

# Sinking funds

## In a strata scheme

A sinking fund is set up by the owners corporation to cover the costs of future capital expenses, which include for example, painting the building, driveway refurbishment, replacement of common property items like carpets, roofing and guttering and lift overhauls.

## 10-year sinking fund plans

From July 2009, all strata schemes are required by law to have a 10-year sinking fund plan in place (Section 75A of the *Strata Schemes Management Act 1996*).

This means that owners corporations must plan how they will repair and maintain common property and raise sufficient funds to cover the costs. The amount required for the 10-year plan will vary between schemes, for instance, newer schemes may require relatively less money than the plans for older schemes with more repair work due. Each sinking fund plan should reflect the individual needs of its scheme.

The 10-year plan must be approved by owners at an annual general meeting (AGM) and must be reviewed and adjusted, if required, in the first five years.

## Who develops the plan?

Owners corporations can put the 10-year plan together themselves or engage outside

experts to do the job for them. There are businesses that specialise in preparing sinking fund plans but there is no obligation on owners corporations to use them.

Some owners corporations may feel they have enough internal expertise to carry out the task. It is a matter of choice for each scheme.

## A guide to planning

There are a series of steps that are repeated during each 10-year cycle following the development of the first 10-year plan.

**AGM 1st year:** the owners corporation appoints someone to prepare the sinking fund plan. The plan must cover 10 years from the date of the AGM and must be completed in time for the following AGM.

**AGM 2nd year:** the finalised plan is presented to the owners and is to be used as the basis for determining sinking fund contributions.

**AGM 3rd and 4th years:** the sinking fund plan is to be used as the basis for determining contributions (levies).

**AGM 5th year:** the sinking fund plan must be reviewed and any necessary adjustments made. The sinking fund plan continues

to be used as the basis for determining contributions at the following AGMs.

**AGM final year of 10-year plan:** the owners corporation appoints someone to prepare a new 10-year sinking fund plan for finalisation by the AGM the following year.

## Developing your own plan

The following stages outline the steps an owners corporation might follow to create a sinking fund plan.

### Step 1 – List all common property

Put together a comprehensive list of all the common property of the scheme which may include: letterbox, intercom, lighting, incinerators, hot water services, grey water or water re-use systems, rainwater tanks, waterproof membranes, lifts, paving, water features, swimming pools, pool filters or heaters, gymnasiums and exercise equipment, gardens, plants, pots, screens, pergolas, awnings, shade cloth, retaining walls, or television antennas.

### Step 2 – Estimate when repairs will be needed

Decide on a time-frame for repair work, cyclical maintenance and replacement for items. Long-term owners or your strata manager may know from previous experience how often repairs and maintenance are needed. For repainting, for example, you could use guarantees or information provided by previous tradesmen

to get an idea of how long the existing paintwork will last. Warranty statements and/or service plans may help you estimate the working life of items such as automatic garage doors, communal washing machines and lawnmowers.

### Step 3 – Estimate costs

Investigate the cost of replacing items. Refer to service plans, previous quotes and receipts of items as a guide to the approximate costs of future repairs. Obtaining current quotes and talking to tradespeople may also help.

## What if my scheme does not develop a plan?

While there are no penalties in the legislation for owners corporations who do not develop a 10-year plan, any owner can apply to the Consumer, Trader and Tenancy Tribunal for an order instructing an owners corporation to meet its obligations to develop a plan.

## Raising funds

The owners corporation can decide how they want to raise contributions from owners, for example, yearly, half-yearly, quarterly or monthly. For many strata residents, paying smaller amounts on a more frequent basis may be more affordable than paying larger amounts on an annual basis. Alternatively, owners may agree to wait and raise a large

special levy or borrow money when major work needs to be done.

In the end, the financial implications of each way of raising funds should be carefully considered by each owners corporation.

The sinking fund plan must show how funds for particular expenses will be raised so all owners and prospective buyers are aware of their future liabilities and can plan their finances accordingly.

## Calculating contributions

The owners corporation must make a resolution at each AGM for an amount to be credited into the sinking fund for the following 12 months and must levy each owner for their contribution.

The total sinking fund amount is divided by the total number of unit entitlements, then this amount is multiplied by each owner's unit entitlements. As an example, if an owners corporation calculates that it needs \$120,000 over 10 years, then it would need to levy \$12,000 for each year. To meet the \$12,000 per year, contributions would need to be levied according to the unit entitlement of each lot. If there were 20 lots in the scheme and each had the same unit entitlement, each owner would be required to contribute \$600 per year to the sinking fund (note - these calculations are of a general nature only).

## Reimbursement of funds

An owners corporation can decide, by unanimous resolution only, to distribute any money in its sinking fund to lot owners, if the owners corporation considers that the money is not required for the purposes of the fund.

Contributions made by owners to the sinking fund are not refundable when an owner later moves out of the strata scheme, even if the money has not yet been spent on the item that the levies were intended to fund.

## Penalties and discounts

Owners corporations can charge 10% interest for late payment of strata contributions. However, the owners corporation can decide not to charge any interest on late payments, or to offer a discount for early payment of contributions.

## Exemptions for two-lot schemes

Owners in two-lot strata schemes may be exempt from the requirement to have a sinking fund if the strata buildings are physically detached, no buildings are situated outside the lots within the scheme, and the owners corporation passes a unanimous vote that a sinking fund does not need to be set up.

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