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YSP Podcast Transcript: Episode 013. The keys to effective strata budgets

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Amanda Farmer: Hello and welcome. I'm Amanda Farmer and this is Your Strata Property. Today, I'm joined by Andrew Terrell. Andrew is a Senior Strata Manager and the Business Development Manager for Wellman Strata.

Andrew began his career as a Financial Auditor and has since accumulated over eight years of experience in the most reputable strata companies in New South Wales.

Andrew has been involved in the setup and management of some of the largest and most complex strata schemes in the state. With an eye for detail, he has a deep understanding of the multi-faceted structures that exist in strata management with a focus on the people within these communities.

Andrew is excited by the dynamic nature of the strata management industry and is an established member of the professional community. He has dreams for strata managers to improve their knowledge through tertiary qualifications, resulting in better service standards for strata owners. Today, I'm delighted to welcome Andrew Terrell from Wellman Strata. Hello, Andrew.

Andrew Terrell: Amanda, thank you for having me involved. The bio sounds a lot more wanky [laughing]...

Amanda Farmer: When it's read out loud?

Andrew Terrell: ...having you read it after me reading through it more than a few times and writing it in the first place...

Thank you for the introduction. So look, thanks for getting me involved, strata education is a big one for me and it's a passion and I love a good podcast so this is possibly the perfect medium...

Amanda Farmer: Great.

Andrew Terrell: ...Your Strata Property. So, hopefully, impart some of that knowledge.

Amanda Farmer: Definitely and it's lovely to have you. And today, we are talking about how strata communities can do a better job of budgeting and setting reasonable and appropriate levies.

So I want to start by asking you to tell us why you think Andrew, a good understanding of budgets and levies is so important for those living in strata communities?

Andrew Terrell: More and more people these days are now obviously living and owning in strata and community titled properties, less so community title, but definitely in strata it's integral for them to have an understanding of what is to properly fund their building, and I think many people in the past have not that understanding and that could be from one of a number of reasons: a lack of education, a lack of sort of information from the wider community and fair trading, etcetera.

Receiving and paying strata levies on time is one thing, having an active eye on where your money is going is equally as important, as should be ensuring the owners corporation is meeting its maintenance obligations, and also going to improve the building rather than just maintaining what's there. So buying in strata is arguably more complex than Torrens title as you would probably agree, however, the nature of the strata governance means that complacency can easily take over, so hopefully that's something you also agree with.



Amanda Farmer: Yes. You mentioned there improving as opposed to just maintaining, and I really think that's key and something that a lot of owners, perhaps when they're new to strata, they miss that concept, that it's about investing or improving the value of your investment by putting in some money, that's what it takes sometimes.

Andrew Terrell: Well that's exactly it and if you own a fibro shack on an amazing block of land, you haven't realised the full potential of that property, and so you knock it down and you build something more valuable, whereas a lot of strata owners, they buy into these sort of older blocks and they sort of flog the dead horse to a degree...

Amanda Farmer: Yes.

Andrew Terrell: And we're now at a point where termination has to be a reality because a lot of these blocks aren't able to even be brought up to the state in which they're liveable and it makes more sense of get rid of them to some degree. Anyway, we are at that point now and I think people are facing that sort of tough reality which is good.

Unfortunately, we're going to have to be the ones that convey it, and people don't want to hear it a lot of the time but I think we will end up with a better result once we go through this.

There's only small proportion of buildings that I call well-funded, and it's not because the buildings are in well-built areas, which is sort of what you'd expect, the people with the money are the people that spend the money, but that's definitely not the case, some of the tighter buildings are definitely full of the people with million-dollar apartments, it's because the owners are well informed and they're realistic with themselves as to the cost of maintaining their asset.

Amanda Farmer: Yes. That's interesting that you say in your experience it's not necessarily the buildings that may be in more affluent areas or have wealthier occupants, it's about those who are more educated and even though they may have to stretch a bit further to invest that money, they're willing to do it because they understand the improvement it's going to make to their building.

Andrew Terrell: That's it, and strata's proportional in that, if you're in a house on your own and you're paying to replace a roof, it's going to cost you the whole cost of that roof, whereas if you're in a building of eight strata lots, yes it's expensive to replace a roof but you've got eight people to share the cost with, and likewise replace the carpet, paint the building, upgrade the landscaping, all those things which do give you a lot of value back.

Amanda Farmer: Okay. So what do you think Andrew the ideal budget for a strata building looks like?

Andrew Terrell: Firstly, it should be really a detailed budget. So you should have the line items that properly reflects where your expenditures are going to be over the course of the year. You can't just have a general repairs budget of twenty thousand dollars and then just spend from that, you're much better off having the various line items without obviously going to some nth degree because you confuse people by doing that and you also very easily get it wrong, but the act provides, the administration fund at least, that you need to be properly budgeting for your administration expenses, so your operating costs.

And then secondly, it should be easily explained, so that once you get to a meeting as a Strata Manager you should be able to take owners through it. The executive should definitely be across it. So yeah, it should make sense to owners, so nobody should be left wondering if they attend a meeting 'what was that all about?' and 'what did I just pass as a budget?' because they're confused. Accounts for a strata property are pretty straightforward, so you're not dealing with sort of complex cashless statements, I come from an accounting background not to say that I'm a great accountant or anything, but I think if you spend a bit of time, anyone can understand a set of general strata accounts.

You've got your balance sheet, which obviously reflects your assets at its certain period of time, and then you've got your profit-and-loss statement, which is performance over a period of time. So those two things together, are in any strata's accounts and obviously they're moving year to year and month to month, etcetera. So look the budget should encompass all nine operating expenses and it should at the very least reflect the recommended collection in the sinking fund report, plus budget for the cost of any known upcoming capital works, if you've got to paint that year, get some quote, present it to the AGM, have the amount in the

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budget so that the executive can go and spend that money when they deem it necessary. So that's the sort of thing that should go into a good strata schemes budget.

Amanda Farmer: Thank you for that, that's a really good summary. You mentioned there, and I agree with you completely, the more detail the better and while yes there is a risk of overwhelming with detail, in my experience, I see the most confusion and conflict I guess, come from budgets that are presented with lump sum figures like you said, twenty thousand for repairs...

Andrew Terrell: Yes.

Amanda Farmer: that is guaranteed to raise questions at a meeting, if not before.

Andrew Terrell: That's right and people pick up on that stuff, and they'll really harp on about it like 99% of the budget might be absolutely great, but then there's this one confusing line item and if you haven't got an answer for it at the meeting it can certainly derail things.

So it's very important to be able to adequately convey every single line item, and whether that be in advance of the meeting by issuing an explanation on some of the larger items, and some strata companies are better than others, but definitely at the meeting for anyone there, you should be able to answer each and every question they've got and obviously, it's not hard to put together a budget, it's your known costs over the course of the previous year, escalated for obviously CPI and whatever increases otherwise.

And then known other costs that you've got to encompass that year: if you've got some fire repairs to do if you've got some painting to do, etcetera. So if anyone tells me that it's hard to do a strata budget well then they're not spending the time to do it properly.

Amanda Farmer: Yes, and I find the other line item that tends to get a lot of discussion, and it's very important for a committee or a chairperson whose explaining the budget to understand, is legal fees...

Andrew Terrell: Yes.

Amanda Farmer: Guaranteed to be the line that people say: "What's that? Why is that there? Why is that double last years?" and my advice to any chairperson who is having to deal with those questions or might be having to face them at an upcoming meeting is to know your stuff, know why you've estimated the amount you've estimated for legal fees, because people surely don't like paying them, but it's also something that hurts if it comes up unexpectedly within the next year and it hasn't been budgeted for.

Andrew Terrell: Yes look that's exactly right. Certain buildings should I think, the majority of buildings, should have some budget for legal fees because that's what allows you to go redraft your by-laws, that's what allows you to deal with a dispute if one arises, and certain buildings you know are very litigious, unnecessarily so in some cases, necessarily so in others.

So look, legal fees is definitely one of those line items and people often see it as 'why do we need to spend money on lawyers?' but that's because you're in such a complex environment, and you need to get that advice and a strata manager can give you a lot of advice, but then there is times, debt collection is obviously case in point, where you need to refer stuff to a solicitor, and often that legal fees budget will be a sort of nil amount, and people still jump on it because there's a recovery that's going to come from your debt collection matters.

So anyway, legal fees are I'm sure close to your heart, close to your wallet as well. But very important, and as development gets so complex, it's only going to become a bigger item, but yeah I definitely build legal fees into all the bigger budgets that I would do.

Amanda Farmer: Yes, good idea. Okay Andrew, could you share a story with us around how your knowledge and your skills in this area have helped a building?

Andrew Terrell: Yes, sure. I won't be specific because I haven't asked any of the buildings if I could mention them...



Amanda Farmer: Yes.

Andrew Terrell: I've long been an advocate for energy efficiency, over probably the last four or five years, especially since the energy savings scheme has come out which is not run by the government, but it's funded by effectively everyone's energy bills.

Amanda Farmer: Yes.

Andrew Terrell: I don't know if you know much about it, but they've effectively put together this fund which people can draw from in the event that they're undertaking energy efficiency projects, and that can be commercial, it can be strata, or it can be residential etcetera.

So with the help of some key people in the industry and companies, I'll mention Ethan Burns, he's been great. We've helped owners corporation save a lot of money through efficiency, that could be lighting works, it could be provisioning such as new electricity contracts, addressing water use, there's so much wastage at strata schemes because you've got that one lot meter in most cases, and unfortunately people will not fix leaking toilets, etcetera. So you've got so much wastage on a year by year basis.

Ventilation upgrades are also a big one, like car park fans, you put those on a VSD and they won't be running all the time, and the savings these things generates is actually astronomical, so in some cases we've managed to cut electricity and water cost by up to about fifty percent...

Amanda Farmer: Fabulous.

Andrew Terrell: Which, on a large building, you're looking at... I'll use one example, at a building in Wolli Creek we saved one hundred thousand dollars...

Amanda Farmer: Amazing.

Andrew Terrell: and that's operating cost, there electricity budget was probably eighteen to twenty percent of their total cost, so if you think about taking 10% off your admin costs where can you do that otherwise? I don't think you can.

So it's definitely the best bang for your buck stuff that I can recommend, and if we take over a building and they haven't done this sort of stuff, I wonder why in the first instance, and then we obviously take them through the process and set some awesome results.

Amanda Farmer: And that process is that about sitting down with the figures looking at the invoices that have come in over the last year and you highlighting areas where you think there can be saving?

Andrew Terrell: Yes. And what I was going to add to that is that it does take some experience to breed into the accounts...

Amanda Farmer: Yes.

Andrew Terrell: and a good strata manager will be able to pick up existing set of accounts, know the size of the building, the area the buildings in, etcetera, the level of service it needs, and what it's actually paying for, like is it getting overkill in terms of its cleaning hours for example.

Another key one is probably lift contracts: people sit on these very old lift contracts which are grandfathered for decades at a time and they're literally fifty percent more expensive than if they could go to market.

Amanda Farmer: Wow.

Andrew Terrell: It does take a good strata manager to pick that stuff up initially and really do something with it.

Amanda Farmer: Great. It's good to know that you guys are out there and that you're focused on these things and you're achieving those kinds of results for buildings.

Andrew Terrell: Yes well that's it, and it's very easy to be complacent as a strata manager and think that you're doing your job by simply managing the scheme. I separate myself from the term 'strata management' because really we are advisors to such an extent and we should be, because that's the only way you show value, so strata management to me is all about skill, care and diligence and if your strata manager is not showing all of those traits, you should probably be worried and obviously, we've come from different places because there's no defined tertiary path, other than a very easy license, but a good strata manager has that relevant experiences, managed a whole range of buildings, and will be able to do all those things: take you through a set of accounts, give you their understanding and obviously try to save you some money.

Amanda Farmer: Yes, great. I like it. Okay, what is some of the challenges that you've noticed buildings face when it comes to establishing a realistic budget and calculating appropriate levies, and what do you think has worked best in terms of overcoming those challenges?

Andrew Terrell: Yes, look, this is a one of the hardest things to deal with because you've got a lot of buildings where people are acutely aware that they've set unrealistic budgets and will nonetheless continue to do so because the Act doesn't prohibit you from doing so in that, you can keep spending from your sinking fund, in your admin fund, run deficits, etcetera, and who's going to pick you up on it? Like an owner can't really take you to task at the tribunal for doing such a thing and I mean it's very hard to combat that mentality like we're not the decision makers, we're advisors as I just said...

So I guess sort of ongoing warnings around such practice is what we do, because literally, nobody benefits from that situation, value is not being maintained within the block, i.e. you're not realising the rents that you should be getting, you're not realising sale prices that you should be getting, work is simply being delayed, and the buildings look tired. The term I've liked to use recently is 'sailing the problems down the stream' because they will have to be dealt with by an owners corporation in time and whether that's going to be you as an owner, as a result of a legal claim, or it's going to be a future owner in their own time, and whether it's going to be by way of a special levy or loan, those problems, and I'm speaking very general here because there's one hundred and one different problems that these things could be, they remain there, like there's no getting away from them.

Amanda Farmer: And they get worse.

Andrew Terrell: So, education is key. Yeah, and you are making it worse like you're contributing further to the issue and blowing out your costs.

And strata buildings are buildings and as we know, building costs rise each and every year, it's very rare that they retract, so you're effectively just going to spend more money in the future.

So, education is key but it's very hard to quantify the benefits of spending the money, like there's more than a few case studies out there now, but every single building is different, so to convey the benefits of what one building did to another is quite difficult, but my advice is: a lot of people that come to me for advice about to buy at a particular apartment, and obviously I don't want to give that advice but what I say is, look, a building with a healthy and readily-spent sinking fund, that's collecting enough money in the admin fund, that has great looking common areas is probably going to be the better building and better funded and functioning, than the one with overgrown gardens, a broken intercom, frayed carpet and a leaking roof.

So, there's more to be wary of when buying in strata buildings than people realise.

Amanda Farmer: Yes, good advice. Alright, what are some of the quick wins that some of our listeners might be able to take today to get started with solving their budgeting or their levy problems that they might have in their own buildings?

Andrew Terrell: Yes, well look, every single building is different and if you are in one of those sorts of fully funded buildings and you can see it's an issue, I'd firstly get to know the legislation, like what's supposed to be coming out of the admin fund, what's the

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sinking funds supposed to be providing for, is your building meeting its obligations?

Because if it's not, you've got to bring that up with the owners corporation at meetings, etcetera, and bring it up with the committee. Secondly, if you're not on the committee, jump on the committee. The members of the owners corporation are in charge with identifying and helping to address those sorts of issues, and budgeting is a huge one because everything comes from that like you said, it's providers are paid for by your budgets, your repairs are paid for by your budgets, etcetera. And look, where there's savings to be made, make those savings. Often it's a question of making other owners sort of come to terms with the real cost of running their building and it's really hard when I'm on an island trying to convey that stuff.

But once you've got a committee who understands that and will come with you on that and obviously give their support, other owners really do start to understand and they get use to spending a little bit more money this year and this is why it's being spent.

Amanda Farmer: Yes, it's kind of a culture change isn't it?

Andrew Terrell: It is, it is, and it doesn't happen overnight but it will happen [laughing].

Amanda Farmer: Yes. Indeed.

Andrew Terrell: To use a Pantene reference.

Amanda Farmer: Alright Andrew, books. What books have had the greatest impact on you and why?

Andrew Terrell: Would you believe that it wasn't Stephen Raff's Strata Living Stories?

Amanda Farmer: Tough one!

Andrew Terrell: or Flat Chat.

Amanda Farmer: Yes.

Andrew Terrell: Flat Chat is good but annoying at times because I don't think it does enough to sort of dispel issues, it creates a few.

Amanda Farmer: Creates a few, yeah [laughing]. I'll let Jimmy know that.

Andrew Terrell: Please do, I'm happy to bring it up with him. I'm not a huge book reader of recent, but I'm a massive fan of some podcasts...

Amanda Farmer: Right.

Andrew Terrell: and in my spare time that's what I do. So, Planet Money, I don't know if you listen to that, but that's really interesting: 600 plus episodes of it and it's basically real life issues around money whether that be currency, gym memberships etcetera, so it's incredibly interesting. Freakonomics as well is very good, Tim Ferris Show.

There's no better interviewer. I don't know if you listen to the StartUp, but Startup is great.

Amanda Farmer: Yes.

Andrew Terrell: And then obviously Your Strata Property now.

Amanda Farmer: Oh, of course! Of course, we're on the list.



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Andrew Terrell: Good for the gym or the walk to work.

Amanda Farmer: Podcasts are a fabulous medium and I know you and I talked about this. Just the ease, I find the ease of listening, and what used to be dead time for us as busy professionals, is suddenly packed with learning and you're just adding that value to your day, whether you're at the gym or driving in a car or you're on the bus... it's fabulous to just have twenty minutes of enlightenment.

Andrew Terrell: That's it. It's pretty hard to get into reading a book sometimes, whereas it's very easy to listen to a podcast.

Amanda Farmer: Yes.

Andrew Terrell: And my time spent in the car is now a lot more productive because I'm getting that knowledge and a lot of this stuff is great talking points as well.

Amanda Farmer: Yes, I was just talking to someone last night who said that he has become so engaged in some of his podcasts that he's trying to take longer on the drive and hoping for the red lights because he wants to get to the end, and he's like 'I need to listen to more!.

Andrew Terrell: I think you've got a bit of a problem when you get to that stage, but that's okay, I'm sure he can wean himself off.

Amanda Farmer: Yes, exactly. Fabulous. Okay Andrew, so how do our listeners find out more about you and is there anything else that you'd like to add before we say goodbye?

Andrew Terrell: My LinkedIn is probably a start. There's a couple of articles on there that I wrote through the course of last year which should give people some insight on where coming from...

Amanda Farmer: Yes, they're good ones.

Andrew Terrell: and likewise our company website, and there's some insights that we've learned from buildings we manage and projects that we've done, that sort of are to the point of what we've discussed today. I'm just excited that strata's in the limelight at the moment, as you know, with the onset of the new legislation and the huge amount of strata development that's going on and up, there's a lot of information and knowledge out there that wasn't previously and people are really getting it now.

Amanda Farmer: Yes.

Andrew Terrell: And everyone's going to benefit as a result and, strata is like anything, the less you know, the higher the chance that people who do know a bit more will take advantage of you.

Amanda Farmer: Yes, so get educated.

Andrew Terrell: Get educated, and if you refuse to, ignorance is not bliss, especially when it comes to one of your biggest assets.

Amanda Farmer: So true. Well, thank you so much for your time today Andrew. It's encouraging to know that there are Strata Managers out there like you who are passionate, who are creative, who are highly educated and who are delivering some really good results for buildings. So wonderful to talk to you.

Andrew Terrell: Thanks so much Amanda. Yeah, it's been great. And look, there are plenty of strata managers out there, they're out there to be found, and look if you're not happy with the results you are getting, I recommend going to market.

And having discussions with these people and spending some time doing that. I know you interviewed Helen a few weeks ago and I definitely agree with what she's saying, and people need to know firstly getting value from their strata manager, and that's not

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value for money, that's value as a whole term.

Amanda Farmer: Great. Okay, have a fabulous day.

Andrew Terrell: You too. Thanks, Amanda.

Amanda Farmer: Thanks.

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