

How strata works in WA

Managing finances and insurance



► Contributions

Contributions, commonly referred to as 'levies' are the fees paid by all lot owners to the strata company to cover the expenses associated with the running and maintenance of the strata or survey-strata scheme.

The strata company is required to prepare an annual budget to be approved at the AGM by ordinary resolution. To set the contributions to be levied on the lot owners, the budget is required to show the existing financial situation of the scheme and an estimate of payments to be made and received.

► The administrative fund and the reserve fund

Unless exempt, strata companies must establish an administrative fund and a reserve fund to administer the finances of their scheme.

The administrative fund is used to manage the day-to-day expenses of running the scheme, such as maintaining the common property and personal property owned by the strata company, ongoing maintenance (such as garden care) and insurance.

The reserve fund enables major work that is likely to be required in the future to be undertaken to common property. All strata companies with 10 lots or more, or which have a replacement value of \$5 million or over are required to have a reserve fund and prepare a 10 year plan. This sets out the common property and personal property of the strata company that is expected to require maintenance, repair, renewal, or replacement outside a routine nature. The plan helps determine the contributions that the owners need to pay and is required to be reviewed by the strata company at least every 5 years to ensure it remains valid.

Examples of expenditure from the funds

Administrative fund

Covers the routine expenses of running the scheme including:

- cleaning
- insurance
- gardening
- small maintenance jobs
- building insurance
- utility bills for common property
- administrative costs
- strata management contract fees.

Reserve fund

Covers the expenses for larger works expected to be required in the future, such as:

- roof repairs
- replacement of lifts
- repainting of walls
- changes to building structure
- unexpected expenses not covered by building insurance.

▶ Outstanding contributions

The strata company can apply an interest rate of 11% simple interest per year to an unpaid contribution. Unpaid contributions, including interest accrued may be recovered by the strata company in a court of competent jurisdiction and the strata company may agree to a compromise of such a debt.

▶ Statements of accounts

A strata company must keep proper accounting records of its income and expenditure. It must also prepare a statement of accounts for each financial year, showing its assets, liabilities, income, and expenditure.

Exemption for small schemes (two to five lots)

Two lot schemes are exempt from these requirements around managing finances and insurance. Three to five lot schemes may also be exempt from these requirements, if a scheme by-law has been passed to this effect.

▶ Budget

A strata company must prepare a budget for each financial year and submit it for approval at its AGM. The budget must be prepared taking into account, if applicable, the 10 year plan for the reserve fund. The strata company may, by ordinary resolution at its AGM or at a subsequent general meeting, approve a budget with or without modification.

If the budget provides for expenditure on improvements to common property (other than sustainability infrastructure) that exceeds an amount totalling the number of lots multiplied by \$500 then information must be provided to the lot owners as part of the budget and the budget or budget variation must be approved by special resolution.

▶ Audited accounts

A strata company may choose to arrange for the auditing of any accounting records. Only an auditor may perform the audit. If a strata manager is delegated the function of operating accounts and the strata company has engaged an auditor, the strata manager must, if required by the auditor, give the auditor access to the statement of accounts or documents relating to financial matters and provide any document or information of the strata company that the auditor reasonably requires.

▶ Insurance

A strata company is responsible for ensuring that all insurable assets of the scheme are insured against fire, storm, and tempest (excluding damage by sea, flood, or erosion), lightning, explosion, and earthquake to:

- Replacement value, or
- Replacement value up to, for an event of a specified kind, a maximum amount specified in the contract of insurance.

The owner of a lot in a survey-strata scheme is responsible for insuring the infrastructure on their lot.



Insurable assets of a strata titles scheme

The information below sets out what is and what is not considered an insurable asset:

Includes

The common property of the scheme (including the fixtures and improvements on common property).

For a strata scheme, the parts of scheme buildings that comprise lots in the scheme (including the paint and wallpaper).

Carpet and floor coverings on common property that are permanent.

For a strata scheme, buildings on the parcel (including those buildings not shown on the scheme plan).

Does not include

Fixtures or improvements on the common property that are not themselves common property.

Carpet and temporary wall, floor, and ceiling coverings in a scheme building.

Fixtures removable by a lessee at the expiration of a tenancy.

Temporary wall, floor, and ceiling coverings on common property.

Other insurance

The strata company must also take out any other insurance required by law, for example, workers' compensation, if applicable, and it may insure against other risks which the strata company decides to insure against. For example, office bearers' liability insurance.

What happens if the strata company does not take out insurance?

If the strata company fails to take out any required insurance, a member of the strata company may take out the insurance in the name of the strata company.

The State Administrative Tribunal has power to make orders for the member to be compensated for any payment made.



Special rules apply to single tier strata schemes

For single tier strata schemes, the owners have discretion whether they insure the insurable assets in their lots and take out public liability insurance in respect of their lots. However, the strata company may decide, by ordinary resolution (majority decision), to take out this insurance for the scheme. The strata company may also at any time resolve by ordinary resolution to revoke such a decision.

The strata company must keep insurance of insurable assets (to their replacement value) that are within common property and insure for public liability (for at least \$10,000,000) in respect of common property unless:

- the only common property is the air above the lots and the soil below them, or fences;
- or
- the strata company decides by resolution without dissent not to take out insurance.

Any owner can insist, by serving written notice on the strata company, on insurance of common property at any time.