

# 10-Year Maintenance Plan

## Reserve Fund Forecast

### Long-term planning

If you invested in a community scheme, you will want to protect your investment at all times. This is done through proper maintenance and insurance of the section for which you are responsible along with your undivided share in the common property - for which the body corporate is responsible. Most community schemes initially fall short of their projected expenditure requirements.

Prescribed Management Rule no. 22 of the Sectional Title Schemes Management Act requires better financial management of body corporate finances to avoid raising special levies. Subsequently, buildings are better maintained and the financial burden more equally distributed between existing owners and new buyers. In addition, a well-maintained scheme with sound financials attracts prospective buyers more easily and positively influences the market value of all units in the scheme.

Planning ahead for regular maintenance allows for time and finances to be managed more effectively. If maintenance tasks are carried out on a regular basis, these become less onerous and the costs can be spread more evenly over time. Preventative maintenance tends to be far more cost-effective in the long term compared to emergency repairs.

### What does the law prescribe?

The Sectional Title Schemes Management Act No. 8 of 2011 (STMSA) aims to improve the management of bodies corporate and consequently, the shareholder value for individual members. Therefore, it is prescribed that -

A body corporate or trustees must prepare a written **maintenance, repair and replacement plan** for the common property, setting out -

- (a) the major capital items expected to require maintenance, repair and replacement within the next 10 years;
- (b) the present condition or state of repair of those items;
- (c) the time when those items or components of those items will need to be maintained, repaired or replaced;
- (d) the estimated cost of the maintenance, repair and replacement of those items or components;
- (e) the expected life of those items or components once maintained, repaired or replaced; and
- (f) any other information the body corporate considers relevant. (STMS Act. No. 8 of 2011, rule no. 22.1)

**The reserve fund** maintained in terms of section 3(1)(b) of the Act must be used for the implementation of the maintenance, repair and replacement plan of the body corporate referred to in rule 22.

(STMS Act. No. 8 of 2011, rule no. 24.2)



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## Reserve fund forecast

A maintenance, repair and replacement plan (MRRP) covering the major capital items for the next 10 years is essential to maintaining a reserve fund forecast (RFF). Both must be presented at the annual general meeting for approval by the members and adjusted regularly in accordance with actual contributions and expenditure.

Operational expenses such as fixing a leaking tap or a defective gate motor are allocated to the administrative fund. Therefore, these are excluded from reserve fund planning.

There is a statutory minimum annual contribution to the reserve fund, depending on the ratio between the reserve fund balance and the administrative fund contributions.

Trustees with some technical knowledge, accounting proficiency and abundant time reserves can compile the MRRP and RFF. However, these tasks may be better assigned to an independent, experienced and unbiased service provider to avoid the conflicts of interest that may arise.

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## What Mirfin offers

For a competitive fee, Mirfin will draft a legally compliant plan that includes:

- Life-cycle cost analysis
- 10-year forecast of maintenance, repair and replacement costs
- Reserve fund plan
- Reserve fund contribution schedule

This service is based on a light inspection of the common property by Mirfin and key financial data submitted by the client. Once the 10-year plan is drafted, our online dashboard enables you to make unlimited adjustments as required. Access to the dashboard is free for the first 12 months; thereafter an annual subscription is available for the low fee of R360 plus VAT.

A replacement cost valuation for insurance purposes is available in conjunction with the MRRP at a reduced rate of 25% off the standard valuation fee.

Note: For a full-scale building audit that will reveal structural defects, rising damp, exposed asbestos, roofing and guttering problems, plumbing and electrical issues and the existence and damage of termites and borers, it is essential to engage the services of a specialist contractor.

## What is the cost?

The cost is determined by the location, use and size of a community scheme (measured by the number of registered sections).

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