# A Complete Guide to Working With Building Management Committees

Gary Bugden www.garybugden.com

### **Topics**

- 1. History
- 2. Stratum subdivisions
- 3. Shared facilities
- 4. Legal mechanisms used
- 5. Strata management statements
- 6. Building management statements

10 minute break

### Topics (continued)

- 7. Building management committees
- 8. Managing agents
- 9. Building managers (caretakers)
- 10. Committee meetings
- 11. Insurances

10 minute break

### Topics (continued)

- 12. Non-accounting records
- 13. Accounting records
- 14. Financial reporting
- 15. Dispute resolution
- 16. The future

Finish

### **Overseas History**

- English common law and airspace
- North American experience
  - Downtown re-developments
  - John Hancock Centre (Chicago)





#### **John Hancock Centre**

#### Chicago USA

- 100 story
- Class A multi-use
- Basement parking
- •Retail plaza
- Offices
- •Condominium (levels 42-96)
- Observatory
- Restaurant
- Broadcast studios



### **Overseas History**

- English common law and airspace
- North American experience
  - Downtown re-developments
  - John Hancock Centre (Chicago)
- Management is regulated by umbrella management agreements

### Australian History

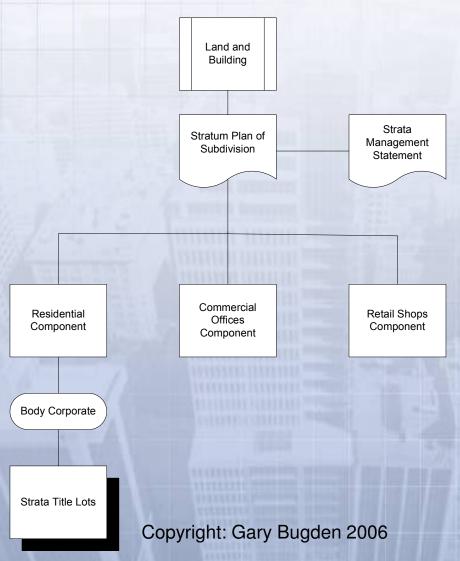
- · Paradise Centre, Surfers Paradise
  - Registration of Plans (HSP (Nominees) Pty Ltd) Enabling Act 1980
  - Registration of Plans (Stage 2) (HSP (Nominees) Pty Ltd) Enabling Act 1984
- The Conaught, Liverpool Street, Sydney
- Eastgate Gardens, Bondi Junction
- · Eastpoint, Edgecliff
- · South Bank, Melbourne
- · Southbank, Brisbane
- King Street Wharf, Darling Harbour

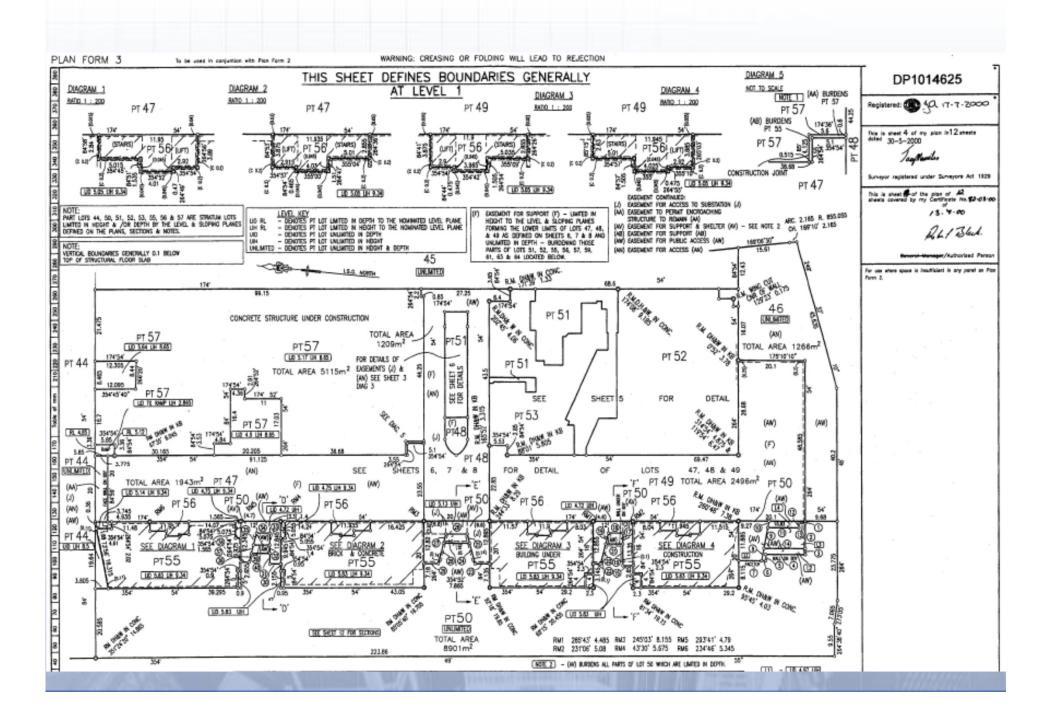
### Stratum Subdivisions

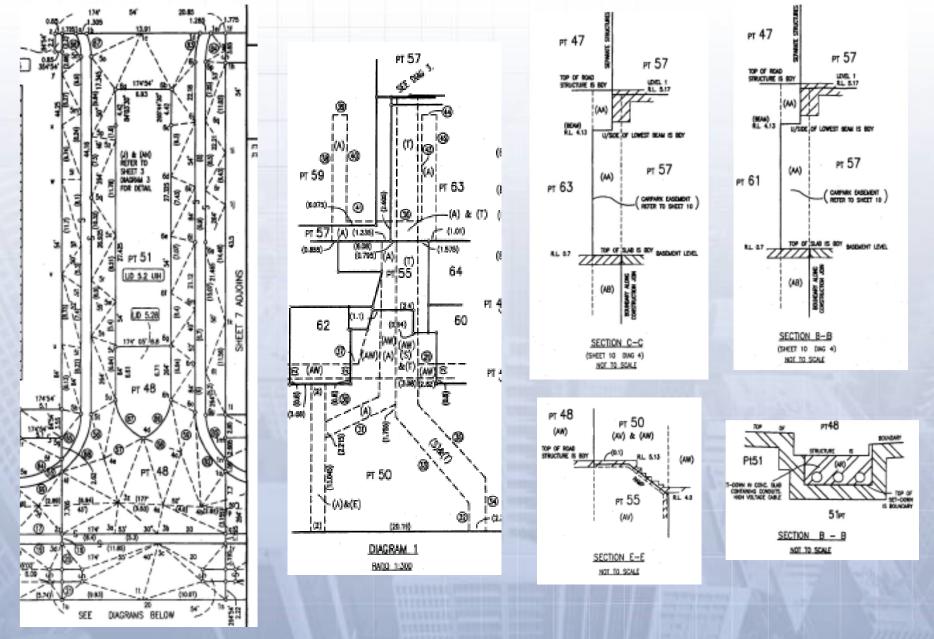
- Also known as "Airspace" and "Volumetric"
- Define boundaries with reference to standard height datum
- Can be used to subdivide a building
- No body corporate involved
- Used to separately define different component use areas
- Allows a component use area to be owned outside a body corporate structure
- A component use area may be strata subdivided

### Stratum Subdivision

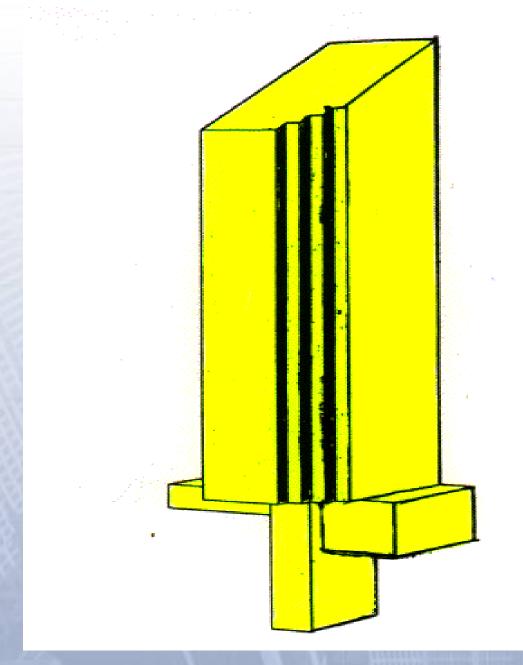
(With body corporate as a component)



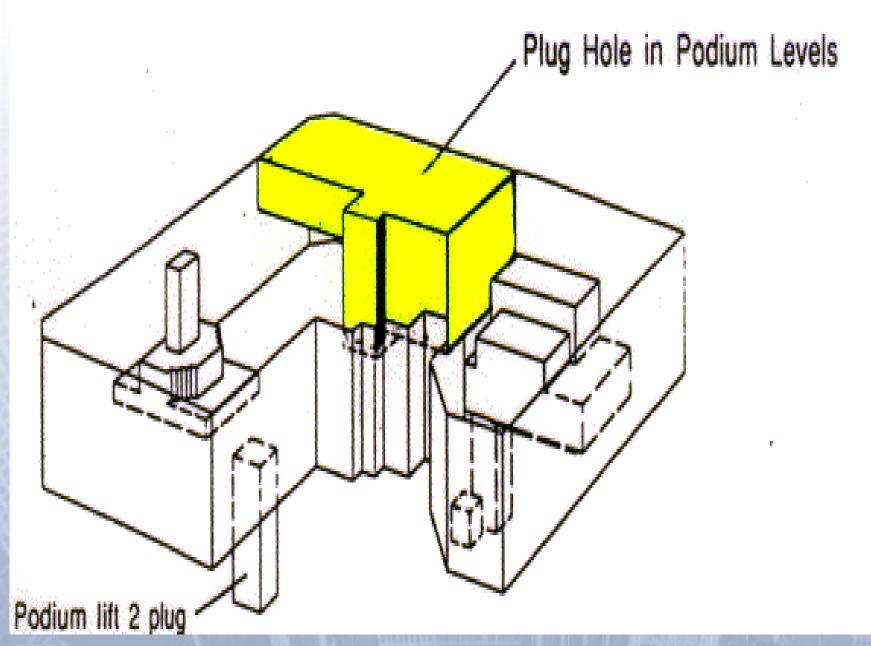


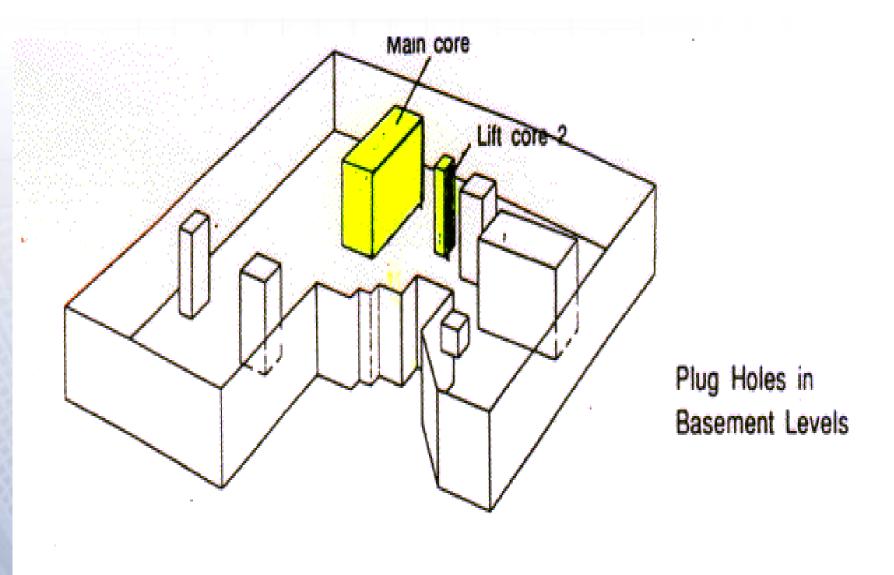


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Tower & Plug

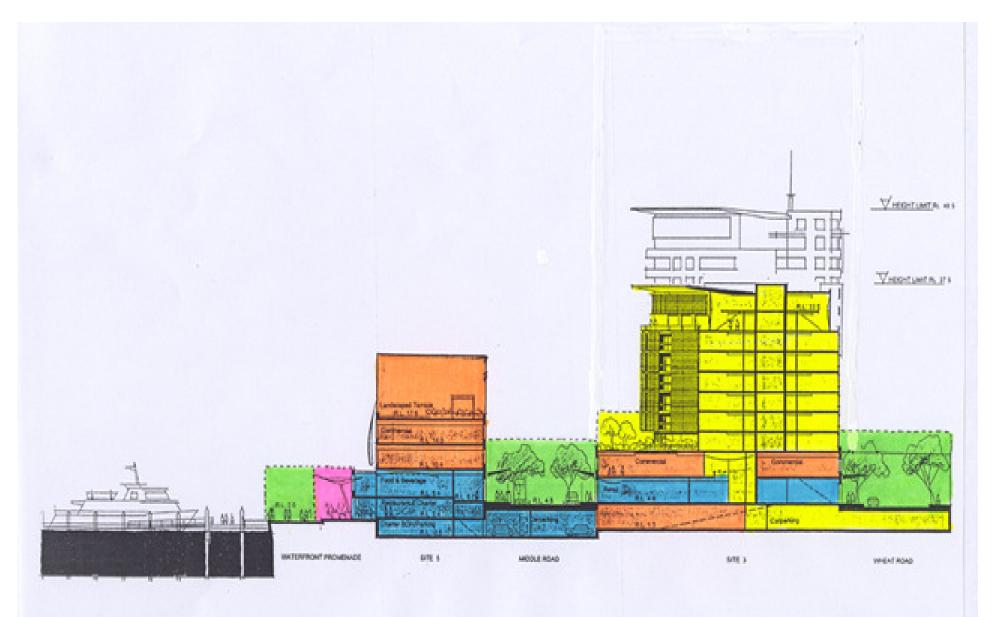




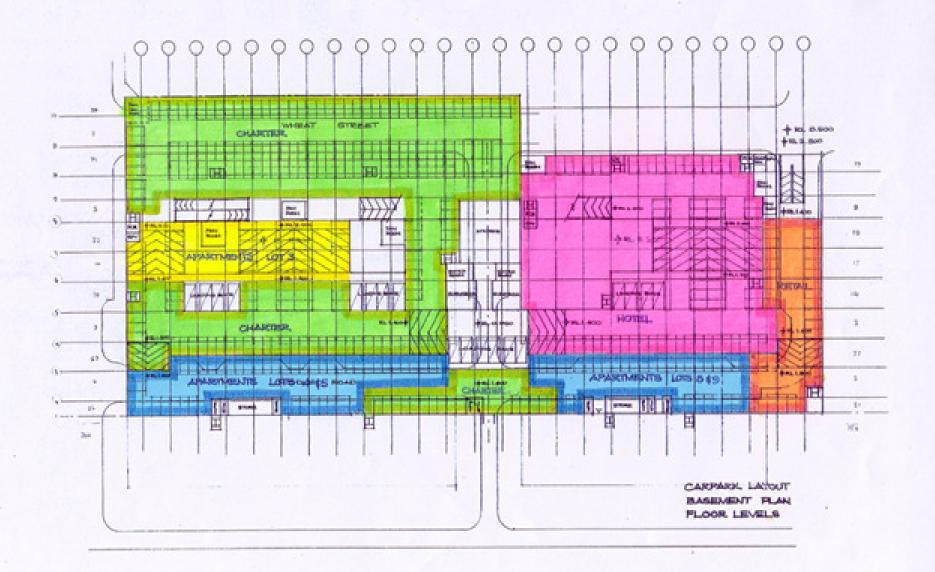
#### DARLING HARBOUR 9 & 10 Development Parcels

Fig.5 LEGEND Development Parcels Public Areas Roadways 75 100 50 (Metres) 0 (3) (3) H





MIDDLE SECTION



### Stratum Subdivisions

(Continued)

- Stratum lot + strata plan = stratum parcel
- Then strata management statement usually registered with stratum plan
- Results in shared facilities
- Design used to minimize shared facilities
- Legal mechanisms an alternative to design
- Design solutions preferred to legal solutions

### **Shared Facilities**

- Areas, services, equipment and amenities shared by 2 or more component use areas
- Examples; access ways, stairs, elevators, pumps, exhaust fans, fire sprinkler system
- Must be maintained and costs shared equitably
- Placement is very important
- Listed in schedule to SMS or BMS
- · Basis for cost sharing also listed
- Provision for adjustment of list and cost sharing

#### **Sample Cost Sharing Schedule**

#### **SCHEDULE 1**

#### List of Shared Facilities and Division of Costs of Shared Facilities.

The permitted uses described in column 5 represents the Member permitted to use each Shared Facility. The percentages in columns 6, 7 and 8 represent the total cost for each Shared Facility that each member must pay.

	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8
No	Shared Facility	Description	Location	Permitted Users	Residential	Retail	Commercial
1	Lifts	Lifts in the foyer and extending to levels 4 and 5 of the car park	Area A on plan annexed	Area A on plan annexed Residential, Retail 45% and Commercial		15%	50%
2	Service area and goods lift	Service area and goods lift, comprising loading dock, turning area and lift	Area B on the annexed plan	Retail and Commercial	0%	35%	65%
3	Garbage area	Garbage and recycle receptacle areas, including bins and compactor	Beside the loading dock; area C on the annexed plan	Residential, Retail and Commercial	38%	49%	13%
4	Stair pressure units	Stair pressurization units to for smoke control in the fire escape stairs	At the top of each of the fire escape stairs	Residential, Retail and Commercial	48%	8%	44%
5	Fire sprinkler system	Pipes, heads, pumps and control equipment relating to the fire sprinklers	Throughout the entire building and car parks	Residential, Retail and Commercial	42%	17%	41%

#### KING STREET WHARF – Schedule 1

23	Gas consumption Shared Facility	Schen	sed by the Residential Strata ne and Single Retail hot boiler for air conditioning.	Residential Strata Scheme - Basement		
24	Lift service (public) Global Cost Item	Public lift providing access from the waterfront level to street level tem behind the waterfront Parcels in site 8.		Combined Retail - Parcel 8 (external lift)		
25	Pest control - loading dock Global Cost Item		ontrol including inspections, ent and remedial actions in:			
		(a)	Loading dock and raised loading area.	Combined Retail – Basement loading dock		
		(b)	Accessway.	Combined Retail - Basement behind Parcels 4, 5, 8 and 9		
		(c)	Carwash bay.	Combined Retail – Basement loading dock		
		(d)	Corridors.	Combined Retail - Basement, between accessway and waterfront, between Precinct 2 carpark and accessway		
26a	Pest control - other Shared Facilities and areas Global Cost Item	Pest control including inspections, treatment and remedial actions of all Global Cost Item areas and facilities				
		(a)	Carpark entry ramp.	Residential Strata Scheme		

#### KING STREET WHARF – Schedule 2

Sheet 78 of 90 sheets

No.	Shared Facility	Commercial Strata Scheme	Combined Retail	Xerts	Charters 1 - 6	Single Retail	Serviced Apartments		Method Of dividing cost
22	Electricity consumption for Parcel 9 shared meter Shared Facility	57%	43%	0%	0%	0%	0%	0%	Calculation based on area served, estimate of time served and equipment rating.
23	Gas consumption Shared Facility	0%	0%	0%	0%	30%	0%	70%	Calculation based on area served, estimate of time served and equipment rating.
24	Lift service (public) Global Cost Item	20%	20%	5%	55%	0%	0%	0%	Distribution based on estimated benefit.
25	Pest control - loading dock Global Cost Item	10%	45%	2%	32%	1%	0%	10%	Distribution based on estimated benefit.
26a	Pest control -other Shared Facilities and areas Global Cost Item	18%	12%	2%	3%	3%	27%	35%	Relative area of each Strata Scheme and Stratum Lot.
26b	Pest control - other Shared Facilities Shared Facility	18%	12%	2%	3%	3%	27%	35%	Relative area of each Strata Scheme and Stratum Lot.
27	Carpark roller shutters Global Cost Item	18%	12%	2%	3%	3%	27%	35%	Relative area of each Strata Scheme and Stratum Lot.
28	MATV system Shared Facility	18%	12%	2%	3%	3%	27%	35%	Relative area of each Strata Scheme and Stratum Lot.
29a	General repairs and maintenance Global Cost Item	22%	23%	5%	9%	5%	10%	26%	Relative proportion of contribution to operating costs.
29Ъ	General repairs and maintenance Shared Facility	22%	23%	5%	9%	5%	10%	26%	Relative proportion of contribution to operating costs.

### Principal Legal Mechanisms

- Strata management statement
- Building management statement
- Easements
- Covenants
- Umbrella management agreements

# Project Structuring Exercise

### Strata Management Statements

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Sheet I o

SP63312

Strata Management Statement for King Street Wharf Precinct 1

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Governor Phillip Tower I Farrer Place Sydney NSW 2000 Telephone (61 2) 9296 2000 Fax (61 2) 9296 3999 DX 113 Sydney Ref: CAL

- Used where a strata plan is to create a stratum parcel
- Regulated by
  - Strata Schemes (Freehold Development) Act 1973
  - Strata Schemes (Leasehold Development) Act 1986
- Effect as agreement under seal – mutual covenants
  - Body corporate
  - Proprietor, mortgagee in possession or lessee in S/Scheme
  - Owner or mortgagee in possession of other parts
- All agree to carry out obligations & permit others

### Strata Management Statements

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- Must provide for
  - Building management committee + office bearers
  - Functions of office bearers
  - Settlement of disputes
  - Service of notices and documents
- Land owners + B/C must be members
- B/C has a nominee
- By-law regulates nominee
- Otherwise special resolution

### SMS – Optional Matters

- Control, maintenance, etc. of any means of access
- Storage and collection of garbage
- Meetings of BMC (+ minutes)
- Safety & security measures
- Appointing managing agent
- Control of noise
- Regulating trading activities
- Service contracts
- Architectural code
- Other (non conflicting) matters

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### SMS – Implied Provisions

(Unless excluded)

- BMC must meet at least once each year
- Must give 7 days notice to members
- Manner of service of notice (personal, by post or as per Act)
- Decisions by majority vote

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### **Building Management Statements**

- Registration is optional
- Registered with the subdivision or after
- Applies where no strata scheme involved
- Regulated by Conveyancing Act 1919
- Can be amended
- Has effect in same way as a SMS
- Covenants involve the same parties

# Building Management Statements (Continued)

- Must be consistent with DA and the law
- Same SMS compulsory provisions apply
- Same SMS implied provisions apply
- May contain the same optional provisions
- Each owner must be a member of the Building Management Committee
- Not intended to sit above a SMS

## 10 Minute Break

Please return promptly!

### Topics (continued)

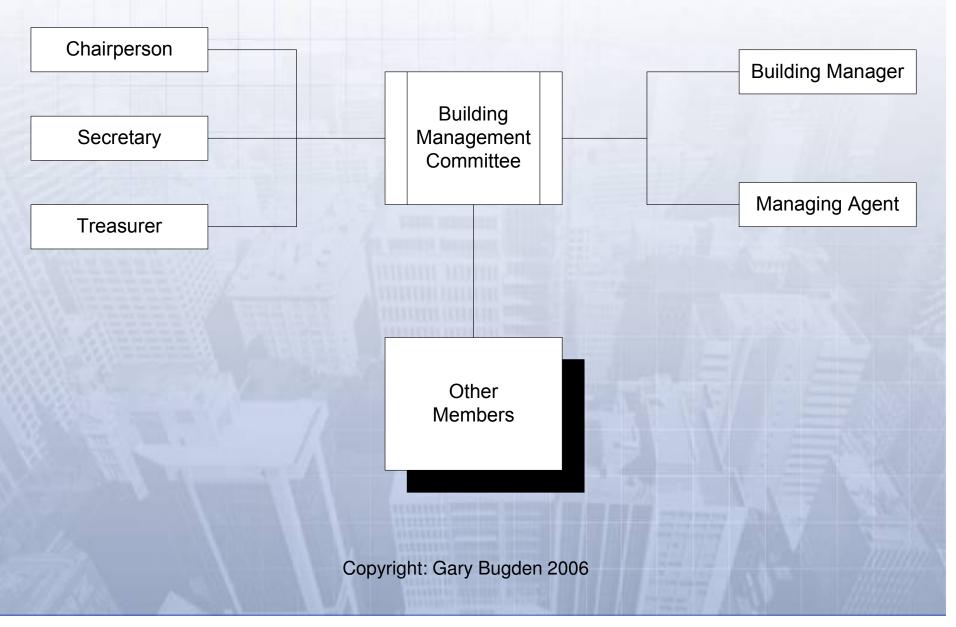
- 7. Building management committees
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10 minute break

### **Building Management Committees**

- Not a "body corporate" no legal entity
- Represents the lot owners their agent
- Body corporate is an "owner"
- Made up of owners or their representatives
- Administers the common facilities
- Enters into contracts on behalf of owners
- · Owners jointly and severally liable
- Management and insurances are critical

# Common Structure for Building Management Committee



### Managing Agent

- BMC empowered to appoint
- Procedure involves
  - BMC Resolution
  - Written agreement
- Role is determined by the agreement
- Powers determined by the agreement and authorized BMC delegations
- Role is commonly secretarial and record keeping

### Managing Agent

(Continued)

- Strata managing agent is logical appointee
- Charges determined by the agreement
- Logical approach is "fee for service"
  - High level of responsibility
  - Difficulty estimating hours involved
  - Number of lots is small and irrelevant
  - "One-off" nature of the task
- ISTM Agreement uses "fee per lot"

### ISTM Agreement for BMC's

- Between Agent and all owners
- Novation on change of ownership
- Assumes managing agent acting as a "strata managing agent"
- Assumes principal and agency relationship
- Schedule A and B services need to be carefully checked against the SMS or BMS
- Strata initial period restrictions or term restrictions do not apply

### **Building Manager**

- Appointed like managing agents
- Strata title restrictions do not apply
- Longer term appoints are more common
- Responsible for building operation issues
  - Repairs and maintenance
  - Service contracts
  - Basement management (access, visitors, rubbish, deliveries)
  - Workplace, health and safety
- Must be involved in budgeting and authorizing of payments

### Committee Meetings

- Regulated by SMS or BMS
  - Notice requirement
  - Quorum
  - Appointment of alternates
  - Voting
- No general meetings
- Remember the implied provisions
  - One meeting each year
  - 7 days notice and how served
  - Quorum
  - Decisions by majority vote
- Minutes of meetings must be kept

### Insurance

- Where strata scheme
  - s 84 SCM Act
  - Possibly SMS for non-building insurances
- Where no strata scheme
  - Clause 3 and 4 Schedule 8A Conveyancing Act 1919
  - Building is insured using a "damage policy"
  - Other insurance requirements are specified
- These other requirements
  - Workers compensation
  - Public liability
  - Other occurrence determined by the Committee
  - Voluntary workers

### 10 Minute Break

Please return promptly!

### Topics (continued)

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Finish

### Record Keeping

(Excluding Accounting Records)

- Constituent documents
  - Subdivision plans
  - SMS or BMS
  - Easements and covenants
- Owners register
- Committee register
- Contracts register
- Shared facilities register (including changes)
- Asset register
- Minute book

## What accounting records do you think should be kept?

W

Should there be any special requirements for recording income and expenditure?

### Accounting Records

- Keep all the normal records
- Chart of accounts is critical
  - For R & M it must mirror shared facilities register (item by item)
  - R & M income and expenditure must be tracked item by item
  - Keep a ledger account for income and expenditure for each R & M item
- Budgeting must take into account item by item surplus or deficiency
- Owner's share of various items must be consolidated in a Contributions Register
- Is a sinking fund needed?

### Accounting Records Exercise

- 3 lot stratum subdivision with SMS
  - ➤ Lot 1 Body corporate
  - ► Lot 2 Retail owner
  - ➤ Lot 3 Commercial office owner
- Cost sharing item = Lift maintenance (Item 5)
- Cost sharing arrangements
  - >Lot 1 − 31%
  - ➤ Lot 2 15%
  - ► Lot 3 54%

#### **Accounting Records Illustrated**

#### Step 1 - Budget

#### BUILDING MANAGEMENT COMMITTEE BUDGET

Item 1 2 3 4 5	Description Fire safety contracts Emergency generator Building manager Cleaning Lift maintenance	Lot 1 % 0.2 0.3 0.3 0.2 0.31	Lot 1 \$ 867 720 6300 2720 1099.88	Lot 2 % 0.4 0.2 0.2 0.5 0.15	Lot 2 \$ 1734 480 4200 6800 532.2	Lot 3 % 0.4 0.5 0.5 0.3 0.54	Lot 3 \$ 1734 1200 10500 4080 1915.92	Total 4335 2400 21000 13600 3548
Totals	Lift maintenance	0.31	1099.88	0.15	13746.2	0.54	1915.92	3548 44883



#### **Step 2 – Raise Contributions**

#### Contributions Register Lot 1

Date	Description	Debit	Credit	Balance
01-1-06	Contribution raised	\$11706.88		(\$11706.88)
21-1-06	Contribution payment		\$11706.88	0.00

### Accounting Records Illustrated (Continued)

#### **Step 3 – Receipt and Enter in Cash Book**

#### Cash Receipts Book

Date	Description	Item 1	Item 2	Item 3	Item 4	Item 5	Total
21-1-06	Contribution - lot 1	\$ 876.00	\$ 720.00	\$6300.00	\$2720.00	\$1099.88	\$11706.88

#### Step 4 – Post to Ledger

#### Ledger Account Item 5 (Lift Maintenance)

Date	Description	Debit	Credit	Balance
21-1-06	Contribution (Lot 1)		\$1099.88	\$1099.88
24-1-06	Contribution (lot 3)		\$1915.92	\$3015.80
02-2-06	Contribution (Lot 2)		\$ 532.20	\$3548.00
08-3-06	Lift service fee	\$3162.00		\$ 386.00

### Financial Reporting

- Determined largely by the approach to accounting
- Reporting can be on a cash or accruals basis
- Management accounts should report on an item by item basis

### Dispute Resolution

- Process is determined by the SMS or BMS
- Commissioner and Tribunal are not an option for a BMS
- Expert determination or arbitration are the most common
- Legal assistance will normally be required
- Be careful about rushing off to the Commissioner or Tribunal

### The Future

- SMS and BMS are unpopular with strata managing agents
- They do not fit the "strata title" mould
- They are critical to preserve the value of non-residential components
- Here to stay & likely to get more complex
- Gear up for them be on the top of your professional tree
- Good luck!!

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