

# Owners Corporation health check

# Introduction

Horizon Strata is a Melbourne born and bred Owners Corporation Management Company that was created to lift the standard of service in the industry.

One of the services we provide to all new clients is our **Signature 7-Point Health Check**. At Horizon we have created an industry first report that dives into the detail of your Owners Corporation in several key areas that we know are critical to the efficient management and long-term sustainability of your asset.

We believe that this report will provide a much more comprehensive view of the operation of your Owners Corporation and where to focus on in the future.

## Prepared for

Plan Number	PS 123456
Owners Corporation	1 & 2
Address of Building	100 Sample Street
Date of Report	1 <sup>st</sup> January 2020
Prepared By	Colin Young
On Behalf of	Horizon Strata Management Group Pty Ltd

## Horizon Strata

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# General findings

We note your Owners Corporation Committees have appointed Horizon Strata as their Owners Corporation Manager and have requested we complete the Owners Corporation Health Check for OC1 & 2 operating in your building. You have provided us with the following documentation on which to base our checks:

- latest Administrative and Maintenance Fund financial statements
- latest Administrative and Maintenance Fund Budgets
- Maintenance Fund accumulation plan
- Minutes of past meetings
- Insurance information including invoices and Certificate of Currency
- Levy Arrears Aged Reports
- Details of Invoice and payment approval
- Copy of your Owners Corporation Rules

1. During discussions with the relevant committees it was determined that apart from addressing issues which are part of the standard Health check the following was noted:

(a) The Owners Corporation has been offered a contract to place a communications tower on top of the building and is unsure whether to proceed or not.

Horizon examined the contract and presented the following points for consideration:

- (i) The contract is for \$10,000 per annum which may not be a commercial price for such a contract and that more scrutiny of the agreement should be undertaken.
- (ii) The contract specifies fixed increases for 10 years at 2% per annum. Consider renegotiating the contract to provide some flexibility for increases as future inflationary effects could prove 2% inadequate.
- (iii) There are specific tax considerations in dealing with income of Owners Corporations which impact this transaction. Income Tax Ruling 2015-003 specifically addresses the communication tower issue. The following example is set out in the Ruling

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42. A strata title body leases the rooftop of a residential rental strata title building to a telephone company to place a mobile phone tower there. The rooftop is common property. It generates \$50,000 per year in rental income.

43. The Commissioner accepts that the proprietor can:

- return the income derived from the mobile phone tower in proportion to their unit entitlement, and
- claim relevant deductions for the common property under Division 40 and/or Division 43 of the ITAA 1997.

Effectively, this means that each owner may need to declare their proportionate share of the income from the rent and claim the related expenses, if any. This can create quite a burden for all parties concerned.

The entire Ruling can be found at:

<https://www.ato.gov.au/law/view/view.htm?docid=%22TXR%2FTR20153%2FNAT%2FATO%2FO0001%22>

2. Horizon have conducted an examination of the Financial Statements and Budgets for the Administrative Funds and provide the following feedback.
  - (i) Insurance premium \$51,758. This amount includes approximately \$10,000 which has been returned to the previous Owners Corporation Managers by way of commission or brokerage share. This was provided for in the previous contract you had with them. Horizon does not take such commissions which will result in significant savings for your Owners Corporation going forward.
  - (ii) The attached detailed list shows a number of expenses which far exceed 2019 budget and differ significantly from the previous year with explanations determined by us.
  - (iii) In examining the 2020 budgets several examples evidence insufficient care has been taken in putting the budget together. The attached list details those items.

***As a result of several missed expenses in 2019 and inaccurate budgeting for 2020, the basis for levy determination was incorrect. Revised financial statements for 2019 and revised budgets for 2020 are attached for discussion and presentation to the next appropriate meeting where a decision needs to be taken on current funding the shortfall.***

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3. Horizon have conducted an examination of the Financial Statements and Budgets for the Maintenance Funds and provide the following feedback.

There are several obligations under Divisions 3, 4&5 of the Owners Corporation Act setting out responsibilities for Asset Management, Maintenance Plan and Maintenance Fund accumulation. It is clear from the financial statements and budgets that there is a severe shortfall in your maintenance fund accumulation. Whilst a Maintenance plan was prepared in 2016 it was not implemented until 2020. The building was first occupied in 2013 and is in need of substantial maintenance over the next 2 years according to the Plan. This has resulted in a need for a special levy, large contributions or using a loan facility to meet urgent maintenance. A proposal needs to be prepared and submitted to the next appropriate meeting or AGM.

4. Horizon have examined Insurance documentation and invoices and provide the following feedback

In accordance with section 65 of the Owners Corporation Act a building valuation is required every 5 years to ensure insurance valuation adequacy. There is no evidence that a valuation has been prepared since your building was completed and thus it is likely to be significantly under insured. There are several consequences related to this and we suggest obtaining a current valuation immediately with an adjustment to the insured value of your building if required. In the interim, an adjustment for this has been made in the budget proposed by Horizon by allowing for a 25% increase in premium. This is calculated by increasing the premium by 40% for the increased value and decreasing the premium by 15% to remove the commission which will not be taken by Horizon.

5. Horizon have examined the levy arrears reports and provide the following feedback.

Horizon has examined your outstanding Levy trial balance. In total, levies in arrears represent 22% of annual levies. This is far in excess of the industry average. Analysis of the debt collection procedures indicate collection has not been carried out in an efficient manner. Enclosed is a copy of the Protocol used by Horizon for levy collection. Priority will be given to following up on long outstanding amounts and taking appropriate action as allowed by law.

6. Horizon have examined the process of recording and authorizing of expenditure as well as the quotation process for major areas of expenditure and provide the following feedback.

As evidenced in the financial statement analysis above, several expense items were not accounted for at the end of the financial period. An inadequate accruals process

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for recording expenses is responsible for this. We have analysed your specific circumstances and suggest implementing the procedures attached to this report...

7. Horizon have examined the current Owners Corporation Rules for the building and provide the following feedback.

An examination of your current rules has identified certain unenforceable rules as well as deficiencies in some areas. Amending Rules is quite a difficult process requiring substantial owner approval. We have attached a list of recommendations for further discussion.

We thank you for the opportunity to present the information above and look forward to the next phase of getting your Owners Corporations back on track, ensuring you continue to meet financial requirements and legal obligations in the future.

**Horizon Strata Management Group**

SAMPLE

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