Help Our Scheme – Management Complexity

What then is Management Complexity?

In simple terms, it is how complicated and difficult it is to run the Community Scheme in question. Many factors dictate the degree of complexity in a Community Scheme.

The management of complexity typically starts with the trustees/directors ensuring that there is clear responsibility and accountability for the management of all areas of the Community Scheme. This will require a critical analysis of operational management, trends in complaints, challenges facing the Community Scheme, financial position, state of the complex/property, breaches of conduct rules, non-adherence to maintenance plans and schedules, revenue collection, payment default levels, security incidents and management of the performance of Estate Management/Managing Agents or appointed third party service providers e.g. gardening and security services.

A number of Community Schemes are by their very nature complex to manage. This can stem from having complicated shareholding/ownership structures, the level of developer involvement, varying voting rights and complicated levy structures.

Involvement of a Developer sitting with a high number of unsold units also adds to the management complexity. Other similar aspects are where there are complex re-sale rules e.g. all sales being undertaken by the Community Scheme. Water harvesting/borehole/generator deployment restrictions and building requirements e.g design, height restrictions, sub-division, material usage restrictions and building timelines can create extensive complications.

There are three elements that invariably complicate a Community Scheme and take up the majority of the Trustees/Directors time, and that is dealing with people issues (owners/residents), pets and parking.

Where Community Schemes provide extensive facilities for residents and visitors, the more complicated it is to manage, and the more resources that will be required. In some cases, specialist additional resources may well be required for the skill set required, or where specific control and safety requirements are involved. Examples of this can be: restaurants, golf course, fishing dams, horse riding, skateboard track, running and riding tracks, gymnasium, games rooms, tennis/squash courts, swimming pools, laundromats, car wash facilities etc.

Facilities which require cross-subsidisation for which charges for usage must be recovered e.g. stand-alone facilities like restaurants/clubhouses, meal facilities, frail care, nursing, hairdressing, laundry etc. create extensive budgeting and financing and control requirements. Restricted visiting hours and special buying practices for residents (e.g. private shopping, transport shuttles) create complexity too.

A key factor is also the physical size and extent of the Community Scheme and the value and nature of its assets under ownership and management.

The number and mix of owners in a Community Scheme will often dictate how easy it will be to obtain the required quorums at AGM’s/SGM’s and getting the necessary consensus and approvals through, and resolutions passed. Just like in any business, having the support and backing of owners and Estate Management goes a long way in easing the difficulty in running a Community Scheme. "Problem owners" are a challenge, particularly where they are deliberately obstructive to change, aren't supportive of resolutions and are continually anti anything done or proposed by the existing Trustees/Directors. Where a high number of owners are non-resident or who reside overseas, can further complicate the management of the Community Scheme.

Other key mix factors having a bearing on complexity are:

- The mix of occupancy i.e. leisure/holiday use vs permanent residential/retirement living use.
- The turnover of owners/shareholders/lessees and the turnover of tenants in the Community Scheme.
- The mix of the dwelling units permanently occupied by owners/shareholders/ lessees versus those occupied by tenants in the Community Scheme.
- The general level of occupancy and activity in the Community Scheme e.g. unoccupied properties/units and seasonality.
- The level of use of communal facilities.
- The number of visitors to owners/residents of the Community Scheme or general members of the public using public facilities in the Community Scheme.

The area giving rise to a major part of friction in a Community Scheme is parking availability. If the Community Scheme experiences parking problems for owners/residents and/or visitors vehicles, this will invariably cause friction, conflict and problems. The major cause is inadequate bays being provided by developers at the outset resulting in owners/designated parking bays being abused, irregular use of parking, theft of bays, unauthorised vehicles in the property, blocking of garages/other vehicles and parking in common road/access ways or gardens. This aspect will continue to be a burden on Trustees/Directors or Estate Management. Intervention will require tough action, tougher access controls, clamping of wheels, issuing of fines etc.

Where a Community Scheme has a pest problem, e.g. ants, termites, rats, mosquitos, mice, bats, flies etc. these need to be managed in conjunction with pest experts.

Another specific area requiring on-going focus and management is where the Community Scheme suffers from persistent damp problems. These problems need to be dealt with holistically and in consultation with professionals. Not dealing with dampness timeously could result in large expenditure being required in due course.

By allowing domestic pets and/or animals, the Community Scheme needs to manage the problems and issues that are likely to go with this e.g. noise, spaying of animals, number of pets, picking up of mess. Policies around pets need to factor in potential issues and problems and need to be policed.

Other specific areas that can impact the Community Scheme are the number of abandoned or irregularly occupied units, properties or interests, in the Community Scheme. These need to be proactively managed, as arrears, levies and contributions can rapidly escalate, damages can be incurred, and these properties can quickly become a security risk. Where bonds or loans are associated with these properties, it makes sense to communicate with lenders or liquidators as soon as possible.

The extent of house and conduct rules of the Community Scheme and the difficulty in policing these can also add to management complexity. Rules need to strike a balance between practicality, equitableness/fairness and enforceability. The maturity and level of compliance by owners/lessees/residents and visitors will also have a major bearing. There is a correlation between tenants and owners related to taking responsibility and being generally more compliant with conduct rules, as owners have more to lose than tenants or visitors. If conduct rules are also not strictly and equitably enforced, the management of a Community Scheme can become more difficult. Petty rules and unjustified fines can, of course, result in residents' antagonism, often making it harder to manage the Community Scheme. The objective is to minimise friction with owners, residents, lessees and visitors/customers by being transparent.

The Trustees/Directors of the Community Scheme also need to be continually aware of the potential impact of the prevailing socio-economic environment on the Community Scheme and owners/lessees and tenants/visitors e.g. level of economic growth, local economy, volatility in interest rates, tourism, pandemic impacts, emigration, the level of employment, reliance/dependence on a single major employer in the area, inflation, crime levels, the rule of law, civil unrest and political risk. These can all have an impact of varying degrees on the profitability/viability of certain facilities provided, property values and the financial well-being of the Community Scheme, and affordability of its owners/lessees or tenants.

Responsibility and Accountability

Flowing from the areas of complexity is the issue of the extent of resources deployed to help with the management of the Community Scheme. This can extend from the use of dedicated Estate Management/Property Manager to the use of the services of contracted Managing Agents/Third Parties for the management of the Community Scheme, or a combination of the two, which might be the case in many large Community Schemes. Further complexity can also come about where there is on-going the use of the services of professional external accountants and lawyers. The use of contracted outsourced security service providers, gardening services, maintenance contractors and other specialised service providers who form an integral part of the operations, increases the complexity associated with contract and performance management.

The extent of support provided by Managing Agents varies greatly. This can range from dedicated account/portfolio managers with skilled specialised supported resources, to general basic support provided by a team of individuals. Continuity of Managing Agents and their support staff can go a long way in reducing the complexity of managing a Community Scheme. Changes in Managing Agents can result in extensive pressure on a Community Scheme. This comes about by changes in processes, loss of institutional memory of the Community Scheme, loss of continuity and changes in culture. High turnover of portfolio and support staff and a lack of continuity in all key processes and issues can also put a lot of pressure on Trustees/Directors and Estate Management.

Where a Community Scheme uses Managing Agents, the Managing Agent/Third-party mandate must be formalised in a signed contract or agreement that is current and applicable with responsibilities clearly defined. Continuity of service provision by the Management Agents needs to be an essential consideration if there were to be a change in Managing Agents.

Where a Community Scheme is self-managed, the biggest management challenges are the skills mix and experience of Trustees/Directors and continuity.

It is critically important that there are clear responsibilities and accountability for all areas of the Community Scheme. These must be clearly defined, documented and agreed between the responsible parties, i.e. Trustees/Directors, Operators/Estate Management, Managing Agents, Accountants, Lawyers, security service providers and other outsourced service providers etc. All areas need to be covered, e.g. maintenance, operations, administration, communication, finance, HR, collection recoveries, security, owner/tenant conduct, facilities, gardens etc.

All service providers need to be monitored and managed to ensure that delivery objectives and service level agreements are met. Value for money must be received for services rendered by Managing Agents and external service providers.

There also needs to be clear and well-defined responsibility and accountability for the maintenance and upkeep of exclusive use and/or common areas/common infrastructure of the Community Scheme, e.g. between owners/residents/lessees, the Managing Agents, Estate Management, Developers and/or the Community Scheme itself.

The 10 year maintenance, repair and replacement plan ("MR&R plan") which forms part of the regulations governing Community Schemes, needs specific attention, "ownership", input and continuous management to ensure that there is consistent alignment between reserves held and the specific individual items/areas in the MR&R plan.

If the Community Scheme has a dedicated Estate Manager/Operator, a contract or agreement must be in place with responsibilities and reporting lines clearly defined.

There needs to be a precise and formalised delegation of authority by the Trustees/Directors/Community Scheme to the Estate Manager/Managing Agents/Operator or contracted third parties.

Regular meetings with formal agendas with Managing Agents and/or Estate Management and key service providers, need to take place.

A particular area requiring hands on management is around the use of utility services such as water and electricity by both the Community Scheme and owners/residents, and the recovery of these charges from owners where required. This is an area of significant potential friction and financial risk if not very strictly monitored and managed. The use of pre-paid individual meters and related technology to monitor usage should be made wherever possible. Tight monitoring of usage, leaks and wastage need to take place.

The same tight controls need to apply around financial recoveries for the use of other communal service offerings such as satellite TV services, fibre data connectivity, use of squash court or tennis lights and services such as meal provision, laundry, vehicle washing, babysitting, or care givers etc. Where a Community Scheme gets involved in recycling, management involvement will again be required if revenue recovery is expected.

All Community Schemes should have a crisis management plan in place that is published and regularly communicated to all owners and residents, e.g. in the event of fire, flooding, wind destruction, earthquake, landslide, explosion, or hostage situation.

Trustees and Directors should always exercise their fiduciary duties and management responsibilities and act in the Community Scheme's best interests. A good acid test is to adopt a position of "if it was my business", what would I do?

Management of Reputation

The protection of the reputation of The Community Scheme must form part of strategic planning and operational thinking. Community Schemes need to protect their brands and reputation and continue to invest in these. The building, protection and retention of the brand and image need to form an integral part of the Community Scheme's strategy and objectives.

One of the "unwritten" fiduciary duties of the Trustees is to ensure that the reputation, image and status of the complex are maintained at all times. This not only ensures that the investment value of properties is maintained but that the Community Scheme remains desirable from both a buyer and renter's perspective.

To achieve this, the Trustees, Managing Agents and Estate Management must enjoy the on-going full support and co-operation of all owners and residents in the Community Scheme. This covers strict adherence to house and conduct rules and compliance with laid down operational controls and procedures.

Given the average Community Scheme size, it is impossible to have multiple sets of rules, be making continual exceptions, or be forced to over-ride laid down procedures and controls.

Why Reputation Is Important

Reputation can be viewed as the most important intangible asset possessed by a Community Scheme. It represents the extent to which the Scheme meets the expectations of its stakeholders (owners, residents, suppliers, employees, visitors and the community at large). A good and strong brand and/or reputation can add significant investment value to the assets and value of the common property in a Community Scheme. On the other hand, a bad or deteriorating reputation can have a material impact on the attractiveness of a Community Scheme as a destination or place of residence, and on the prices of units and properties resulting in the deterioration in investment and re-sale values and the overall value of the Scheme and its assets.

- . Reputation damage can be caused by the Community Scheme itself or through specific actions or inactions of the trustees/directors/estate management, key personnel or employees or the actions or lack thereof by outsourced or contracted third-party service providers or the Managing Agents. Operational issues and incidents can quickly give rise to a negative reputation and perception of a Community Scheme. Non or under-delivery of services to residents/owners/visitors, poorly maintained infrastructure, poor management of finances, poor responsiveness to complaints, lack of enforcement of conduct rules, regulatory non-compliance, incidents of crime, loss of confidential data, poor employment practices, alleged corruption, disregard for the environment, cybercrime and social media incidents can all have a major bearing on reputation.

- Decisions by Trustees/Directors/Estate Management need to be made carefully after weighing up and considering all the facts and information to hand. Bad or ill thought through actions or decisions, particularly those with financial implications, can back-fire on the Community Scheme harming its reputation.
- The quality of services and service delivery forms a key element of reputation management. It is important that you stay in touch with your "on-going" reputation, particularly if there is a drop in your service delivery/services (e.g. if quality and/or service falls below the required standard expected by residents/lessees/owners/visitors/customers).
- Ensuring the physical safety and well-being of your employees, residents, lessees, visitors/guests and customers is a critical component of your reputation. A good safety and accident record can form a key factor that differentiates you from your competitors in your industry. There should be no compromise in this area with safety controls and procedures being strictly enforced.
- The prolonged failure or unavailability of systems, e.g. access control, intercoms, reporting lines, CCTV cameras, sensors, web-sites/facebook site, including telephone systems, can quickly have a major impact on the Community Scheme's reputation. Customers' inability to conduct transactions, access information or contact the Community Scheme/Estate Management or Managing Agents can materially impact customer relations and reputation.
- A specific area of reputation risk management involves third party risk management. The majority of these risks arise from outsourcing arrangements and/or reliance on third parties for service delivery including those rendered by Managing Agents.
- You need to ensure that your service delivery, treatment of owners, levy invoicing/statements, general administration, customer back-up, reporting/notices, maintenance standards, payment/refund track record are all at a level and quality standard to ensure that your reputation is not adversely affected by any of them. Consistency in attitude and treatment across all areas of the Community Scheme is critical.
- You need to focus on ensuring that the impact of your environmental footprint i.e. the use of scarce natural resources, protection of the natural environment, recycling, emission/effluent/waste controls, water usage, waste disposal, use of non-biodegradable materials or renewable resources, damage to environmentally sensitive areas etc.), is being minimised and that the Community Scheme's reputation as a result of this is pro-actively managed. Being an environmentally sensitive Community Scheme is becoming essential.

Managing Socio-Economic Risk

One of the key requirements of risk management is the ability to manage and be prepared to deal with socio-economic risks and their impact. The Trustees/Directors and Estate Management of the Community Scheme need to be continually aware of the potential impact of the prevailing socio-economic environment on the Community Scheme, owners/lessees and tenants/visitors. While there is not much that can be done to alter the prevailing socio-economic conditions, being prepared for the impact on the Community Scheme is essential.

Socio-economic events can rapidly manifest themselves in a number of ways (e.g. level of economic growth, local economy impact, volatility in interest rates, globalisation, tourism impacts, border closures, travel restrictions, movement restrictions, volatility in commodity prices, pandemic impacts, emigration, the level of unemployment, reliance/dependence on a single major employer in the area, inflation, affordability of levies/services, crime, breakdown in the rule of law, social/civil unrest or disobedience, political risk).

An adverse economic environment can quickly manifest itself into unpaid levies, unpaid utility accounts, no rental or services demand and in turn bad debts.

The demand for products or services in any market or locality is almost totally dependent on the socio-economic conditions that prevail. These can all impact in varying degrees on the profitability, viability, safety, property/investment values and financial well-being of the Community Scheme. This can be felt directly as a result of the change in personal financial positions of owners/lessees/potential buyers, and indirectly through the affordability of rental or hire charges to tenants, the affordability of services to visitors to the Community Scheme, the locality of Community Scheme and the nature of its operations and the services it offers and relies on for income generation.

The "economic position" of the local authority responsible for the provision of key utility services e.g. water, electricity, sewerage and waste removal is critical to the functioning of the Community Scheme. The financial stability of the local authority is critical to its sustainability and its ability to continue with the provision of services. The prevailing socio-economic situation has a huge bearing on the stability of the local authority.

The state of surrounding and adjoining properties or areas has a very big bearing on the Community Scheme, Degradation or deterioration of suburbs and adjoining properties can have a major bearing on safety/security, values, rentability and the sale-ability of properties or units.

Reliance on and vulnerability of owners/tenants/lessees and customers/visitors to a single major employer and/or industry in the area e.g. mining company, minerals, fishing, tourist attraction, can represent a major potential risk to a Community Scheme, particularly in the event of closure or major scale back.

Management of Strategic and Planning Risk

A core fundamental of any Community Scheme is that there is a clear shared vision and values, common required outcomes and objectives among the owners/ Directors/ Trustees/ Developer and Estate Management. This is essential for the success, cohesion and sustainability of the Community Scheme.

Trustees/Directors/Owners/Developers and Estate Management need to ensure that this is clearly promoted and communicated and that formalised planning steps are in place to ensure that this is shared.

It is important that mixed messages are not sent and that all stakeholders align with the vision. These extend from financial goals, state of the complex/property, continuity, type of living environment desired, level of maintenance, reputation, environmental issues etc.

The objectives must be achievable and consistent. Any disagreements or dissent needs to be dealt with.

Management of Regulatory Risk

Regulatory compliance and meeting required standards are also key components of operational risk management. While the main regulatory areas impacting a Community Scheme are Community Schemes Ombud Service Act (CSOS) and/or The Sectional Titles Schemes Management Act (STSMA) compliance requirements, the regulations impacting operations - where applicable, such as labour relations, conditions of employment, health and safety, taxation, credit extension, protection of personal information, disaster management and environmental compliance, are equally as important.

Managing regulatory compliance can be complex and very time consuming. Regulations continue to change over time, so compliance requires a continuous focus.

The risks of non-compliance with regulations and standards can be severe, particularly where the lives of employees, residents and the public are threatened. Fines can have a material financial impact on a Community Scheme as well.