

# Minutes

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## Sinking or Reserves Fund

### What is a Sinking or Reserves Fund?

Def 1: Amounts of funds and reserves built-up during the development life collected as part of the service charges, held in deposit account/s to support and fund long-term future maintenance projects and contingency items, utilised to protect the property structure and common areas against depreciation and maintain in good and serviceable condition.

Def 2: A sinking fund is a sum of money set aside to build up a fund to pay for major work, such as replacing a roof or door-entry system in a block of apartments. This means that when major work is carried out, the money collected over a period of time from different leaseholders will help pay for the work thus reducing the amount which needs to be collected or levied in the year the work is undertaken.

When new homes are built. It is possible to work out how much certain items would cost to replace, and how long they will last. This means that we know how much to collect each year, so we should have enough to cover some or all of the costs in the future.

### When should a sinking fund be set up and how much should be put into it?

Ideally **set-up in Year 2 of the property life**, should not wait until common area transfer, Set-up a Sinking fund or Reserve Funds account to be **held in independent banking deposit account** under trust by Management Company Solicitor and handed over to Member Directors' control with Common Areas Transfer.

The assessment of annual contribution into sinking reserve fund/s should be carried out by Building Surveyor or Quantity Surveyor, collating all medium and long-term life-cycle requirements of the building's elements from manufacturers, suppliers and contractors, followed by obtaining cost estimates of 'current day' replacement or refurbishment tasks, including all materials, works access and project management. The Surveyor would enter the **cost figures and life-cycled elements into a plan spanning Year 2 to Year 60 of the buildings' life**, or for the design longevity of the development (whichever is greater). Apply a calculation that allows for inflation and/or economic growth year-on-year, as similar to long-term personal pensions planning, within a formula work in reverse **to calculate an annual minimum contribution that would be required to fund all the planned major maintenance works and tasks**. There is **NO set guide amount in euros that can be universally applied to all or any Apartment complexes or a single Apartment Unit**, the variables of maintenance planning long-term are overly dependant on the design life quality of the development and many key cost drivers that exist in each development (i.e. lifts, heating, lighting, roof types, structure types, vehicle parking, wall and floor finishes, glazing systems, windows, exterior skin panel systems, membrane roofs and many more)

### What should it be used for? (subject to the contents and clauses of the Head Lease) **Major**

**Maintenance Projects**, e.g. Roof Replacements, Electrical Rewiring, Lifts Refurbishments, Drives and Parking resurfacing, Drainage replacements, Replacement of infrastructure services, Concrete spalling & windows replacement.

**Contingency Projects**: e.g. Items not covered by Insurance provisions, Insurance Policy Excesses for Common Areas protection, Structural failures, Ground water ingress, Tree Surgery and possible Major Damage repairs not covered by Insurance Policy.

**What should it not be used for?** (subject to the contents and clauses of the Head Lease) Purchasing property.

- Building extensions of units to the development for gain or profit.
- Supporting non-payment of service charges.
- Day-to-Day minor maintenance.
- Equalizing Deficits and losses in the current year operating accounts.
- Substitute Insurance Policy cover for Common Areas and Buildings.
- Rebates of Service charges in surplus account years.
- Maintenance or refurbishment work/s to apartments or other residential units
- Insurance Policy Excesses for Unit Owners

**What is the impact if we do not have a sinking fund?** Property and development **will accumulate liabilities in long-term maintenance cost implications** that have not been provisioned for in funding reserves.

**Annual and random 'levies' will be imposed on all owners** as major maintenance projects arise, also any will result in contingencies. **immediate requirement for funds to be paid by all owners. (even within a service charge year)**

**Without a healthy amount of money in a Sinking Fund or Maintenance Planning Reserve property will** potentially have **lower residual values of property** for the owners.

**Property investors looking for short-term gains in Apartments** will tend to exploit developments that have low or nil sinking funds by high turnover sales of units, thus escaping their contributions to a sinking/reserves fund within the annual service charges.

Whereas, astute **Longer-term property investors will tend to ensure that a sinking/reserves fund is kept healthy to protect their investment** and lessen the potential impact of ad-hoc levies being imposed to fund major maintenance projects during the life of the development.

More and more apartment buyers in the pre-owned purchasing market are **being advised to check the status of reserve and sinking funds within Management Companies**. A low or non-existent sinking fund will tend to alert potential buyers that the market value of the property can be reduced or negotiated down, to compensate for the risk of levies due to the lack of money in the sinking fund.

**Is it too late to set one up now? It is never too late to start a Sinking Fund or Reserve Fund;** Owners should assess the needs and develop a formula and long-term plan for service charge budget calculations.

**The annual contribution collectively for all members may initially appear to be high into a sinking or reserve fund,** but this should be treated as a way to protect the development's condition and the residual value of each Apartment or Residential Unit within the development.

The 'closing balance' **annual value of all sinking fund/reserve accounts stays with the development as a whole;** it cannot be divided or refunded owners upon sale or transfer of units within the property.

The Auditor in carrying out the annual summary of accounts presents a **'statement of account' for the standing reserves and current accounts of all banking for the Management Company**.

The Managing Agent can be requested to advise on **budget setting for the next service charge year, an amount can be budgeted for collection within the standard Service Charges** required from each property owner/member within the complex.

#### **Examples of Clauses in Head Leases of Management Companies**

The Management Company covenants:

**" To equalise the amount from year to year of the management service costs by charging in each year and carrying to a reserve fund or funds as it considers reasonable for future expenses liabilities or payments whether certain or contingent for depreciation."**

The Management Company covenants to:

**" Build up a reserve fund to meet contingencies to meet major repairs and capital replacement in respect of such matters referred to in this clause as to the Lessor may deem appropriate."**

Reference Documents to support a Sinking Fund or Reserves Fund study or assessment: • Operational and Maintenance Manuals

- Design Statement or Certificate from Architect
- Practical Completion Date and Documentation
- Design or 'As Built' Drawings for the Development
- List and contacts for all Suppliers, Manufacturers and Contractors.
- List of Life Cycles of key elements and equipment within the development.
- Warranty Certificates for products, materials and equipment
- Homebond Certificate or other Warranty Scheme/s
- Conformance Statements (where applicable)
- Building/s Fire Certificate/s
- Fire equipment and systems commissioning certificates.
- Local Planning List of Conditions and Requirements as part of permission granted.
- Bonds and Assurances (where applicable)
- Commissioning Engineers Reports on Mechanical Equipment and Services. (ie Gas, Water, etc)
- Management Company Head Lease
- Management Company Memos and Arts
- List of any reported issues, problem or faults with the buildings or development.
- Insurance Claims list for past 5 years (only developments over 5+ years from completion)

### Questions from the Floor

Q: With regards to a sinking fund – can you give a guiding point or percentage of what it should be? Can it be reinvested elsewhere?

A: You need professional advice - cannot give a percentage or guide. Sinking fund cannot be there for 'profit or gain'. Check head lease clauses. You should not be able to re-invest. The money is held in the fund for everyone - it cannot be clawed back by individuals who are moving on.

Q: Our Management Agents supplied a budget for the forthcoming year which makes provision for a sinking fund. Is it part of the management fee?

A: Yes, it is. Sometimes it's called a long-term maintenance. If you can't find it check the audited accounts as well and it may be highlighted there.

Q: Can a sinking fund be for non-members?

A: No, it's exclusively for the membership of the development and not for non-members

Q: Who decides what percentage goes into the sinking fund – is it the Management Agent or the Directors?

A: The Directors are responsible for setting the sinking fund budget each year however this should be produced based on professional advice as outlined above.

Q: In my development €100k of our sinking fund has been used for day-to-day expenses. The Management Agent has control over the chequebook?

A: No, the Board of Directors should be responsible. Someone should be accountable, as this should not have happened. Go to the auditor and go to your Board of Directors for an explanation. If you get no joy there check your Head Lease as there may be some protection there.