TRUSTEES ARE SECTIONAL TITLE 'WATCHDOGS'

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A stable, efficient and financially viable body corporate is the cornerstone of successful sectional title ownership, says Charles Coetzee, managing director of Propell Levy Finance.

The body corporate and trustees are the custodians of the inherent value in any particular development and largely responsible for the creation or dissolution of owners' wealth.

Arguably, the most important component of efficient management is the ability to correctly set and collect levies. Cash flow is the lifeblood of a sectional title development, without which the development will surely falter, adds Coetzee.

Trustees of the body corporate are responsible for preparing a budget of anticipated expenses for the year ahead and this is presented to unit owners at the annual general meeting for approval.

Often the trustees may be assisted in the process by their managing agents or an independent registered professional, knowledgeable in sectional title matters.

Following approval of the budget the total cost is divided among the owners according to their percentage of the development occupied using a formula known as the Participation Quota or PQ. This monthly contribution is commonly known as the levy.

The PQ is calculated by dividing the floor area of the individual unit by the floor area of the total scheme. This is expressed as a percentage correct to four decimal places.

Confusion often reigns as to what the levy actually covers, and while it may vary slightly from development to development, it generally includes:

- Municipal charges.

- Rates and taxes to the local municipality.

- Water and electricity charges used on the common property (in some instances water for individual units may be included).

- Refuse removal.

- Sewerage charges.

- Insurance.

- All owners are liable by law to contribute towards the insurance of common area buildings against fire, flood, theft etc.

- Public liability insurance, trustee liability and dishonesty of trustee insurances are also compulsory.

- Repairs and maintenance of common areas

- Levies must include not only scheduled maintenance but also provision for unforeseen expenses within reason.

- A Maintenance Reserve Fund is also mandatory and should be sufficient to cope for future anticipated expenses such as painting or waterproofing.

- The salaries and wages of staff employed by the body corporate - cleaners, handymen, security and gardeners etc.

- Security systems - alarms, remote controlled gates etc.

Individual unit owners are responsible for:

- Personal household insurance covering personal belongings and furniture.

- Water and electricity if not included in the overall costs.

- Repair and maintenance of most elements within the unit itself.

"Special levies are additional surcharges that may be imposed to raise funds for extraordinary expenses or items not accounted for in the budgeting process," says Coetzee.

In addition, improvements for the benefit of all owners, such as swimming pools and tennis courts, may also be the reason for a special levy.

Special levies can take the form of a one-off charge or, in the case of more significant amounts, be collected over a period determined by the trustees.

"Perhaps the most important component of levies - apart from their efficient collection - is their safeguarding," cautions Coetzee.

Generally they are paid directly into the body corporate trust account for payment of body corporate expenses. But whatever the financial instrument chosen it is imperative that some form of fidelity guarantee insurance cover be secured to guard against fraud or dishonesty from trustees or managing agents.

"Sectional title living offers a number of benefits over conventional residential ownership. However, it's up to each owner to take a proactive interest in the efficient operation of the body corporate. Put your watchdog to work for you. After all, it's your money and investment at stake."

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