



## WESTERN AUSTRALIAN RETIREMENT VILLAGES RESIDENTS ASSOCIATION

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### VILLAGE OPERATING FUND

#### What is the Village Operating Fund?

The *Retirement Villages Code* does not actually define the “Village Operating Fund” – it does, however, require an operating budget, a reserve fund budget and quarterly and annual financial statements for the retirement village (Code 16(1)(c) and Code 16(2)(b),(c)and(d)).

We understand the Village Operating Fund to be monies (the legislation calls these “recurrent charges”) collected from the residents in accordance with their residence contract, managed by the Administering Body and expended by them to meet the operating costs of the Village.

The Village Operating Fund is revenue neutral to the Administering Body. The only monies from this Fund that benefit the Administering Body are fees charged for the administration and management of the Village. All other expenditure from the Fund is for the provision of goods or services used in the operation of the Village. Any surplus in the Fund at the end of year’s operations is not profit for the Administering Body: rather, the Code requires it to be carried forward for the future operating expenses of the Village, unless the Residents, by a special resolution, approve the use of the whole or part of the surplus to a purpose or purposes generally for the benefit of the residents of the Village (Code 20).

#### How is the Village (Operating) Budget constructed?

The starting point for the Village Operating Budget is a list of expenditure expected in the coming twelve months. The creation of this list of expenditures is assisted by reference to past budgets and actual expenditure in the past year. A list of items that must be included as separate line items is contained in Code 17(3), namely:

- a) expenses for employee benefits other than for the training of, or for travel by, staff;
- b) expenses for the training of, or for travel by, staff;
- c) auditor’s remuneration (including for both audit and non-audit services provided to the village) to the extent that it is paid for by the residents of the village;
- (i) expenses of marketing and advertising the village excluding any amount that a resident or a former resident of the village is contractually obliged to pay for marketing and advertising individual residential premises;
- d) repairs and maintenance expenses funded from recurrent charges other than recurrent charges payable to a reserve fund;
- e) accreditation and membership fees paid to any industry body whose principal purpose is to represent the interests of administering bodies;
- f) insurance expenses;
- g) legal expenses;
- h) finance costs;
- i) fees for the provision of management and administration services to the residents of the village;
- j) material classes of expenditure that are relevant to an understanding of the budget that have not been otherwise separately disclosed under this subclause;

- k) the net amount of GST for any budget item that is a GST-taxable supply for which the administering body is entitled to an input tax credit;

This list does not prevent additional line items being included as necessary.

Certain items of expenditure may not be included the Village Operating Budget (see *Retirement Village Regulations s. 11*).

From the list of expenditure, known items of income, such as rents, are then deducted.

The balance then remaining is the amount of money that needs to be raised by contributions to the Village Operating Fund by each residential unit. There are several common methods of apportioning the total contribution required:

- a) an equal share by each residential unit;
- b) a share by each residential unit based on the number of residents in that unit; or
- c) a share by each residential unit based on the size of the unit.

We do not support option (c) schemes as there is almost no item of expenditure that varies by the size of a residential unit. Code 17(6)(a) requires there to be a note in the budget which explains the method by which the share is calculated.

## Administering Body Obligations

Code 17 requires:

- Not later than one month before the end of each financial year (that usually means before the end of May), the Administering Body (**AB**) must display in a central location in the village and make available to each resident on request:
  - (a) a proposed operating budget for the next financial year; and
  - (b) the information used in the preparation of the proposed operating budget that might reasonably be expected to be made available to a resident, including but not limited to:
    - (i) relevant accounts of actual expenditure; and
    - (ii) information explaining proposed fee changes or changes to the provision or availability of amenities or services.
- The AB to advise all residents with written notice when the budget documents are available.
- The AB to present the budget in a consistent format from one year to the next.
- The AB to prepare separate budgets for each village it administers.
- The budget is not finalised until each resident has had 10 working days to consider the proposed budget and a meeting of residents has been held.
- The AB to provide to the residents, by display in a central location in the village and make available to each resident on request, operating statements (income and expenditure) within one month of the end of each quarter.
- The AB to present the annual accounts of the village to a meeting of residents within 5 months of the end of the financial year.
- The AB to apply any surplus in the operating budget of a village towards the future operating expenses of the village except when the contract provides otherwise or when the residents, by special resolution, approve the application of the whole or part of the budget surplus to any other purpose generally of benefit to the residents of the village.

- The AB to comply with any reasonable request by a resident for information on a specific operating budget matter and make available for inspection any documents that might reasonably be expected to be material to that request.
- The AB to respond to a request made under the previous section within 10 working days and in the case of any refusal or inability to comply with that request to give reasons in writing.

## **Surpluses and Deficits**

It is simple to deal with surpluses and deficits if the AB maintains the Village Operating Account on a “stand alone” basis – that is, separate ledger accounts for the funds held in trust for use only in the village. As well the income and expenditure statement, the AB should also provide a statement of the financial position (a sort of balance sheet, showing assets and liabilities and accumulated funds).

## **Desirable Procedures**

The easiest way to work with your AB is to set up a small Finance Committee, as a sub-committee of the Residents Committee (membership need not be limited Residents Committee members but at least one should be included for reporting to the Residents Committee). The AB is more likely to be open to working with a small group than all the residents in a large meeting and your sub-committee can build up its knowledge of the processes and issues involved in the budgets and accounts over a period of time.

It is now a requirement (Code 18(3) and 19(4)) that the quarterly and annual financial statements must present both actual and budget amounts for each line item included the proposed operating budget. Notes are now also required to budgets and financial statements and reasons must be provided for variations of more than 10% between actual and budgeted expenditure.

When the annual accounts and the budget are presented to the residents, the AB and the Finance Committee can share in making the presentation to the meeting and explaining any matters of concern.

*Disclaimer: WARVRA has made every reasonable effort to ensure the information given on this sheet is accurate, but it is not to be construed as legal or financial advice. Each person should seek advice and verify information themselves.*

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