

Long-Term Maintenance Plans & Sinking Funds



Introduction

One of life's great inevitabilities is that things have a habit of wearing out. Whether it is simply through normal everyday usage or an unforeseen accident, sooner or later that new car sitting on your driveway, the boat you use at the weekend or the dishwasher in your kitchen will require mending or worse, replacing.

Insurance is a good way of dealing with accidents. Provided that you have paid your premiums, aside from any pre-agreed excess,

the insurance policy should take care of the rest of the bill.

With regards to goods wearing out under normal use, we all generally make provision. The cost of items like electrical appliances, furniture and even cars makes replacing them generally manageable. As the need arises for the replacement of such items, we are able to budget accordingly.

Buildings are different.

Regular maintenance

Unless the property is brand new and covered by a Builder's Warranty against certain types of defect, the cost of repairing a leaking roof, replacing electrical wiring, renewing or repairing a burst water tank will be a direct cost to the owner. (It should be borne in mind however that a Builder's Warranty does not negate the need for regular maintenance.)

As individual homeowners, we do tend to 'fire fight' these sorts of expenses in a reactive manner and for most of the time, as long as we have had the foresight to put some money to one side, this approach works.

For the owners of commercial properties or units within complexes, working out the cost of the ongoing maintenance and repair of a building can be complicated.



There's a lot to consider:

- The decoration of the internal communal parts
- The decoration of the exterior walls
- Heating and/or ventilation plant and equipment
- Servicing and repair of elevators
- Fire detection and fire fighting equipment
- Etc, etc.

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The introduction of Maintenance Plans

Historically, Bodies Corporate dealt with 'big ticket' expenditures reactively, meaning that maintenance or repairs were only ever completed on an 'ad-hoc' basis. This had the effect of leading to financial uncertainty for owners who, as a consequence, were levied randomly and unexpectedly – often for large amounts. Frequently owners were either unable or unwilling to pay these charges, resulting in complexes becoming run-down through poor maintenance, leading to devaluation of the asset.

Experience demonstrates that poorly maintained buildings are more likely to require unplanned repairs and are of less value and generally less attractive to prospective purchasers or tenants.

The Unit Titles Act 2010 has brought about a number of significant changes, which collectively will impact upon the owners of units within complexes. Amongst these changes is the recognition that Bodies Corporate have to make financial provision for long-term planned maintenance as well as helping to deal with unexpected large-scale expenditure. To address this, The Act



specifically requires that all Bodies Corporate establish and regularly maintain long-term Maintenance Plans that identify what types of maintenance issues are likely to occur within the ensuing 10-year period. The plan must also attach a cost to that maintenance and a basis for levying owners for such costs. This will be achieved by the establishment of a Sinking Fund.

What is a Sinking Fund?

A Sinking Fund is essentially an account or pot of money to which the individual Body Corporate owners contribute on an annual basis. It is used to pay for planned maintenance works that would typically range from such items as simple annual cleaning to capital expenditure like external redecoration and roof replacement.

As well as proactively addressing the question of maintenance, it is anticipated that the Body Corporate will additionally

have the facility to create a contingency fund that addresses the types of maintenance, repairs and renewals that are not covered under the long-term Maintenance Plan.

The Maintenance Plan and Sinking Fund therefore sit alongside one another so that as the requirement for maintenance works approaches, funds that have been put aside in the preceding years are available to enable the work to be completed.

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Where do we come in?

Maynard Marks Ltd is experienced at assessing the types of life-cycle costs associated with commercial buildings and apartment complexes. The Sinking Fund Forecast is typically presented as a spreadsheet appended to a 10-year Maintenance Plan scheduling out the remaining life expectancy of the various elements of the building and the financial implications of the maintenance required. Budget costs for the completion of maintenance requirements are equally apportioned against each building element, spread over the period preceding replacement, so that an overall and annual budget can be set for both large capital expenditure and regular annual maintenance items.

We consider the need for comprehensive surveys and detailed accurate costings for the completion of Maintenance Plans and Sinking Funds paramount to the



success of the plan. Therefore we utilise the skills of our experienced Registered and Chartered Building Surveyors to determine building fabric condition and maintenance requirements. Additionally, specialist sub-consultants provide information on electrical, mechanical and lift services while Registered Quantity Surveyors develop costings based on any recommendations made.

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