TIPS FOR BODY CORPORATE MANAGEMENT

Body Corporate Management Essentials Checklist

Being a body corporate/strata manager it is difficult keeping up with the changes to the legislation and keeping owners informed. The role of the manager is supposed to be an administration role and not a technical expert in every field that, in most cases, is expected by the unit owners. The minimisation of unexpected costs to the body corporate/owners corporation is the number one priority of the manager. Knowing where to start with the management of a complex can be a bit tricky.

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There are a number of ways to ensure the building is adequately covered and protected, which is a constant in the day-to-day administration of the complex.

Fire Protection

Ensuring that the building's fire systems are always operating to their peak is imperative.

Fire protection systems include: fire alarm systems, EWIS Systems, fire doors, sprinkler systems hose reels and car park exhaust systems. All the above work must be carried out by licensed contractors.

Safety Protection

All states have requirements for common circuits to be residual current device (safety switch) installed, to protect the common property.

This has recently been passed in Western Australia and there have been a number of defect notices issued in Victoria with the body corporate to upgrade the switchboard within 30 days, quotations obtained were up to $6000.

TV Reception Protection

With the digital TV rollout in 2010, the owners need to be prepared for the costings to upgrade from the analog TV, otherwise there will be no reception as the aerial is common property. There is an educational program out at present with the rollout of the service.

Sinking Fund Protection

Sinking fund forecasts provide a budget and timeline that outlines the financial expenditure required to maintain a complex. The forecasts identify repair/maintenance costs over a time period with an effective life and replacement cost. The sinking funds will forecast the financial sums the unit owner needs to set aside in order for the complex to meet expected expenditure. The sinking funds should be reviewed by the committee on a 12 monthly basis and a update of the forecast is usually on a five yearly basis to keep up with current costs and changes to legislation.

Insurance Protection

Under-insurance of a building is a common factor for buildings with the sudden rises in construction costs and materials. The sum insured should be reviewed on a yearly basis

Asbestos Protection

Older complexes that have asbestos and not been identified where works have been undertaken can cause a concern. Especially with the condition and the degradation of the state of the material in the *Asbestos Management Register*.

Environmental Protection

Reducing the energy/water and waste is becoming a bigger issue with reporting standards, and changes in technology. Reporting on the carbon footprint of commercial buildings and reduction strategies will be the next thing to keep a eye on. By making small changes to the types of lighting can provide to 40% to 60% reduction in operating costs in some cases.

As you can see there are many tools that can be used to ensure that the building is adequately covered and protected.

Peter Greenham
Managing Director
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Insurance Valuations – Are they Doing the Right Job for You?

Bodies corporate should be asking themselves whether their main assets are likely to be fully covered by insurance in the event of a disaster and if they are not, who would be held responsible.


...there are wide variations on the type and extent of protection between various policies in the market place.

Valuations for insurance purposes

The law requires that buildings are insured for *at least* the value of the amount indicated by the last valuation and the insurance in place is for '...full replacement value...' This second point is often 'assumed'. For a body corporate and the body corporate manager with full delegated authority for insurance, to fulfil their legal obligations, both these duties have to be met. Failure to discharge either will leave you exposed to prosecution and fines for breach of law.

All valuations make assumptions to arrive at the *recommended sum insured* amount that is why there is no cast iron guarantee that *all* costs will be picked up. The valuation provides a *minimum* figure at one point in time, is a *recommendation* only and will contain a number of assumptions and 'unknowns', including:

- The type of disaster - for example, reinstatement and replacement costs will vary following a major bush fire as opposed to a localised single building fire or an earthquake striking at the heart of a major city.
- Reinstatement time - the time that lapses following a major disaster and the re-build of a building to a fully functional state can extend to three or four years. Yet, many valuations only provide for an escalation in costs for 18 months, allowing for an additional 10% or 15%.
- Compliance – adhering to newly introduced local planning laws and building codes will often mean new and unforeseen additional costs not originally included or known at the time of the valuation.
- Escalation of costs – The cost of building materials and labour often outstrips that of the consumer price index that has increased by almost twice the rate since 2003. And following a major catastrophe, statistical evidence shows that building and labour costs spike considerably, often doubling.
- Undisclosed additions – lot owners will upgrade major areas such as their kitchens and bathrooms but not necessarily notify their body corporate executive committee.

Often, there's a dangerous assumption that the valuation covers all these scenarios but this is simply not the case. It's worth checking that your instructions to the valuer are clear and complete and:

- Includes cover for the buildings, common area contents, professional fees allowance, fire extinguishing costs, removal of debris and each lot's fixtures and improvements.
- Covers the known and anticipates the undisclosed such as upgrades to fixtures and improvements for every lot within your strata block.
- Considers any environmental hazards, planning/restrictions or dangerous materials that may prevent the building being rebuilt or delay the rebuilding process.
- Anticipate the rise in costs of labour and materials – remembering that the rise in rebuilding costs outstrips the rise in CPI by almost double; Also,
- That a valuation is carried out frequently - every two to three years.
- Your *building sum insured* amount is reviewed each year between valuations.

At your next annual general meeting, establish the last time your strata building was valued, the basis of your instruction to the valuer and compare the protection in place against what's actually needed for full replacement value.

CHU - 30 plus years of experience and leading cover

All valuations make assumptions to arrive at the recommended sum insured amount, that is why there is no guarantee that all costs will be covered.

CHU has over 30 years of insurance knowledge in strata and its experience has highlighted a number of areas that could expose the body corporate and its manager.

When discussing your annual budget, remember there are wide variations on the type and extent of protection between various policies in the market place. Reducing cover or cost cutting on these important items could mean the difference between full protection - as required by the relevant strata legislation in your state - or suffering a significant loss. For further details on CHU's cover, please call your local office or email info@chu.com.au

Also refer to our full paper on valuations on www.chu.com.au rn