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**YSP Podcast Transcript: Episode 059. The Good, Bad And Ugly Financial Reforms**  
**For NSW Strata Buildings – With Joel Russell Of Kelly + Partners**

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**Amanda Farmer:** Hello and welcome. I'm Amanda Farmer and this is Your Strata Property. Joel Russell has more than 15 years experience as a chartered accountant. He began his career in Accountancy as an undergraduate with McBernie and Partners. In 2007, he joined Kelly Partners North Sydney, becoming a partner in 2015. Joel's interests include surfing, reading, and travel.

Today I am delighted to welcome Joel Russell of Kelly Partners. Welcome, Joel.

**Joel Russell:** Hi Amanda, good to be here. Thanks for having me.

**Amanda Farmer:** It is an absolute pleasure to have you and of course we are here to talk about strata accounting ...

**Joel Russell:** Woo hoo.

**Amanda Farmer:** ... and all things numbers.

**Joel Russell:** Well you know, they say there's no such thing as uninteresting topics, there's only uninterested people.

**Amanda Farmer:** Exactly. I like it. Now I'm sure so many of our listeners are familiar with Kelly Partners, which is Australia wide, providing accounting and auditing services to strata buildings, and helping strata managers wade through that sometimes complicated stuff. But the first question I want to ask you, Joel, why is it so important for both strata owners and managers to have a good understanding of the financial aspects of running a strata building.

**Joel Russell:** It's all about providing information to help these users be the owners essentially. Make the important decisions about the allocation of their resources being their money. They need to be able to understand the story that is being told. It's a language like English or Chinese or whatever your first language is. Numbers is a language and I honestly believe that a balance sheet and a profit and loss is probably the most concise form of storytelling mankind has devised so far.

**Amanda Farmer:** I like that. A balance sheet and a profit and loss are storytelling.

**Joel Russell:** Exactly true. That's right. The balance sheet is a snapshot. It's a photograph of what's happening right now. How it is. The cold hard fact of where we are or how far down the hole we are. The profit and loss is a story of how we travelled from the start of the year to the end of the year. Being able to interpret that story as a strata manager, and tell that story to your owners is a valuable skill to have. It's a tool in your kit that you can I guess, use to build trust with your owners that essentially you have a competency. Obviously, everyone plays to their strengths but that is an essential element I think at least to be able to read the story. Maybe not be able to create the story, but if you can read the story and assist the owners interpreting that story about how their resources were spent during the year and where they are right now, that's what it's all about.

**Amanda Farmer:** I think you have hit the nail on the head there where you say build trust. It's something that those who are providing professional services, I think it goes across the board when you can communicate to your clients that you know and understand what it is that they are going through. What it is that they need. Then you're going to build trust and not only does that make your job easier but more enjoyable, if you like and trust the people you work with and they like and trust you I think.

**Joel Russell:** I agree and there's been a lot of talk in the industry about professionalism. Now I believe professionalism isn't something that's mandated from up on high somewhere. It's from the industry body itself. It's actually something that is you know,



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it's like the old revolution starts from within. So professionalism is an individual thing. Every strata manager should aspire to be professional as an individual. Then you become an industry of professionals rather than a professional industry. I think part of that is the acknowledgement that what we're doing ... you know, you compare I guess the managed assets between the Australian Stock Exchange and the body corporate industry as a whole.

Actually, the managed assets are quite close and essentially, well eventually the managed assets in the strata industry will overtake the managed assets on the Australian Stock Exchange. 1.3 Trillion and the people that are managing that at the moment, the people that are sitting on the strata committees, are unpaid, unskilled volunteers. If you can imagine the boards of Australian ASX listed companies being I guess, peopled by unskilled, unpaid volunteers. That's where you see the difference there.

**Amanda Farmer:** Yes.

**Joel Russell:** So with unpaid, unskilled volunteers managing such a huge asset, and it's usually the individuals largest investment, being their unit. They need trusted skilled, competent advisors to help them through I guess the whole kind of maze of understanding the legislation and managing that asset.

**Amanda Farmer:** Now Joel we both know that there have been some significant changes with the legislation here in New South Wales recently with our new Act coming in on the 30th November 2016. Can you cover off for our listeners some of the key legislative reforms when it comes to financial matters in particular?

**Joel Russell:** I guess from a purely self-centred point of view, there is an area in relation to the reforms talking about mandatory audit provisions. In the old legislation, mandatory audit provisions applied for large schemes, which were defined as 100 lots or more. In the new legislation, and you know, this isn't just plucked out of the air. This is a, I guess an acknowledgement of the value of the assets that are being managed. That we need to actually try and manage the risk across the industry, and not just the random fraud that occurs from time to time by owners, suppliers or strata managers, unfortunately.

You're managing the risk for the owners and there has been an additional element added into I guess, the provisions, in relations to mandatory audit and it becomes a monetary threshold. I've seen some of the presentations when people are giving these updates about the legislation, and the mandatory audit provisions get a cursory mention, but it actually impacts every strata manager across New South Wales.

A couple of the software providers have attempted to insert a calculator in relation to mandatory provisions but the presentations kind of say, "Oh yes well if you're over 250 then you may be up for mandatory audit."

**Amanda Farmer:** So that's a budget that exceeds \$250,000 or you're a large strata scheme. So over 100 lots. Then you're falling into this new category of requiring an audit under the legislation?

**Joel Russell:** Well that's what you'll see when someone is I guess, going over the highlights of the changes, but as with everything Amanda, as I'm sure you know, the devil is in the detail. Don't just read the legislation. The actual practical areas in relation to the implementation of our Act, it's our Act, is the regulations. The regulations really show how things work and really talk about the details of how things work. This applies also to the mandatory audit provisions.

So the prescribed amount is 250, but the calculation of that 250 is the crucial factor. It's not just the budgeted levies for the 12 months. This is the kicker. You add that. It's the sum of your opening balances in your cash and investment account. So you had your bank account at the start of the year showing a \$100,000 then you had your plus your budgeted levies for the next 12 months, and say that was \$100,000.

**Amanda Farmer:** So that's your income yes.

**Joel Russell:** Plus any other income. So that includes budgeted or unbudgeted. So throughout that period just say you received,



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as far as the definition of income is concerned, an insurance refund for example as income. So, if you received a \$50,000 insurance refund or defects claim for example, plus your let's say \$100,000 in budgeted levies over that 12 months, plus the opening cash at bank balance of 100 is 250, you're in. Now, the practicalities of applying this mandatory provision actually you can really ... there's a possibility of determining that whether or not you're in or you're out, at the start of the year based on your budgeted revenues and knowing what your opening cash at bank is.

Really in terms of other income, and other income could be a special levy that's you know ... special levies should not be budgeted for. I find it weird that people budget for special levies. It's not a special levy if you know it's going to happen.

**Amanda Farmer:** Exactly.

**Joel Russell:** But if a special levy occurs during the year so you can actually you do a review at the end of the year of all your plans that end on a certain month so that you're 31st March year-end plans, okay what was my opening balance of cash at bank and investments? What were the levies. Or another quick and fast way of doing it is, what's my opening balance in cash including investments plus I look on my income and expenditure statement and say, what was my total revenue? It is levies plus all other income.

**Amanda Farmer:** This is a really key point Joel, and I just want to direct to our listeners to the relevant parts of the legislation, so they can look at this. The definitions that you're talking about and how it links into the regulations, and why the regulations are so important. So, it's Section 95, of the Strata Schemes Management Act in New South Wales, and this is where it says that 'A large strata scheme or a strata for which the annual budget exceeds \$250,000, must ensure that the accounts are audited before they are presented to the AGM'. Now, this section also says, 'That when you are calculating the annual budget you need to refer to the regulations, and the relevant regulation is Regulation 21 in the Strata Schemes Management Regulation'.

I will put links to these in the show notes. And this is where it sets out exactly what Joel's been talking about. How to calculate the annual budget and it has to include the contributions levied for the year, so your normal levies, any income of the owners' corporation from any other source, and any other amounts held by the owners' corporation. So I take your point completely Joel, it is going to be and it must be at the moment now with this legislation active, very difficult for strata managers and committees to work out whether they are within this \$250,000 or whether they have exceeded it. Therefore, whether they are legislatively required to have an audit. So a really key point.

**Joel Russell:** Yes. I agree Amanda, and look I'm not bashing on strata managers, but I think ... like you can read the legislation as it is there, and you could be ... if you hadn't read the regulations you could in some respects be misled, and to think well, I haven't raised 250 in levies, we're sweet. We're fine. We're not going to be ... we don't require a mandatory audit. Now I'd done my I guess, rough calculations as far as yes it's hard to guess. Particularly with, for example, this child safety, the windows issue coming in, most building really, you know it's coming up but you don't provide for it and then you strike a special levy to do the windows. There'll be a lot of buildings that will go over the 250 because they have to raise that. Now, people just ... if you just looked at legislation and said well, budgeted 250, it's not ... like I said, the devil is in the detail.

**Amanda Farmer:** Oh well it's good to get the message out.

**Joel Russell:** Yes but also you don't know what you don't know, and you need to read the regulations. In a nutshell, you don't know the legislation until you read the regulations.

**Amanda Farmer:** Yes good advice. Now is there anything about this new legislation Joel, that you don't like, or you think is missing when it comes to financial issues in Accounting?

**Joel Russell:** I think they should insert a provision that's, mandatory audit and tax returns done by Kelly Partners. I think that would be a really important thing but I haven't seen it.



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**Amanda Farmer:** Where is that? I don't know. Isn't that ...

**Joel Russell:** It is, it's in the regulations.

**Amanda Farmer:** ... anyway. I mean you guys.

**Joel Russell:** I'm not bashing on the people that have done the legislative change but okay.

**Amanda Farmer:** Oh everyone else is.

**Joel Russell:** I think the road to hell is paved with good intentions and I think the insertion of the key financial information statement as a requirement to be provided. There is no mention that you actually need to provide a set of financials to accompany the notice, is baffling. Now, key financial information statement was ... I read I guess the submissions when they were sending out to the Fair Trading for comment. One of the questions that was posed was, do you think that simplified reporting would help the owners. Our response was, simplified reporting is a great idea but you need to have an understanding of where that came from, and the trust in the underlying integrity of where that information came from.

A CEO for example. A CEO doesn't have time to read a full set of accounts. They ask for key financial information. They want to know the certain ratio's the KPIs that are impacting on their business. But the only way they can interpret those key elements of information that are derived essentially from a set of financial accounts, is through years of understanding. Now if you presented some KPIs or a key financial information statement to a, like we said before, an unskilled volunteer who is sitting on the strata committee, it has no meaning.

It actually ... our role is to, like I said, is to tell the story, but it's also to I guess, give the information or improve the information to assist these strata managers in making decisions. This goes in the opposite direction. It actually confuses people. It creates more questions for the strata manager, and it's given to someone that ... like the purpose was, "Oh well, not many people actually understand a balance sheet or a P&L. So let's give them 5 figures that don't add up that we can't really correlate back to a set of accounts". Like a balance sheet and a P&L is probably like I said, probably the best devised short form of a story of what has occurred that man has come up with so far. Now, I believe the legislation is going in the wrong direction.

Really if you were going to actually do something in this area about making it easier for owners to understand financial statements, the answer would have been, lets make it mandatory for anyone that is sitting on an executive committee or a strata committee, to have a 1 day course to understand what a balance sheet is and what a P&L is.

**Amanda Farmer:** Yes, that's an option that is being canvassed I know over the years, and has some advocates and some detractors. The one drawback with requiring something like that is that there are buildings out there that are struggling to get anyone to volunteer for their committees. So the minute you require a one day course, the few who are left have disappeared as well.

**Joel Russell:** Oh okay well I get that. I guess that's the extreme end of things, and I understand that volunteering to be on a committee is more like, everyone take one step backwards, and you're the last man standing or the last woman standing and you're on the executive committee or the strata committee by default. But I just don't think that legislating that key financial information statement is not achieving what its intentions were. The intentions were good. The execution was poor.

**Amanda Farmer:** Yes. What I find interesting is that the statement of key financial information must be included as an attachment to the agenda for the AGM, and there must be a motion to adopt the financial statements.

**Joel Russell:** Yes, it's optional.

**Amanda Farmer:** ... yet there is, and I think you touched on this, there is no requirement to attach the actual financial statements



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to the notice of meeting. You can do it if you want to but you don't have to. So, we're asking owners to resolve to adopt financial statements that they potentially have never seen. They've only seen this as you say, your view would be, it's a half hearted summary the key statement of financial information. There's got to be owners out there who as much as they may not have sat on a strata committee before, or on an ASX listed board, they're going to know that there is something improper about resolving to improve financial statements.

**Joel Russell:** You're right, and I think if strata managers are anything, they're practical people and I think they understand the practicalities of that conundrum, and what they do, and what I've been told they do, is of course people want to see the balance sheet and the profit and loss and the GL, they will accompany that and they want to comply to legislation so, they send the key financial information. Now once they get to the AGM, after they've had a few AGMs, with their different plans and had to explain to someone the key financial information statement is unexplainable, they just throw that in the bin and they say, now lets get on with business and they look at the profit and loss and the balance sheet.

**Amanda Farmer:** Thank you for that Joel. I think we'll have a lot of listeners out there, whether they're committee members or strata managers, who are vigorously nodding their heads in agreement, and that's been their experience so far of this legislation I'm sure.

Let's talk about some positives here. We've got some listeners who want to gain a better understanding of the financial aspects of their scheme. Maybe even some strata managers who are saying, "Look I want to be this trusted advisor who knows what they're talking about when I look at a balance sheet and a profit and loss." What can those people be doing? What are some quick wins they can have to increase their understanding and their comfort with these kinds of concepts? What would you recommend they do straight out of the gate?

**Joel Russell:** Okay well here's another plug for the SCA. I just came back from Canberra yesterday. I hosted the financial reporting element of the A100, which is a course run by the national arm of ... they've just changed their acronym. SCA has remained but it's now called Strata Community Association rather than Strata Community Australia. They have gone Australia.

**Amanda Farmer:** Oh yes because of New Zealand joining.

**Joel Russell:** So, Australia will now be known as West Island now that we've joined New Zealand, but I think like we said before education is the key. That's the quick win. Like numbers is language. Go do a language course. Go and look at it like that, and the concept that numbers are boring, it's like saying Italian is boring. It's a language and it's a concise language that actually has some logic behind it. If you're investing, you know talking about a million dollars investing a million dollars in a strata lot, then I think you should take half a day out and learn the basics of a set of financial statements.

**Amanda Farmer:** And there are certainly those courses that SCA provides for strata managers. Unfortunately, I'm not sure there is anything equivalent for committee members. As you said earlier that's a bit of a gap there and we should be educating our committee members, and they should be able to do a course of some sort. Maybe not a whole day, but gosh, even a couple of hours online would be good wouldn't it?

**Joel Russell:** Most certainly. Look I had a chat with the National Trainer, Carol Anderson, and my understanding is it's in the wings.

**Amanda Farmer:** Yes. Great.

**Joel Russell:** I just think as a strata manager, you're just going to save yourself so much time walking into a committee meeting surrounded by people who actually know what they're looking at. You're no longer ... You're really reducing having an educated committee results in a real reduced risk, exposure to risk for strata managers. So it's kind of, it's in the strata managers interest to have an educated committee.



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**Amanda Farmer:** Absolutely. Yes, good tip. Personal question. What books have had the greatest impact on you and why?

**Joel Russell:** I guess back in my 20's I read the Electric Cool Aid Acid Test by Tom Wolf. That was a funny one because I guess the irony has come full circle because when I started working with Bret that was one of his ... I'm not sure if he read the Electric Cool Aid Acid Test, but there was a quote and we still use it today, that was referenced in a book called, Good to Great by Jim Collins and it talks about the bus. You're either on the bus or you're off the bus. That actually came from that novel, the Cool Aid Acid Test. It involved LSD and lots of shenanigans during the 60's with the hippie movement, but the essential concept that you get the right people on the bus in your business, and then you decide where to drive it. That has been something as a quote, and as a concept, we've applied here. We'll say it to our clients and people. There's a truth in that. Get the right people on the bus first, and then together you decide where to drive it.

**Amanda Farmer:** Absolutely. And if those are the books that you're reading Joel, you certainly are not a boring accountant.

**Joel Russell:** I'll tell you a book that I've read recently that really cuts through a lot of the noise I believe. How many habits is it?

**Amanda Farmer:** 7 steps.

**Joel Russell:** Seven Habits of Highly Effective People. Now that was written by a guy called Stephen Covey. His son, I assumed when I read this recent one that it was Stephen Covey again, but his son is also named Stephen Covey, Stephen M Covey, and he's written a book called, The Speed of Trust.

**Amanda Farmer:** Okay. I have heard about that one.

**Joel Russell:** And that's an amazing book because really, like I said, I believe it's something that cuts through the noise, and really as Curly from City Slickers said to his compatriots when they were riding through the desert. The meaning of life is one thing and the meaning of business and the meaning of I guess your life can come down to trust. Everything is on the basis of trust. The speed at which we can achieve things. The way that we can work together. The efficiencies and achieving great things all comes down to this establishment of trust. The book is great. You work through ... if you're not a naturally empathetic person for example, well he says that's fine. You know what, just act like an empathetic person. Eventually, it will rub off and you might end up being one.

**Amanda Farmer:** Yes. Act the way you want to feel.

**Joel Russell:** Act the way you want to feel, but the trust thing I've come to see you know, you can really whittle most issues and most problems right down to trust. That is, I think it's key for any strata managers as well, the question is, how do I establish trust as quickly as possible with this executive committee? What do I need to do? And, because I guess the other thing too is, how do I re-establish trust once trust is lost? Once you've lost the trust, you don't just throw your hands up and say, "Well that's gone. I'll move on to the next building." There is a road to redemption at rebuilding trust. There are elements you can do, and I think most strata managers are naturally, or they're intuitive towards how to build trust. But I think you can nail most issues and problems down to that one word.

**Amanda Farmer:** And I absolutely love that we have come full circle. We started this conversation about building trust and that is where we've ended up. I think that's a fabulous place to leave it. Thank you so much for that Joel.

**Joel Russell:** Thank you, Amanda. I really appreciate your time. Thank you.

**Amanda Farmer:** Now before we say good bye, do let us know how our listeners can find out more about you and Kelly Partners.

**Joel Russell:** Well I guess you know, we're doing a bunch of stuff around town. We host a strata in conversation quite regularly. We've got one coming up on the 28th April. It's actually sold out.



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**Amanda Farmer:** Yes, I'm looking forward to it.

**Joel Russell:** Yes apparently we've got a couple of pretty rock star strata guests there, including yourself. If you want to find out about us, just go to our website, [www.kellypartners.com.au](http://www.kellypartners.com.au) or you know, just give me a call. I'm happy to have a chat about anything or you can take me out for a beer down in North Sydney somewhere.

**Amanda Farmer:** Sounds like a good idea. Thanks so much Joel.

**Joel Russell:** Thank you, Amanda. See you.

**Outro:** Thank you for listening to Your Strata Property the podcast, which consistently delivers to property owners reliable, and accurate information about their strata property. You can access all the information below this episode via the show notes, at [www.yourstrataproperty.com.au](http://www.yourstrataproperty.com.au). You can also ask questions in the comments section, which Amanda will answer in her upcoming episodes. How can Amanda help you today?

