees since the previous general meeting, including reports of committees;
9. approve the schedules of insurance replacement values referred to in rule 23(3), with or without amendment;
10. determine the extent of the insurance cover by the body corporate in terms of rules 23(6), (7) and (8);
11. approve the budgets for the administrative and reserve funds for the next financial year;
12. consider the annual financial statements;
13. appoint an auditor to audit the annual financial statements, unless all the sections in the scheme are registered in the name of one person;
14. determine the number of trustees to be elected to serve during the next financial year; and
15. elect the trustees;
16. report on the lodgement of any amendments to the scheme's rules adopted by the body corporate under section 10 of the Act and, if applicable, table a consolidated set of scheme rules;
17. deal with any new or further business;
18. give directions or impose restrictions referred to in section 7(1) of the Act; and
19. dissolve the meeting.