

ManagementBudget User Guide

The Sectional Title Schemes Management Regulations

Certain items on a Sectional Title scheme's budget are pretty predictable from year to year. For example, if you know how much was spent on gardening, electricity, managing agent's fees or insurance in one year, it is pretty easy make an educated guess as to the amount that will be spent on the same item in the following year. A first approximation would be to take the amount spent in the most recent financial year and assume that you will spend the same amount increased by the rate of inflation..

However, a Body Corporate's (BC's) expenses can vary wildly from year to year when certain expensive maintenance needs to be undertaken such as repainting, repaving a driveway or replacing a wall or fence. Unless a BC maintains a healthy reserve fund, these large capital items can result in levies changing dramatically from year to year. In particular, BC's may need to issue special levies which are frequently unpopular with owners.

The Sectional Title Schemes Management Act (STMSA) requires that the trustees of a BC prepare:

- An administrative budget to cover day-to-day expenses (such as gardening, managing agent fees, electricity and regular repairs and maintenance such as fixing minor plumbing problems or replacing light bulbs) for the following financial year
- A management plan and budget that identifies large maintenance work that needs to be undertaken over the next ten years that shows how these large-scale works will be funded.

Also, the STSMA requires that a BC maintain a reserve fund and amounts must be contributed to the reserve fund each year. The minimum amount to be contributed into the reserve fund on an annual basis is specified in the STSMA's companion document: The Sectional Title Schemes Management Regulations (STSMR).

To ensure that a BC does not prepare a completely naive management budget that budgets merely token amounts to be contributed to the reserve fund, the STSMR has aggressive requirements. The following two slightly messy requirements apply (if, on a first reading, you don't understand them, don't worry):

1. If the amount in the reserve fund is insufficient to cover a full year's administrative costs but more than one quarter of the amount spent on administration, then the BC must ensure that an amount equal to the Repairs & Maintenance line item on the administrative budget must be contributed to the reserve fund.
2. If the amount in the reserve fund is less than one quarter of the amount spent on administration, a BC is required to put an amount of, at least, 15% of the total administrative budget into the reserve fund in the next financial year.

The reserve fund would be pointless if a BC was obliged to put money into the fund but could never take the money out again. Fortunately, money can be spent from the reserve fund but only on items in the ten year maintenance plan. For example, a BC may not pay its electricity bill out of the reserve fund. If a BC finds that it cannot pay administrative costs (such as its electricity account or its auditing fees), it is obliged to raise a special levy.

There are a large number of items that can be included on a ten year plan and trying to make educated guesses as to whether the reserve fund will be sufficiently well funded at some distant time to meet is not realistic. Happily, spreadsheets are a great tool for budgeting and checking compliance with, e.g., points 1 and 2 from the STSMR above.

The *ManagementBudget* Spreadsheet

The Brittany, Tokai Villas trustees created a spreadsheet to help them:

- Identify items that need to be maintained over a ten year period (such as paint jobs, replacing electric fencing, replacing the irrigation system, etc.)
- Determine what the impact of these big-ticket items is on the budget and how to prepare budgets that do not see significant fluctuations in levies from year to year.

This user guide describes how to use the spreadsheet.

Real world budgeting

It's important to be realistic; ten years is a long time period. A spreadsheet is not going to be precisely accurate over one year and the inaccuracies get compounded over longer time periods. Some of the problems are:

- Inflation can vary and the spread between the interest earned on the reserve fund can be significantly different from year to year over ten years
- Assumptions about when maintenance work is needed can be wrong; a paint job that was expected to last seven years may be looking shoddy after six
- Events that were assumed to have no realistic chance of happening may come to pass

The intellectually lazy might then assume that preparing a ten year plan is a waste of time. If that's your point of view, you should stop reading now. Budgeting can highlight potential problems without being 100% accurate.

The Structure of the Spreadsheet

The spreadsheet consists of six *worksheets*:

- An “About” worksheet that includes a copyright notice and a disclaimer
- A “Current Financials” worksheet that captures details from the previous year's (hopefully audited) financial statements and important details from the administrative budget
- A worksheet that captures items that need to be maintained over the next ten years (e.g. painting) or high capital purchases (e.g. new security measures)
- A worksheet that gives an assessment of the current health of the reserves and a naive recommendation of the amount by which the levies should be increased (or decreased) over the previous year. This recommendation can serve as a starting point for your planning.
- A “Planning and Projections” worksheet to determine year on year changes over the ten year period to help ensure that the reserves of the BC are sufficient to cover the expenses for each year and to ensure that the amount in the reserve fund is always compliant with the STSMR.
- A “Summary” sheet that describes the impact of the ten year plan only on the current financial year.

The next sections work through two example spreadsheets for planning. The examples make the same assumptions about the initial state of a BC but differ in the formality of the ten year plan. The first example uses somewhat informal planning while the second uses a far more extensive checklist of items to budget for.

The STSMR does not provide much clarity on *how* trustees should prepare a ten year plan and this guide makes no judgment as to whether a comparatively informal spreadsheet is worse (or better) than a very lengthy one. An assumption that a long and detailed plan is superior to a shorter may not be correct; the members of a BC are supposed to scrutinize the budget prepared by the trustees and a shorter, more digestible one may be more rigorously scrutinized than one that puts its audience to sleep.

Disclaimers and Other Legal Stuff

The STSMR is a legal document and the creators of this spreadsheet are not lawyers. We have, however, tried to interpret the regulations correctly and reasonably.

It should be noted that Section 2 of the STSMR specifies minimum amounts that must be contributed annually to the reserve fund. However, Section 22(2) has a formula that stipulates how to calculate an annual amount that must be contributed to the reserve fund. Given a precise formula, it seems redundant to include a formula for the “minimum” amount to be contributed. We describe how we try to reconcile the formulas of Sections 2 and 22 in the worked examples in this guide. However it is your responsibility to ensure that the budgeted amount to be contributed to the reserve fund for your own scheme is reasonable.

A maintenance plan involves more than just calculations. You should prepare a text document that justifies the assumptions that you make in your budgeting. For example, why do you think that the electric fence will need to be replaced in 2025 at a cost of R80,000.

This spreadsheet is software and software frequently has bugs. Note that the GNU Public License under which this software is made freely available includes this disclaimer:

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but WITHOUT ANY WARRANTY; without even the implied warranty of
MERCHANTABILITY or FITNESS FOR A PARTICULAR PURPOSE. See the
GNU General Public License for more details.

This software is copyrighted. You may distribute budgets using this spreadsheet but do not remove the worksheet that contains the copyright notice.

Example Spreadsheets

This section considers two fictitious Sectional Title Schemes: The Acme Body Corporate (ABC) and the Zenith Body Corporate (ZBC).

The first example is some what simpler and the second takes a more formal approach. The spreadsheets are found in the examples folder.

Example 1: The Acme Body Corporate

ABC have prepared their 2017/2018 administrative budget in which they've identified how much money they need to cover the day-to-day running costs of their scheme. The table below shows the results

| | <i>Amount</i> |
|---------------------------------|---------------|
| Repairs & Maintenance | R130 000 |
| Managing agent fees | R73 000 |
| Gardening contract | R170 000 |
| Utilities | R135 000 |
| Legal fees | R6 000 |
| Security | R170 000 |
| Auditors' fees | R16 000 |
| Insurance | R70 000 |
| Gardener and Caretaker salaries | R190 000 |
| Total | R960 000 |

ABC have also sent off their financial statements for the previous financial year (2016/17) to their auditors. The previous year, ABC's total budget was R1,000,000 and their administration costs came to R900,000. So the difference between the R1,000,000 gathered on levies and the R900,000 paid for various services was put into their reserve/contingency/management fund. At the start of the previous financial year, their reserve fund had R450,000 in it and, with the additional R100,000, it now sits at R550,000.

ABC's trustees now want to prepare a management budget. The data that they need are:

- The previous year's administrative costs (R900,000)
- The current year's total administrative budger (R960,000)
- The amount budgeted for Repairs & Maintenance (R130,000)
- The amount in the reserve fund at the start of the year (R550,000)
- An educated guess as to inflation (7%)
- The interest rate applicable to the account in which they keep their reserve funds (5%)

If you open the *example1.ods* spreadsheet and click on the “Current Financials” worksheet, you'll see the above data captured.

| | | |
|----|--|-------------|
| 10 | | |
| 11 | Body Corporate Name | Acme |
| 12 | Current Financial Year | 2018 |
| 13 | Previous year administrative costs | R 900,000 |
| 14 | Previous year total budget | R 1,000,000 |
| 15 | Current year projected administrative costs | R 960,000 |
| 16 | Current year projected repairs and maintenance costs | R 130,000 |
| 17 | Current year initial reserve fund amount | R 550,000 |
| 18 | Assumed inflation rate | 7.00% |
| 19 | Bank deposit interest rate | 5.00% |
| 20 | | |
| 21 | | |

The actual planning now needs to start. The trustees have identified five expensive maintenance items that need to take place over the next ten years (2018-2027):

- The electric fence is beginning to look tatty and will need to be replaced. They've obtained a quote of R70,000 if it were done immediately. The trustees figure that the work can wait until 2019 (although, with inflation, it will cost more than R70,000 in *nominal* terms then)
- The walls of the complex are repainted every seven years and the next job will be in 2020 (and another in 2027). They estimate that currently (in 2018 Rand terms), it would cost R750,000.
- The irrigation system will be 20 years old in 2025 and they believe it should be replaced. An estimate of R80,000 in 2018 Rand term seems reasonable to them.
- ABC's caretaker tells them that the gutters and downpipes need replacing and based her pricing it would cost about R250,000. The trustees decide that maintenance work can be held over until 2021.
- Finally, woodwork and metalwork needs to be repainted every four years with the next round of repainting in the current financial year at a cost of R280,000. The exercise will be repeated in 2022 and 2026.

ABC's trustees capture their maintenance budget items in the “Ten Year Plan” worksheet.

| | | | | | |
|----|---------------------------------|------------|----------|--------------|----------------------|
| 15 | Item | Start Year | End Year | Step (years) | Annual amount (real) |
| 16 | Replacing the electric fence | 2019 | 2019 | 1 | R 70,000 |
| 17 | Repainting walls | 2020 | 2027 | 7 | R 750,000 |
| 18 | Replacing the irrigation system | 2025 | 2025 | 1 | R 80,000 |
| 19 | Replace gutters and downpipe | 2021 | 2021 | 1 | R 250,000 |
| 20 | Repaint woodwork | 2018 | 2026 | 4 | R 280,000 |
| 21 | | | | | |
| 22 | | | | | |

Note the step values of 7 and 4 for the repainting items above.

If you scroll over further right on the same spreadsheet, you'll see the same data captured on a year-by-year basis after applying the assumed rate of inflation.

| 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|-----------|----------|-----------|-----------|-----------|------|------|-----------|-----------|-------------|
| | R 74,900 | | | | | | | | |
| | | R 858,675 | | | | | | | R 1,378,844 |
| | | | R 306,261 | | | | R 128,463 | | |
| R 280,000 | | | | R 367,023 | | | | R 481,092 | |
| | | | | | | | | | |

So, for example, it's estimated that repainting the woodwork in 2026 will cost R481,000 and the 2020 paint job is estimated to cost R859,000.

Initially that R550,000 in the reserve fund may have looked healthy but with the expenses in 2018, 2019 and the very expensive maintenance work in 2020, it no longer looks quite so good. Although it's much better than nothing.

Clicking on the "Current Year Planner" worksheet is depressing.

| | | |
|----|---|-------------|
| 11 | | |
| 12 | Actual initial reserve fund amount | R 550,000 |
| 13 | Recommended initial reserve fund amount | R 1,167,000 |
| 14 | Difference between actual and recommended | -52.9% |
| 15 | Recommended management fund contribution | R 551,894 |
| 16 | Recommended real budget change | 44.2% |
| 17 | Recommended nominal budget change | 51.2% |
| 72 | | |
| 73 | | |

What the above is saying is that ABC should have had R1,167,000 in reserves rather than R550,000. Using a formula from Section 22(2) of the STSMR the spreadsheet suggests that the 2017/18 budget be increased by 44.2% in real terms over the 2016/17 budget. Since inflation is running at 7%, this translates to a 51.2% increase in the budget. The nett result is that the trustees will be crucified at ABC's AGM when they announce that the levies for 2017/2018 are going up by more than 50%. Fortunately, we can probably ignore that recommendation except to use it as a starting point in determining how to get ABC's finances into a healthier state.

If a scheme has been managing its finances prudently, the budget (and levies) should increase approximately in line with the general rate of inflation. The "Planning and Projections" worksheet makes the assumption that over the next ten years, the budget should increase only in line with the assumed rate of inflation. There's a sea of red for ABC's projected financial state in the next image.

| 15 | Year | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|----|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 16 | Proposed budget change real (%) | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 17 | Proposed budget change nominal (%) | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% |
| 18 | Initial reserve (nominal) | R 550,000 | R 399,000 | R 463,890 | R-282,288 | R-476,484 | R-734,285 | R-609,005 | R-466,121 | R-438,845 | R-767,483 |
| 19 | Administrative budget (nominal) | R 960,000 | R 1,027,200 | R 1,099,104 | R 1,176,041 | R 1,258,364 | R 1,346,450 | R 1,440,701 | R 1,541,550 | R 1,649,459 | R 1,764,921 |
| 20 | Repairs & Maintenance (nominal) | R 130,000 | R 139,100 | R 148,837 | R 159,256 | R 170,403 | R 182,332 | R 195,095 | R 208,752 | R 223,364 | R 239,000 |
| 21 | Total budget (nominal) | R 1,070,000 | R 1,144,900 | R 1,225,043 | R 1,310,796 | R 1,402,552 | R 1,500,730 | R 1,605,781 | R 1,718,186 | R 1,838,459 | R 1,967,151 |
| 22 | Management budget (nominal) | R 110,000 | R 117,700 | R 125,939 | R 134,755 | R 144,188 | R 154,281 | R 165,080 | R 176,636 | R 189,000 | R 202,231 |
| 23 | Management budget OK? | NOT OK1 | NOT OK1 | NOT OK1 | NOT OK2 | NOT OK2 | NOT OK2 | NOT OK2 | NOT OK2 | NOT OK2 | NOT OK2 |
| 24 | Management spend (nominal) | R 280,000 | R 74,900 | R 858,675 | R 306,261 | R 367,023 | R 0 | R 0 | R 128,463 | R 481,092 | R 1,378,844 |
| 25 | Final reserve (nominal) | R 399,000 | R 463,890 | R-282,288 | R-476,484 | R-734,285 | R-609,005 | R-466,121 | R-438,845 | R-767,483 | R-2,041,302 |
| 26 | Final reserve (months) | 5.0 | 5.4 | -3.1 | -4.9 | -7.0 | -5.4 | -3.9 | -3.4 | -5.6 | -13.9 |
| 27 | Final reserve OK? | | | NOT OK1 | NOT OK1 | NOT OK1 | NOT OK1 | NOT OK1 | NOT OK1 | NOT OK1 | NOT OK1 |
| 28 | | | | | | | | | | | |
| 29 | | | | | | | | | | | |

From 2020 to 2027, ABC's reserve fund is “NOT OK” since the balance is negative and the scheme is bankrupt.

The spreadsheet is also complaining from 2018 to 2027 about the amount being contributed to the reserve fund. Initially, from 2018 to 2020, we see a “NOT OK1” warning. This warning means that the amount being contributed to the reserve fund is less than the amount being spent on Repairs & Maintenance. As the financial situation deteriorates the warning changes to “NOT OK2”. The STSMR requires that scheme's with inadequately funded reserves must put an amount greater than or equal to 15% of their overall administrative budget. This budget would, from 2021, be failing to meet that legal requirement.

The spreadsheet recommended on the previous worksheet that ABC increase their budget by 44.2% (in real terms). Let's see what happens if we do what the computer tells us to do.

| 15 | Year | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|----|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 16 | Proposed budget change real (%) | 44.20% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 17 | Proposed budget change nominal (%) | 51.20% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% |
| 18 | Initial reserve (nominal) | R 550,000 | R 863,100 | R 1,447,782 | R 1,282,146 | R 1,734,715 | R 2,195,814 | R 3,118,524 | R 4,144,273 | R 5,147,312 | R 5,895,392 |
| 19 | Administrative budget (nominal) | R 960,000 | R 1,027,200 | R 1,099,104 | R 1,176,041 | R 1,258,364 | R 1,346,450 | R 1,440,701 | R 1,541,550 | R 1,649,459 | R 1,764,921 |
| 20 | Repairs & Maintenance (nominal) | R 130,000 | R 139,100 | R 148,837 | R 159,256 | R 170,403 | R 182,332 | R 195,095 | R 208,752 | R 223,364 | R 239,000 |
| 21 | Total budget (nominal) | R 1,512,000 | R 1,617,840 | R 1,731,089 | R 1,852,265 | R 1,981,924 | R 2,120,658 | R 2,269,104 | R 2,427,942 | R 2,597,898 | R 2,779,750 |
| 22 | Management budget (nominal) | R 552,000 | R 590,640 | R 631,985 | R 676,224 | R 723,559 | R 774,209 | R 828,403 | R 886,391 | R 948,439 | R 1,014,829 |
| 23 | Management budget OK? | | | | | | | | | | |
| 24 | Management spend (nominal) | R 280,000 | R 74,900 | R 858,675 | R 306,261 | R 367,023 | R 0 | R 0 | R 128,463 | R 481,092 | R 1,378,844 |
| 25 | Final reserve (nominal) | R 863,100 | R 1,447,782 | R 1,282,146 | R 1,734,715 | R 2,195,814 | R 3,118,524 | R 4,144,273 | R 5,147,312 | R 5,895,392 | R 5,807,946 |
| 26 | Final reserve (months) | 10.8 | 16.9 | 14.0 | 17.7 | 20.9 | 27.8 | 34.5 | 40.1 | 42.9 | 39.5 |

All the red disappears, so things are looking better in most respects. One problem, though, is going to be the angry hordes at the AGM. A second problem is that we have increased the budget (and levies) to solve an immediate problem. If we maintain the budget at this rate, we are going to be continuing to be getting more and more money to shove into the reserve fund. Looking at the column, for 2027 we see that the spreadsheet (with excessive precision) predicts that by 2027 the amount in the reserve fund will be sufficient to cover 39.5 months (more than three years) of operating costs.

Let's try fixing that problem by reducing the budget in 2019. If we reduce the budget in 2019 by 25% in real terms (18% in nominal terms excluding inflation), we get a plan that looks pretty good.

| Year | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Proposed budget change real (%) | 44.20% | -25.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Proposed budget change nominal (%) | 51.20% | -18.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% |
| Initial reserve (nominal) | R 550,000 | R 863,100 | R 1,050,882 | R 440,718 | R 396,805 | R 304,789 | R 612,692 | R 956,477 | R 1,204,487 | R 1,118,090 |
| Administrative budget (nominal) | R 960,000 | R 1,027,200 | R 1,099,104 | R 1,176,041 | R 1,258,364 | R 1,346,450 | R 1,440,701 | R 1,541,550 | R 1,649,459 | R 1,764,921 |
| Repairs & Maintenance (nominal) | R 130,000 | R 139,100 | R 148,837 | R 159,256 | R 170,403 | R 182,332 | R 195,095 | R 208,752 | R 223,364 | R 239,000 |
| Total budget (nominal) | R 1,512,000 | R 1,239,840 | R 1,326,629 | R 1,419,493 | R 1,518,857 | R 1,625,177 | R 1,738,940 | R 1,860,666 | R 1,990,912 | R 2,130,276 |
| Management budget (nominal) | R 552,000 | R 212,640 | R 227,525 | R 243,452 | R 260,493 | R 278,728 | R 298,239 | R 319,115 | R 341,453 | R 365,355 |
| Management budget OK? | | | | | | | | | | |
| Management spend (nominal) | R 280,000 | R 74,900 | R 858,675 | R 306,261 | R 367,023 | R 0 | R 0 | R 128,463 | R 481,092 | R 1,378,844 |
| Final reserve (nominal) | R 863,100 | R 1,050,882 | R 440,718 | R 396,805 | R 304,789 | R 612,692 | R 956,477 | R 1,204,487 | R 1,118,090 | R 109,831 |
| Final reserve (months) | 10.8 | 12.3 | 4.8 | 4.0 | 2.9 | 5.5 | 8.0 | 9.4 | 8.1 | 0.7 |
| Final reserve OK? | | | | | Low | | | | | Low |

There are warnings that in 2022 and 2027, the amount in the reserve fund will be “low”. That warning means that the reserves are insufficient to cover three months' administrative costs but the projections don't look too bad on the whole. Unfortunately, the current trustees will probably be harangued for hiking the levies dramatically while the next group of trustees will be praised for the financial acuity when they lower levies by 18% but still manage to present a balanced budget.

Rather than dramatically hiking levies and then slashing them, we should try to find a position with moderate increases over one or more years. If we increase the budget by 16% in real terms, the projection is that over the next ten years, things should be OK.

| Year | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Proposed budget change real (%) | 16.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Proposed budget change nominal (%) | 23.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% |
| Initial reserve (nominal) | R 550,000 | R 567,000 | R 820,050 | R 284,023 | R 323,950 | R 326,384 | R 740,327 | R 1,202,800 | R 1,583,294 | R 1,644,417 |
| Administrative budget (nominal) | R 960,000 | R 1,027,200 | R 1,099,104 | R 1,176,041 | R 1,258,364 | R 1,346,450 | R 1,440,701 | R 1,541,550 | R 1,649,459 | R 1,764,921 |
| Repairs & Maintenance (nominal) | R 130,000 | R 139,100 | R 148,837 | R 159,256 | R 170,403 | R 182,332 | R 195,095 | R 208,752 | R 223,364 | R 239,000 |
| Total budget (nominal) | R 1,230,000 | R 1,316,100 | R 1,408,227 | R 1,506,803 | R 1,612,279 | R 1,725,139 | R 1,845,898 | R 1,975,111 | R 2,113,369 | R 2,261,305 |
| Management budget (nominal) | R 270,000 | R 288,900 | R 309,123 | R 330,762 | R 353,915 | R 378,689 | R 405,197 | R 433,561 | R 463,910 | R 496,384 |
| Management budget OK? | | | | | | | | | | |
| Management spend (nominal) | R 280,000 | R 74,900 | R 858,675 | R 306,261 | R 367,023 | R 0 | R 0 | R 128,463 | R 481,092 | R 1,378,844 |
| Final reserve (nominal) | R 567,000 | R 820,050 | R 284,023 | R 323,950 | R 326,384 | R 740,327 | R 1,202,800 | R 1,583,294 | R 1,644,417 | R 800,055 |
| Final reserve (months) | 7.1 | 9.6 | 3.1 | 3.3 | 3.1 | 6.6 | 10.0 | 12.3 | 12.0 | 5.4 |
| Final reserve OK? | | | | | | | | | | |

That 16% increase translates into a 23% levy increase in nominal terms. If the trustees aren't comfortable with such an increase in one go, they could investigate whether staggered increases over two or three years might work to get ABC into a sustainable position.

For example, a 10% (17% nominal) increase in 2018 followed by 6% (13% nominal) and 4% (11% nominal) increases in 2019 and 2020 would see the scheme able to meet the expense of the major repainting exercise in 2020.

| Year | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Proposed budget change real (%) | 10.00% | 6.00% | 4.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Proposed budget change nominal (%) | 17.00% | 13.00% | 11.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% | 7.00% |
| Initial reserve (nominal) | R 550,000 | R 504,000 | R 760,200 | R 283,450 | R 389,976 | R 467,003 | R 964,260 | R 1,519,552 | R 2,003,219 | R 2,178,788 |
| Administrative budget (nominal) | R 960,000 | R 1,027,200 | R 1,099,104 | R 1,176,041 | R 1,258,364 | R 1,346,450 | R 1,440,701 | R 1,541,550 | R 1,649,459 | R 1,764,921 |
| Repairs & Maintenance (nominal) | R 130,000 | R 139,100 | R 148,837 | R 159,256 | R 170,403 | R 182,332 | R 195,095 | R 208,752 | R 223,364 | R 239,000 |
| Total budget (nominal) | R 1,170,000 | R 1,322,100 | R 1,467,531 | R 1,570,258 | R 1,680,176 | R 1,797,789 | R 1,923,634 | R 2,058,288 | R 2,202,368 | R 2,356,534 |
| Management budget (nominal) | R 210,000 | R 294,900 | R 368,427 | R 394,217 | R 421,812 | R 451,339 | R 482,933 | R 516,738 | R 552,910 | R 591,613 |
| Management budget OK? | | | | | | | | | | |
| Management spend (nominal) | R 280,000 | R 74,900 | R 858,675 | R 306,261 | R 367,023 | R 0 | R 0 | R 128,463 | R 481,092 | R 1,378,844 |
| Final reserve (nominal) | R 504,000 | R 760,200 | R 283,450 | R 389,976 | R 467,003 | R 964,260 | R 1,519,552 | R 2,003,219 | R 2,178,788 | R 1,461,134 |
| Final reserve (months) | 6.3 | 8.9 | 3.1 | 4.0 | 4.5 | 8.6 | 12.7 | 15.6 | 15.9 | 9.9 |
| Final reserve OK? | | | | | | | | | | |

That seems like a much more sensible bit of budgeting than the computer's cretinous suggestion that ABC hike levies by 51.2% in 2017/18. Why did it recommend that? The answer is in the final

worksheet which summarizes the most important points of the 2017/18 budget.

| | | |
|----|--------------------------------------|-------------|
| 8 | Budget Summary | |
| 9 | Administrative budget | R 960,000 |
| 10 | Management budget | R 210,000 |
| 11 | Total budget | R 1,170,000 |
| 12 | Percentage change in budget | 17.0% |
| 13 | | |
| 14 | Reserve Fund Summary | |
| 15 | Initial reserves | R 550,000 |
| 16 | Recommended initial reserves | R 1,167,000 |
| 17 | Actual versus recommended difference | -52.9% |
| 18 | | |
| 19 | Projected final reserves at year end | R 504,000 |
| 20 | Recommended final reserves | R 862,988 |
| 21 | Actual versus recommended difference | -41.6% |
| 22 | | |
| 23 | Percentage change in reserves | -8.4% |
| 24 | Reserves in months | 6.3 |
| 25 | | |

Note that at the start of the financial year, ABC's reserve fund was 52.9% less than it should ideally have been. By increasing levies by only 17% (instead of 51.2%), at the end of the financial year, the amount in the reserve fund will still be less than the “ideal” value.

Section 22(2) of the STSMR has a rather simplistic (and simultaneously somewhat vague) formula for calculating how much should be contributed to the reserve fund. The interpretation of the formula as used in the spreadsheet would have got the reserves to the “ideal” value in a single year. However, it's not clear that it should be necessary for a BC to get a fully funded reserve in one year since the STSMR also specifies the minimum amount to be contributed to the reserve fund. The ABC trustees can probably get their scheme healthy by staggered increases as long as:

- They contribute at least the minimum amounts to the reserve fund required by Section 2 of the STSMR and
- They inform the BC when presenting the budget that there will be future levy increases above the inflation rate

Section 22(4) of the STSMR requires

“The trustees must report the extent to which the approved maintenance, repair and replacement plan has been implemented to each annual general meeting.”

It would seem that the trustees could legitimately explain that a BC will need to have levy (and budget) increases above inflation to implement the “approved maintenance, repair and replacement plan”. In

the example here, the difference between the actual and ideal amounts in the reserve fund was reduced significantly from a 52.9% shortfall to a 41.6% shortfall in one year. That would suggest that the trustees have implemented a plan that should ensure the financial sustainability of the scheme.

That concludes Example 1 which had a somewhat simplistic maintenance plan with only five items. The second example is more detailed.

Example 2: The Zenith Body Corporate

TBD