

INSIDE: How U.S. Sinking Fund software is costing strata schemes an extra \$44,100 a year & Trip on Common Property Costs \$210,000...

!!BEWARE - AMERICAN SOFTWARE!!

How U.S. Sinking Fund Software is costing Strata Schemes an extra 40% a year

Solutions ie has recently updated two other suppliers Sinking Fund Plans that were compiled using American software. These reports use a very inflexible funding model unnecessary and unsuitable for Australian requirements.

Manager's have been let down by these suppliers as committee members ask; "Why is our Sinking Fund Plan showing such massive unused account balances?"

Don't let this happen to you.

Why is US software so inefficient?

The software developed by Solutions ie is designed to use funds very efficiently. As long as there is a suitable buffer remaining in the sinking fund account then the bulk of the balance can be used for a large expense like painting.

On the other hand the American software looks at each line item (ie. the painting or roof replacement) of a sinking fund (or reserve fund as they call them in the US) and only allows money put aside for that item to be spent when replacing or maintaining that particular building feature. In fact if an item becomes due earlier than expected the software is geared so that you would have to raise a special levy despite having a large sinking fund balance. A very inefficient use of funds.

How does the US software work?

The US software predicts when each common property item will need to be replaced and then divides the total cost of that item between the years leading up to its scheduled maintenance. It also looks out 30 years, far longer than is necessary. Trying to predict a cost due in 30 years and putting funds aside for it now is crazy.

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Trip & Slip on common property costs \$210,000

THE CAUSE? A vacant mat!??

A simple safety issue that would have taken one minute to fix and would have been picked up in a basic safety report has cost each owner in a strata scheme \$14,000.

A South Sydney man took an Owners Corporation to court over a trip on common property that resulted in a lower back injury which left him unable to work and suffering a major depressive disorder.

What? When? Where? Why? How?

Thomas Patrick Morgan had returned to his unit in Kogarah in the evening of 5 March 2000 only to realise he had left his car unlocked outside in the street. It was raining heavily outside as he left his unit and headed towards the open security door. Morgan said that when he was half way through the door his left toe caught something, causing him to trip onto wet tiles on the complex's landing, slip down the stairs and land on his back.

Morgan stated, "Once I hit the ground the pain hit me and I was blank for a couple of seconds."

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How U.S. Sinking Fund Software is costing Strata Schemes an extra \$44,100+ per year
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For example:-
 Say the roof of one of your complexes is predicted to be replaced in 30 years time and is estimated to cost around \$120,000 in today's dollars. In year one you put aside \$4,000, by year ten your levies are over \$8,000 and you have over \$58,000 for a cost you will not expend for another 20 years. Now imagine a sinking fund with 40 plus items in it and this happening on every line item. Here's the kicker, if your roof does not need to be replaced at year 30 you have unnecessarily set aside \$493,936 and besides this, trying to predict costs in 30 years time is extremely difficult.

If you asked your owners whether they would rather their money sitting around in a Sinking Fund account for 30 years unused or to have that money for their own personal use (holidays, shopping and investing...) what would they say?

How long should your sinking fund forecast look out?

Our submission to you is that if you use a 15 year period for a Sinking Fund Plan and update it every 2-3 years than you will account for all the usual costs, including the big painting cost, and if a new cost should come into the 15 year outlook then you have plenty of time to raise the funds through reasonable levies that grow predictably and steadily each year.

Case study - Comparison between US software and our Aussie software?

A recent sinking fund plan we were asked to re-do was completed originally using American Software. It recommended levies of \$69,680 in the first year and growing to \$136,646 in the tenth year. Our

software demonstrated they would be adequately funded with levies of \$41,000 in the first year and \$80,260 in the tenth. That's saving your owners almost 40% annually or \$441,086 over ten years. The two graphs below show the massive differences between the inflexible, American Sinking fund and our effective, efficient software.

Should levies be lowered?

Our policy is to call you should we think the levies could be lowered. Some managers ask that we keep the levies at their current level. If this is required we don't raise the levies by much over the report period allowing the sinking fund to rebalance during that time.

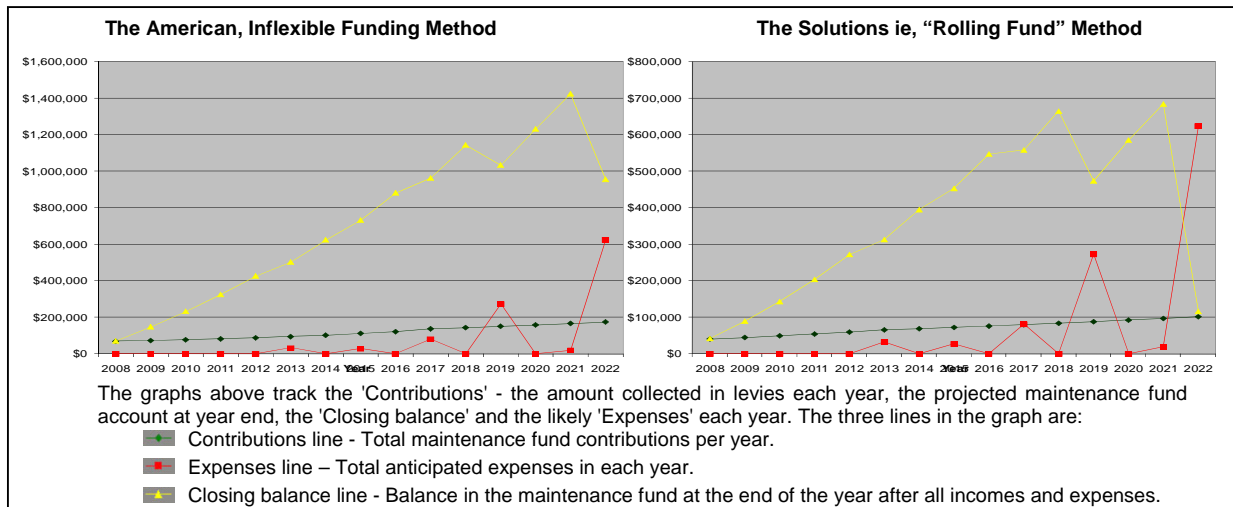
What should I do if one of my Owners Corporation's Sinking Fund is over-funded?

In order to have your owners paying levies that aren't going to put holes in their pockets it is best to have a new Sinking Fund Plan completed. The cost of obtaining a new report should even be offset by the lower levies that your owners will be paying in the first year.

Be sure to research the way the company you choose calculates their Sinking Fund Plan's, ask for a sample copy of the company's report and analyse it thoroughly.

Summary

Sinking Funds are the core of an Owners Corporation livelihood and essential to the smooth running of the committee. Yet, in order to keep owners happy it is essential that appropriate levies are used so that owners aren't forking out money for maintenance they may never need.



***Trip on common property costs \$210,000
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His next recollection was of people lifting him up to the landing and noticing a carpet off-cut under the door which he assumed caused him to trip.

He suffered compression fractures in his back of the anterior vertebral bodies at T12 and L1, discogenic lesions at L4/5, and anterior wedging at T8 and T9 to T12. For a couple of years after the incident he suffered severe chronic pain, which left him unable to work as a carpenter.

What had the Owners Corporation failed to do?

It was found that the duty that the Owners had breached was *the general duty of care owed by occupiers to entrants to take such care as is reasonable in the circumstances for their safety, and to protect them from risks of injury which can be foreseen and avoided.*

The risk in this case was the risk of injury to a person exiting the premises by tripping on a carpet off-cut wedged under the front door to hold it open temporarily. This risk combined with the absence of a slip-proof mat resulted in the fall and eventual massive payout.

The judge stated that in order to comply with the standard the Owners Corporation would have only had to supply an external slip-resistant weatherproof doormat (for as little as \$25) as the landing was located at the top of a flight of steps and was known to be exposed to rain.

He ruled that the provision of such a mat would have prevented the trip and averted Mr Morgan's injuries.

The payout

The plaintiff received;

- \$27,000 for general damages for non-economic loss;
- \$12,752 for past medical related expenses, including interest;
- \$145,334 for past loss of earnings, including interest;
- \$11,627 for past loss of superannuation;
- \$21,650 for future medical treatment (including counselling for depression);
- \$95,142 for future loss of earning capacity, with interest; and
- \$8,563 for future loss of superannuation.

Totaling \$322,068 the payout was cut by 35% due to the Court's ruling that the accident was partly due to the plaintiff's negligence for the disregard of his own safety. This brought the payment to \$209,344 which the judge rounded to \$210,000 plus costs.

With only 15 units in the complex, this ended up costing each owner on average \$14,000. This was a massive blow to the owners and all because of a simple, easy to remove, piece of carpet and absent \$25 mat.

Summary

On average there are three fatalities among people over 65 as a result of slip or trip hazards in Australia and over 1000 people hospitalized daily. People who injure themselves on the common property of strata title buildings are increasingly turning to Owners Corporations to pay for their losses.

Owners Corporations owe a duty of care to all people who access their building and need to ensure that their common property is safe and possible risks to owners, tenants and visitors are controlled.

As a manager, you can also be held liable if you contract employees to your buildings. For example, if you were to organise an electrician or plumber for maintenance work on the common property of a building you would be seen as an "employer" under the Occupational Health and Safety Act and therefore have to comply with all Sections of the Act.

A safety inspection of your common property is designed to pick up tripping hazards on the common property of your building as well as any other safety risks relevant to all relevant building codes, the Occupational Health and Safety Act and its Regulations as well as all National Codes of Practice. This assists with your common law duty of care and could stop unit owners from losing \$14,000 each.

INTEREST

OH&S has come a long way!

Imagine the implications if you were caught doing some of these things today!

The photographs below are images from the 1930's in New York, by various artists including Charles Ebbets and images from the Bettman file.



For more of these amazing photos email;
enquiry@solutionsie.com.au

Solutions ie
Level 2, 50 York Street
Sydney 2000

Tel: 1300 136 036
Fax: 1300 136 037

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