



# The PAGH Guide to Reserve Funds

Or how to avoid that “sinking” feeling when  
the bills come home to roost.

17<sup>th</sup> November 2014



# Reserve Fund

Also known as -

- Sinking Fund
- Maintenance Fund
- Cyclical Fund
- Fabric Fund



# What is a Reserve Fund?

A reserve fund is a long term savings fund or account that we homeowners contribute to through our quarterly service charges. This builds up every year and should cover any major works that are required over a period of time, such as a lift overhaul or the replacement of a roof or common windows.



# Why do we need a Reserve Fund?

A contractor expects payment for a major project upon completion. Without a reserve fund, homeowners have to pay for their share immediately before the work can start. This can mean that the homeowners will receive a hefty bill which could amount to several hundred or even several thousand pounds.





# How large should our Reserve Fund be?

- A developer should provide the factor with a cost list of all the major component parts of the buildings.
- A surveyor can update that list from time to time to ensure that the list is up-to-date.
- The typical life expectancy for the parts can be estimated and then used to determine a suitable Reserve Fund.



# How much should my payment be?

- Once the size of the Reserve Fund is determined and the number of years to be covered, then the quarterly payment by the homeowner can be set.
- The quarterly payments will be subject to adjustment depending on claims on the Reserve Fund and external factors such as inflation and legal changes.
- There might also be discretionary payments to cover “wish-list” items such as new gates or a swimming pool.



# Will I be kept informed about spending?

The title deeds require that homeowners must be informed by the factor when spending for any item passes a certain threshold.



# What happens when the Reserve Fund is not large enough?

- When the Reserve Funds are not sufficient to cover a large project, then the homeowner will have to cover the costs through the normal quarterly bill.
- Essential works may not go ahead and this could lead to a decrease in the value of your property and/or difficulty in selling.
- For these reasons a healthy Reserve Fund is vital to the financial health of everyone.





# Who looks after the Reserve Fund?

Our factor maintains the Reserve Fund in a separate account for our benefit.



## Can I take my contribution with me when I move?

- No. Your contributions are required to pay for future works that arise.
- Remember: having a healthy Reserve Fund will increase the value of your property.