

MOTION 2 PAPER: TO APPROVE OPTIONS OF SOURCE OF FUNDING FOR FIRE INSURANCE AND SEWERAGE CONTRIBUTIONS

BACKGROUND

Jaya One has been billing separately to Unit Owners for Fire Insurance and Sewerage Contributions since the establishment of Jaya One Joint Management Body in the year 2008. The cost incurred for these expenses was not incorporated as part of Service Charges. The details of these annual expenses are set out below:-

	FIRE INSURANCE (PER ANNUM)	SHARE UNIT	PER SHARE UNIT (PER ANNUM)	EQUIVALENT PER SQ.FT (PER ANNUM)
	RM		RM	RM
Commercial - Block A,B,C,D,E,N,H	52,924.31	431,701.00	0.12	0.06
Commercial - Block J	54,983.07	260,538.00	0.20	0.10
Residence	4,684.91	33,644.00	0.20	0.03
	112,592.29	725,883.00		

	SEWERAGE CHARGES (PER ANNUM)	SHARE UNIT	PER SHARE UNIT (PER ANNUM)	EQUIVALENT PER SQ.FT (PER ANNUM)
	RM		RM	RM
Commercial	432,519	692,239	0.62	0.29
Residence	21,021	33,644	0.62	0.06
	453,540	725,883		

ISSUE 1

On 15 November 2017, owner of R-1-123 (100.1.007) had written to the Management claiming for unlawful charges imposed by the Management Corporation citing that the Management Corporation is not mandated to collect the following charges separately from the owners, apart from the maintenance charges and contribution to the sinking fund.

MOTION 2 PAPER (CONT'D)

CONSIDERATION 1 - UNLAWFUL AND PRUDENCY

As such, whilst the Strata Management (Maintenance and Management) Regulations 2015 ("SMR") is not explicit over this matter and because it is open for reinterpretation, it would nonetheless be prudent to assume that Sewerage Charges and Fire Insurances should not be billed separately, but instead be billed / incorporated under Service Charges.

CONSIDERATION 2 – PRUDENCY VS PRACTICALITY ?

Whilst we should be prudent, there is a need to observe the practical and advantage with respect to billing these charges separately and they are as follows:-

- a) Sewerage charges can be off set to Tenant to pay under their Tenancy Agreement, which many landlords are presently doing and in some cases Owners have novated the responsibility of their Tenants to pay the Sewerage Charges directly to Management Corporation. Should the charges be incorporated into Service Charges, the Landlord may loose its rights to recover from the Tenant separately.
- b) Insurances are procured annually and paid annually by owners in beginning of the year. If premium is to be billed and collected monthly from the owners, there may be a need for the Management to set a buffer in order to anticipate the varying premiums in order to avoid adjustments between budgeted premium and actual premium.
- c) As the Premiums are paid annually in December of each year, and bill for the following year. The incorporation of the Insurance Premium into Service Charge to fund this annual expense may present a cash flow deficit due to a much longer recovery period of 12 months of monthly collections. Sinking Fund may need to be utilised in order to bridge this cash flow gap.

CONSIDERATION 3 – IMPACT ON SERVICE CHARGES IF ANNUAL EXPENSES IS TO BE ADOPTED INTO SERVICE CHARGES ?

Additional estimated increase of Service Charges per month shall be imposed

Commercial – Block A, B, C, D, E, N & H : RM0.062 Per share Unit or equivalent to RM0.029 PSF

Commercial – Block J : RM0.069 Per Share Unit or equivalent to RM0.033 PSF

Residence : RM0.068 Per Share Unit or equivalent to RM0.0075 PSF

MOTION 2 PAPER (CONT'D)

CONSIDERATION 4 – IMPLICATION TO 2017 AND 2018, IF THE DECISION IS TO ADOPT THE CHARGES INTO SERVICE CHARGES ?

In the event if the funding of these expenses is via Service Charges, then it would be practical to commence from 2018 onwards, thus the Proposed Budget for 2018, will have to be amended to reflect accordingly.

In addition, since its only effective from January 2018 onwards, 2017 shall remain as status quo and all owners must settle and pay the charges based on the bill amount.

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