

Topic 3 - Budgets

The body corporate must prepare an administrative and sinking fund budget each financial year for consideration at the annual general meeting. There is no reference in body corporate legislation to minimum or maximum amounts required for administrative and sinking fund budgets.

The budgets are estimates of anticipated expenditure by the body corporate and are the basis for fixing the annual contributions payable by the owners of each lot to the administrative and sinking funds.

A budget is adopted by an ordinary resolution of the body corporate. The inclusion of an item of expenditure in an adopted budget is not, of itself, authority for the expenditure. Body corporate expenditure must be authorised by the body corporate, either at a general meeting or by the committee which may authorise expenditure within its authorised limit (SM s139).

Note: Refer to Unit 1 "The committee", Topic 3 "Committee spending" for information about how much a committee is authorised to spend.

Administrative Fund Budget

The administrative fund budget must:

- contain estimates for the financial year of necessary and reasonable expenditure to cover:
 - the cost of maintaining common property and body corporate assets;
 - the cost of insurance;
 - other expenses incurred annually or more frequently (known as recurrent expenditure); and
- fix the amount to be raised by contributions to cover the estimated expenditure.

Example: The body corporate must estimate the day to day maintenance of the common property and assets (e.g. weekly gardening and pool maintenance).

Sinking Fund Budget

The sinking fund budget must:

- provide for necessary and reasonable expenditure from the sinking fund for the financial year;
- reserve a proportional amount to meet anticipated expenditure over at least the next nine years after the financial year, after taking into consideration:
 - anticipated expenditure of a capital or non-recurrent nature;
 - periodic replacement of major items of a capital nature;
 - other expenditure that should reasonably be met from capital; and
- fix the amount to be raised by contributions to cover the estimated capital amount.

Annual General Meeting Requirements

The committee is usually responsible for preparing the administrative and sinking fund budgets. However, a body corporate may authorise a body corporate manager to undertake this role as part of their contract of engagement. Copies of the proposed

budgets must be included with the notice of an annual general meeting for lot owners to consider at each annual general meeting (SM s139).

An explanatory schedule accompanying the notice of each annual general meeting must include an explanatory note informing lot owners that the amount of a budget adopted at the meeting may be more or less than the proposed budget amount by an amount equivalent to not more than 10% of the proposed budget amount (SM s73).

Does the body corporate have to accept the proposed budgets?

There is no obligation for the body corporate to accept the proposed budgets and lot owners are within their rights to vote 'no' if they do not believe that the budgets accurately reflect anticipated expenditure for the financial year. However, if a lot owner is considering opposing the proposed budgets, they would need to assess whether the proposed items of expenditure for the body corporate are reasonable and necessary.

Adjusting proposed budgets at the annual general meeting

A body corporate may adjust a proposed budget at an annual general meeting, provided:

- the amount of the adopted budget is not more or less than 10% of the proposed budget amount;
- the adjustment relates to a decision at the meeting about a motion on the agenda to approve spending; and
- the adjustment is approved by a majority of voters present and entitled to vote.

Explanation: The agenda contains motions to approve expenditure for certain items that are not included in the budget (an owner proposes a motion that the body corporate buy new pool furniture). If the motion to approve expenditure that is not included in the budget is passed; it will naturally mean an increase in the proposed expenditure for the year. To accommodate this, the proposed budget may be varied by 10%.

Example:

The administrative fund budget is proposed as \$100,000, a motion to purchase 10 deck chairs for \$5,000 (not included in the budget) is approved. The administrative fund budget may be adjusted at the annual general meeting to \$105,000.

If a proposed budget is adjusted, the contributions to be paid by lot owners must be proportionately adjusted. A copy of the adopted budget must be given to each lot owner with a copy of the minutes of the meeting (SM s140). An adjustment of a proposed budget by an amount of more or less than 10% would need to be addressed at a subsequent extraordinary general meeting of the body corporate.

Surplus Funds

A body corporate may find that it has surplus funds in its administrative or sinking funds. The legislation does not provide a clear direction on what to do in this situation. There is no provision within the legislation to return the surplus funds to lot owners. Therefore, the body corporate may, depending on the amount of the surplus and anticipated expenditure, propose a reduction in the budgets and contributions for the next financial year.