



## Financial Management - Budgets

The legislation prescribes that the body corporate must, by ordinary resolution, adopt 2 budgets for each financial year –

- The administrative fund budget
- The sinking fund budget

As identified in last week's eNewsletter, the administrative fund budget includes all those day-to-day recurrent expenses including those annually recurring. The sinking fund budget includes those expenses of a non-recurrent nature, usually not annual items and are of a capital nature. These budgets forecast anticipated expenditure, the administrative fund budget for the current 12 months and the sinking fund budget for the current 12 months and accumulation of a reserve for the next 9 years.

The budgets, once confirmed and adopted by the Owners at the Annual General Meeting, form the basis for setting the annual contributions payable by the Owner of each lot to both the administrative and sinking funds. In addition to levy contributions collected to cover the budgeted items, other income may be included in each fund.

Administrative Fund- additional income can include:

- reimbursement of legal expenses relating to the transfer of a management or service contract
- Interest from investment or administrative fund monies
- Fees received from inquirers
- Compensation received by order of an adjudicator

Sinking Fund – additional income can include:

- Monies received as insurance payments for the destruction of major capital items
- Interest received on sinking fund investments
- Funds received from the sale, disposal, or lease of common property
- Funds received from the sale of body corporate assets

Here it needs to be noted that the legislation requires that the sinking fund must allow for raising a reasonable capital amount both to provide for necessary and reasonable spending from the sinking fund for the financial year, and also to reserve an appropriate proportional share of amounts necessary to be accumulated to meet anticipated major expenditure over at least the next 9 years after the financial year.



### At the Annual General Meeting

A copy of the proposed budgets would have been prepared and a copy provided to all Owners prior to the AGM. At the AGM, a budget that is being proposed by the Committee can be adjusted by no more or less than 10% of the proposed budget amount.

*For example, a proposed administrative fund budget is \$5000. The administrative fund budget adopted by the body corporate at the annual general meeting may be between \$4500 and \$5500.*

The body corporate may vote for the change:

- Provided the change is only to provide for spending or remove amounts included in the proposed budget; and
- The spending relates to the financial year; and
- The motion to approve the spending is in the meeting agenda; and
- The spending is either not adequately provided for in the budget; or
- The spending is provided for in the budget, but the body corporate does not approve the spending.

The budget adjustment must be approved by a majority of voters present and entitled to vote at the meeting. If the budget is changed, the proposed contributions for the financial year are proportionally adjusted. A copy of the adjusted budget is required to be given to each Owner with a copy of the minutes of that meeting.

It should be noted that the inclusion of an item of expenditure in an adopted budget is not, of itself, authority for expenditure. Body corporate expenditure must be expressly authorised by the body corporate, either in general meeting or by the committee which may authorise expenditure within its legislative limit.

The body corporate cannot transfer money from one fund to another, i.e. from the sinking fund to the administrative fund and vice versa if one fund is running low on money.

### **Special Levy**

A special contribution may be levied by the body corporate to pay for any unforeseen liability which has not been included in the budget, or has not been adequately provided for in the budget. For example, the cost of painting common property may exceed the amount accumulated for that purpose in the sinking fund budget. In this instance, the body corporate must, by an ordinary resolution decide on a special contribution to be paid by Owners to meet the extra cost of painting the building.

***Do you know what your administrative fund budget covers? Is there sufficient funds accumulating in your sinking fund to cover upcoming capital expenditure? Contact your Body Corporate Manager for assistance!***