

What is a sinking fund?

A sinking fund, also known as a reserve fund, is a separate fund set up on behalf of the homeowners to cover routine/unforeseen repairs and major works on common areas of the property.

What is the benefit of a sinking fund?

A sinking fund adds an element of safety to homeowners as if they have accumulated funds, they are better protected against any large and unforeseen expenses that may occur. Additionally, funds can be paid gradually for larger scale works such as painting projects, roof works, lift replacements, etc.

This ensures that working capital is readily available and that there is less chance of having to collect funding in advance from homeowners, often delaying works from proceeding straight away.

Does every development have a sinking fund?

A sinking fund can be set up at a development where there is provision within the Title Deeds. A clause can be inserted in the title deeds to ensure that the funds are 'hereditary' – i.e. the fund stays with the building, so when an owner sells, they do not get 'their' money back

If there is no provision within the Title Deeds, then unanimous agreement is required from homeowners via mandate, which must in turn be reviewed and agreed on an annual basis. If at any point a homeowner decided that they do not wish to contribute into the sinking fund anymore, then the sinking fund would have to cease.

What type of bank account does this need to be held in?

All sinking funds are held in interest bearing bank accounts in the name of the collective homeowners.

When can you use the funds in a sinking fund?

Sinking funds can be used to cover any costs incurred at a building/development. Property Managers can only use these funds if agreement has been sought from homeowners and permission granted.

What if there isn't enough money in the fund?

If the repair costs more than the fund has available, owners will need to find other ways to pay the unmet costs. However, the amount they have to find will be more manageable as there will already be some funds available.

What happens to the money paid in if a homeowner sells?

A homeowner's obligation to a sinking fund is for the long-term benefit of the property and therefore all contributions remain with the fund and is therefore heritable to the property.

Can homeowners request the balance of the sinking fund?

The sinking fund balance should always be stated at homeowner and committee meetings if requested. Homeowners can request the sinking fund balance or for copies bank statements at any time.

What is a float?

The float, collected at the outset of the management agreement, is a fund which acts as working capital to allow the factor to pay out for regular maintenance services in

between billing periods. New homeowners will be asked to pay into the float shortly after the property purchase.

The property factor will repay this sum of the float to the owner when the property is re-sold again, less any sums owed which would not otherwise be charged through a final bill.

Property factors can request a top-up to the float to reflect inflation and rises in other costs.

What is the difference between a float and the sinking fund?

Sinking fund contributions are not used for regular maintenance services, but for one-off common repairs/maintenance, subject to majority approval from owners. The float is used to cover regular or smaller maintenance fees.