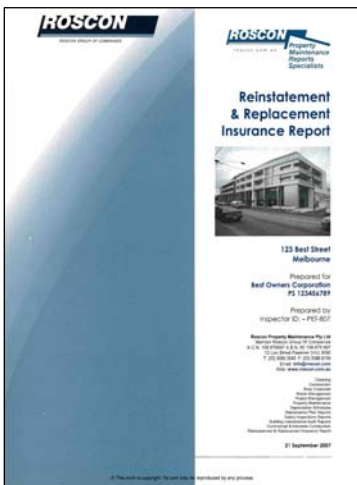


FROM THE DIRECTOR



At Roscon we live and breathe property, it's what we do best. For this reason we are always searching for new ways of doing things, we just don't accept the fact that things have always been performed this way in the past. One recent example was when I attended an Owners Corporation AGM for and on behalf of a Trust. As with most AGM members they are always reviewing and searching for savings on their OC fees, but at

the same time don't want to cut back on services that are likely to have a detrimental effect on the resale value or the general appearance of the building or its surrounds. I studied the budget for the previous and forthcoming year and noticed that the Insurance premium for the 2007/2008 year was \$17,000 for a sum insured \$8 million and for the year 2008/2009 the insurance premium was \$22,000 for sum insured at \$8.8 million in accordance with the insurance valuation report obtained by the OC in 2006, a substantial 30% increase. The 2009/2010 premium was quoted at \$23,500. I raised my concern about the insurance escalation and was told by the OC manager that generally insurances have recently increased and that this was a competitive price as the insurance had been shopped around with more than one insurer.



The building in question is five years old, has all the latest gadgets in fire protection including fire sensors, fire doors and a computerised and sophisticated fire alarm monitoring system. Why would the insurance be so high? I was certain that it was not due to a bad history of claims. The property consists of retail shops at ground level and apartments on the upper floors, and I noticed that the insurance premium didn't split the retail

commercial component from the residential. It was moved at the AGM that the OC arrange a re-valuation of the insurance with clear instructions to separate the re-instatement costs for the retail shops and the residential.

Roscon was given the task to carry out the re-valuation of insurance. The findings were 1) The building was under insured by \$3.2 million; 2) By providing two separate valuations the

insurer was able to reduce the premium by more than \$5,000; 3) The overall cover under the policy increased by \$3.2 million. All Roscon insurance re-instatement valuations now allow for the separation of costs where there is a commercial, retail or office component mixed within the residential OC.

FREE CEILING INSULATION UP TO \$1,600 PER HOUSEHOLDER UNDER THE COMMONWEALTH GOVERNMENT'S HOME INSULATION PROGRAM

Did you know that you can get up to **\$1,600** worth of ceiling insulation for free? The goal of the Federal Government's \$4 billion Energy Efficient Homes Package is to provide FREE ceiling insulation to Householders / Landlords / Tenants so long as the work is performed by an insulation installer who is registered on the Commonwealth Government website.

Roscon was approached by the Master Builders Association of Victoria to assist with this huge task. All installations carried out by Roscon will be paid directly by the Federal Government to Roscon. All the Householders / Landlords / Tenants needs to do is provide an "Authority & Engagement" and a "Work Order Form" which are completed by consultants operating throughout Australia or professional managers who have entered into an arrangement with Roscon.

The Commonwealth Government has estimated that ceiling insulation will be provided to 2.9 million homes by 31st December 2011. Ceiling insulation will make these houses more comfortable and energy efficient.

Given that the average cost to insulate a ceiling is typically below **\$1,600**, getting an eligible property insulated probably won't cost a cent. The program targets homes that are currently un-insulated, or have very little ceiling insulation. By adding insulation, the average home will incur significant savings of up to **40%** a year on their energy bills.



So what are you waiting for? Simply call **Roscon** today on **1800 767 266** or go to our website www.roscon.com.au to see how you can make a difference.

rosconupdate

Edition 10 Spring 2009



WHAT'S THE RIGHT REPORT: MAINTENANCE BUDGET PLAN OR SINKING FUND

In simple terms a sinking fund (also known as a "maintenance fund" or a "reserve fund") is a fund held and managed by an Owners or Strata Corporation to ensure there is adequate financial reserves for future repairs and maintenance to a building. A sinking fund plan (incorporating a budget for a sinking fund) is usually required for a 10 year period and will most commonly be reviewed at each annual general meeting of the Owners Corporation.

Depending on the size of a building, major repairs covered by a sinking fund may include, but are not limited to; replacement of guttering or roofing, painting, upgrading of lifts, air conditioning equipment, sprinkler systems, safety equipment, heating units, pool filtration systems, and general refurbishments.



In some states of Australia, it is a mandatory requirement of owners or strata corporations to maintain a 10 year sinking fund plan for "the purpose of a sinking fund plan is to identify future repairs, maintenance and defects to a building and forecast anticipated expenditure required for the building to unit/lot owners." The sinking fund plan should also include a budget which should indicate a proportional amount which must be paid by each owner within the building to meet expenditure requirements when they arise.

In Victoria, with the implementation of the Owners Corporation Act 2006, we have changed the name from sinking fund to Maintenance Budget Plan. The Owners Corporation Act defines a Maintenance Budget Plan in Section 36 with Section 37 of the Act defining what it must contain.

Section 37 What must a maintenance plan contain?

- (1) The maintenance plan must set out—
 - (a). the major capital items anticipated to require repair and replacement within the next 10 years; and
 - (b). the present condition or state of repair of those items; and
 - (c). when those items or components of those items will need to be repaired or replaced; and
 - (d). the estimated cost of the repair and replacement of those items or components; and
 - (e). the expected life of those items or components once repaired or replaced; and
 - (f). any other prescribed information.

- (2) Major capital item includes—
 - (a) a lift; or
 - (b) an air conditioning plant; or
 - (c) a heating plant; or
 - (d) an item of a prescribed class.



March 15, 1888



September 15, 1888

You may note that in both cases the requirement is to accrue funds to cover the long term maintenance of the property, essentially maintaining the property in a state of good order. At no time is it a requirement to replace everything and or anything. We seem to live in a disposable world where it is cheaper to throw out the television or the washing machine rather than having it repaired. However the various aspects of a building are different -- you paint a building, you repair/ease the doors and windows, you service the lift, yes you may even give the lift car a refurbishment to modernise it but at no time do you shut a lift down, declare that it has run its course and fully replace it, replacing every component from traction drive to rails.



December 26, 1888



March 12, 1889

A prime example of this are the lifts that service the Eiffel Tower in Paris France. The original machines in the West and East piers (up to the first floor only) were provided by the French company Roux Combaluzier Lepape, using hydraulically powered double looped chains and rollers in side guides. Their poor performance led to their removal. They were replaced in 1897 and 1899 by the Fives-Lille machinery, relying on hydraulic accumulators, 16-meter long main pistons, cable loops and manual controls. They were a success, steadfastly lifting the tourists up to the second floor until the late nineteen eighties.

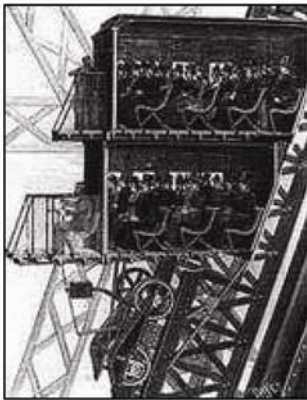
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They were then upgraded to conform to the present day regulations: the old machinery still provides the counterweight power for the dead weights, while the variable parts of the loads were driven by modern high pressure oil pumps and motors controlled by computers.

The original American elevators by Otis in the North and South piers took visitors up to the second floor in a double-decker cabin, using hydraulically powered cables. They were no match for the Fives-Lille units and were scrapped respectively in 1900 from the South pillar and shortly after 1912 from the North pillar, after a failed attempt to re-power it with an electric motor. The increasing amount of visitors during the late fifties led to the installation of large capacity machinery in the North pier in 1965. Manufactured by Schneider Creusot Loire and using the best engineering and electrical machineries available, it was upgraded in 1995 with new cabins and computer controls.

The South pier was rigged anew in 1983 with a small electrically driven elevator by Otis to take customers up to the Jules Verne Restaurant. In 1989, a four-ton service elevator was added (also by Otis) helping to relieve the main elevators of excessive trips up and down.



It was another feat of accomplishment when the elevator to the third floor was added, travelling 160 meters to the top level.

Built and engineered by Mr Edoux, it consisted of one huge cabin for 110 passengers or a maximum weight of 8 tons and was propped up midway between the second and third levels on the pistons of two vertical hydraulic jacks, 81 metres long. The counterbalancing cabin

was latched onto a set of cables linking to the master cabin over the top sheaves. The trip was a seesaw affair during which visitors had to change cabins halfway up by walking along a narrow gangway with a rather impressive vertical view.

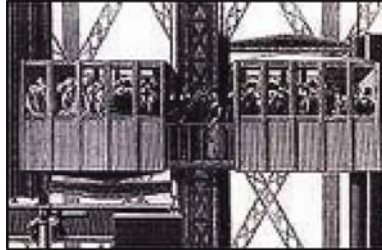
The major drawback of this machine was the volume of liquid and proportional antifreeze additives necessary; it was closed to the public every year from November to March. After 93 years of wear and tear, it was replaced in 1982 with two electrically powered sets of two counterbalanced cabins, running all year round.

This also enabled the restructure of the criss-cross beams between the second and third floor, allowing for two separate emergency staircases to replace the dangerous winding units.

Here we have a proven track record that shows that a lift does not need be replaced. A lift can perform for many years even in excess of a century with refurbishment to bring them up to current standards. Operating on a daily basis with the added work load of tourism caused additional wear and tear and yet they have not been replaced.

Considering the successful history of the Eiffel Tower one has to ask several questions when it comes to the maintenance of

your own situation. First, why would you accept a report that is based on the replacement of the various components of a property? Secondly, why would you accept a report that does not follow the criteria of the Owners Corporation Act or the definition of a Sinking Fund? And lastly, why would you accept a report that only allows for total replacement?



The decision of what is the right report is ultimately based on the legislation that you are bound to, remembering that both a Sinking Fund and a Maintenance Budget Plan stipulate that maintenance must

be allowed for. I would advise you to look closely at a sample of the report that you intend to order and confirm that due allowance is to be made for maintenance as a primary item and replacement as a secondary item.

Question the company that is quoting and if their answers are unsatisfactory and if they cannot confirm that it is the intention of the report to service the property, then you need to look else where for a company who approaches the Maintenance Budget Plan as you would the servicing of your car -- providing regular servicing to ensure extended years of trouble free motoring. Another fiscal aspect to consider is maintaining positive growth to the fund by taking into account inflation and cost increases over time.

ESSENTIAL SAFETY MEASURES AND YOU

As most of you are involved in managing properties or Owner's Corporations you would be aware that the Building Regulations 2006 requires all buildings class 1b - 9 prepare an Annual Essential Safety Measures Report. This applies to buildings constructed pre- and post-July 1994.

An Essential Safety Measure is any fire, life safety and health items installed or constructed in a building to ensure that sufficient safety and protection is provided within the building. ESM's include all fire services and mechanical equipment such as extinguishers and sprinklers; exit and emergency lighting; passive fire items such as exit and fire doors; and paths of travel to exits and fire rated structures and other infrastructure. Failure to comply is a breach of the current Building Regulations 2006 which may result in penalties of up to \$10,000 for individuals and \$50,000 for companies.

Building Regulations 2006 - Part 12 obliges an owner or agent of the owner of any multiple occupancy building to:

- Maintain all existing essential safety measures within the property.
- Have service agreements installed to inspect, maintain and repair essential safety measures as per the relevant Australian Standards.
- Keep records of all maintenance and repairs to essential safety measures in the form of service statements and log books.
- Prepare an Annual Essential Safety Measures Report.

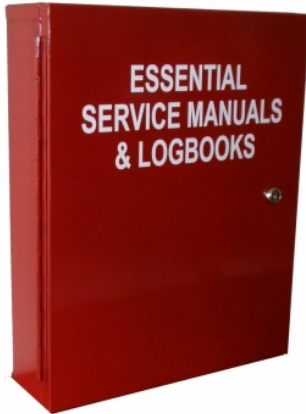
For buildings built after July 1994 the occupancy permit that would have been issued by the building surveyor would list all the essential safety measures installed at the property and the

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required maintenance frequencies as per the BCA and Australian Standards. All items on the Occupancy permit must be serviced and maintained at the required frequencies.

The owner is responsible for ensuring that the correct maintenance and servicing is being carried out on all the essential safety measures within their property. The owner must keep all records of testing, defects reported, maintenance performed as evidence that the buildings compliance is being maintained. The annual report and all records of maintenance checks must be available for inspection at any time on request after being given a 24 hours notice.



For a building to remain complaint year by year it is imperative that all the essential safety measures are being serviced by an appropriate contractor as per relevant Australian Standards. Log sheets and service statements are prepared listing when maintenance and testing has been carried out as well as any defects that have been noted for rectification. Log books

should be kept on site or made available upon request. The information within the log books will be used to show that the required maintenance has been carried out within a building in the preceding 12 months and in turn each annual report can be re-issued.

Most multiple occupancy buildings will be tenanted. This will not allow building owners to avoid their obligations and responsibilities in regards to essential safety measures. The owner/landlord must ensure that the essential services requirements at the property is being observed and have provisions that ensure that the tenant construct their fit out and operate their tenancy in a compliant manner. The tenant and owner both must ensure that the essential services within the property are being maintained as far as their individual responsibilities as per the lease agreement.

The servicing and maintenance of ESM's will ensure that the life safety items/systems installed within the property are maintained at the required operational level throughout the life of the building. This will insure that in an emergency/fire situation all measures are in place, operating correctly and provide the most efficient protection to the occupants within the building.

At the end of the day safety is in everyone's best interest. We all want ourselves, tenants, and employees, etc. to be protected as best as possible in the event of an emergency. By ensuring that all essential safety measures installed within your building are maintained and a compliant report is issued annually you have taken the appropriate steps to comply with your responsibilities.

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HERE IS SOMETHING TO THINK ABOUT

A boat docked in a tiny Mexican village. An American tourist complimented the Mexican fisherman on the quality of his fish and asked how long it took him to catch them. "Not very long" answered the Mexican. "Then why didn't you stay out longer and catch more?" asked the American. The Mexican explained that his small catch was sufficient to meet his needs and those of his family. The American asked, "But what do you do with the rest of your time?" To which the Mexican replied, "I sleep late, fish a little, play with my children, and take a siesta with my wife. In the evenings, I go into the village to see my friends, have a few drinks, play the guitar, and sing a few songs...I have a full life." The American interrupted, "I



have an MBA from Harvard and I can help you! You should start by fishing longer every day. You can then sell the extra fish you catch. With the extra revenue, you can buy a bigger boat. With the extra money the larger boat makes, you can buy a second one, a third one and so on until you have an extra fleet of trawlers. Instead of selling your fish to a middleman, you can negotiate directly with the processing plants and maybe even open your own plant. You can then leave this little village and move to Mexico City, Los Angeles, or even New York City! From there you can direct your huge enterprise." The Mexican asked, "How long would that take?" "Twenty, perhaps twenty-five years", replied the American. "And after that?" the Mexican queried. "Afterwards? Well That's when it gets really interesting," answered the American, laughing. "When your business gets really big, you can start selling stocks and make millions!" "Millions? Really? And after that?" "After that you'll be able to retire, live in a tiny village near the coast, sleep late, play with your grandchildren, catch a few fish, take a siesta, and spend your evenings drinking and enjoying your friends..."

NEXT *rosconupdate* summer 2009

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- 2) The One Stop Shop For All Owners Corporation Building Maintenance & Report Needs
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