



Your guide to strata cash flows during a pandemic

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This guide is to help strata owners and managers deal with the important cash flow decisions that will arise during the Coronavirus pandemic and its aftermath.

We cover what to do about the payments that the corporation needs to make and the various ways of funding those payments.

Payments by the Strata Corporation

There are three simple options available:

1. Don't pay anyone
2. Work out a metric for paying some people
3. Or pay everyone.

Our very strong view is that these times require all corporations to make all payments to all creditors.

If payments are not made, people suffer and as a community, if we don't keep making payments to our creditors, we'll just be adding to the economic distress. As the government says "we're all in this together".

The vast majority of payments that a strata corporation makes are to small businesses. The cleaner, the gardener, the guy who fixes the lights, etc. Even apparently large contractors engaged on large capital works on buildings are paying a multitude of subcontractors, all of them individuals with families who rely on being paid.

Levies

In normal times, people look to the legislation to give guidance on how to structure levies. All states have legislation that requires the corporation to raise levies in order to meet its outgoings.

But this is a time for common-sense and practicality, mixed with empathy and compassion.

It's also a time to recognise the obvious which is that all corporations are different, they are composed of different people with differing financial situations and views and so there can never be a "one size fits all" approach.

Interest on Levies in Arrears

Each state has a method of setting the interest rate that can be charged by the corporation to owners with levies in arrears.

We would like people to think very carefully when considering how to apply this charge.

There is a very good financial principle that people who can't pay on time should be charged interest. But in these circumstances, each corporation should consider the extent to which, in their particular and specific situation, to charge interest is appropriate or just has the effect of transferring additional costs from the haves to the have nots. The haves will pay their levies on time. The have nots can't.

What is the right thing to do in your particular community?

Alternatives

One option is to carry on as normal and assume that levies will continue to arrive in the corporation's bank account. These are not normal times so that doesn't make sense.

Another is to review the likely default rate in paying levies and set the levies higher so that sufficient funds are raised after accounting for the non-payers. If you think that half the people in your community won't be able to pay, then you could set the levies at double the amount.

In theory this would work but it has many problems. People who can't pay the (increased) amount are unfinancial and so can't vote and that's not fair in these circumstances. It also creates a problem down the road – some people will have paid more than the "usual" amount and will want reimbursement whilst others will be way behind. Eventually this will need to be balanced out.

Another levy option is to reduce or defer levies and fund the corporation by the other means outlined below.

If not from levies, where can the money come from?

Special Levies

Special levies are out for the duration. Except for a small number of very unique situations, take them off the agenda. If people can't afford normal levies, a special levy is just asking for your arrears to increase.

Sinking Fund / Maintenance Fund / Capital Works Fund

If you have it, use it.

Each state has different rules about how, when and what amounts in a sinking fund can be transferred for general use so you will need to talk this through with your strata manager and perhaps your strata lawyer.

However, no matter what the state rules are, we think everyone should just be pragmatic and use whatever funds are available.

Whilst state strata legislation may throw up a few impediments, there are good economic reasons to use your sinking fund.

First, it does not require any current cash contribution from owners. Later on you'll need to re-consider what the appropriate balance should be, but at this crisis time, use the cash that's already available.

For most corporations and for the majority of owners, a sinking fund is the most expensive money that they have. Taking into account opportunity cost and tax, a sinking fund is not an efficient means to fund your future capital works. It makes sense to use the money that costs you the most first before working your way through to the less expensive forms of funding.

Borrowing

As a lender, Lannock is very attuned to the benefits of borrowing.

Cash is available when you need it. All creditors can be paid which means that those people can in turn meet their obligations, and so on. Levies can be structured so that no-one is unfinancial and loses the ability to vote in a general meeting.

Refer to [Levy Assist](#) for more information on how Lannock can provide your strata corporation's working capital over the term of the virus. We have waived all fees on our working capital lending so you will only pay for what you use when you use it. It also means that if you set the facility up as a financial safety net and never use it, you won't pay a cent.

Corporate Governance

Some of the decisions that flow from this can be made by the strata manager and some by the treasurer or strata committee.

However, generally, as a principal of good governance, financial decisions should be made or ratified in a general meeting.

And it's not just a matter of good governance, it is to be preferred so that all members of the community are aware of the issues and can participate in the decision making.

We recommend you start working on these issues now with a view to holding a general meeting in the next month or so.

Summary

1. Pay your bills – team Australia needs it
2. Forget about special levies for the present time
3. Think carefully about whether, how and why you apply the interest rate on levies in arrears
4. Use your sinking fund
5. If you need the funds or want a back-up just in case, set up a working capital borrowing facility such as [Levy Assist](#)



COMMUNICATION IS KEY

Get in touch with us to find out why borrowing should be part of the funding mix in your strata corporation.

 1300 851 585

 strata@lannock.com.au

 www.lannock.com.au

Lannock Strata Finance 2 Pty Ltd ACN 147 657 823, Lannock Capital 2 Pty Ltd Australian Credit Licence 412905, Level 3, 140 William Street, Woolloomooloo, NSW, 2011

Resources

- [Click here](#) if you need help from a strata lawyer and don't have ready access - the Australian College of Strata Lawyers has a list of members.
- You'll already know how to contact your own strata manager but if you don't have one, please [click here](#) and the Strata Community Association can help
- [Click here](#) for NSW Office of Fair Trading
- [Click here](#) for more information on Working Capital Loans for owner corporations