



## **GUIDELINES**

# **Classification of Expenditure**

These guidelines are for the benefit of both residents in, and scheme operators of, Queensland retirement villages. It provides guidelines to assist with the consistent and logical classification of expenditure from the General Services Fund, the Maintenance Reserve Fund and the Capital Replacement Fund.

The guidelines herein do not override residents' contracts, nor do they provide information on every possible item. For definitive advice on an item, independent professional and industry association advice should be sought.

The content of this booklet is for illustrative purposes only and is not a substitute for accounting, financial, legal or other professional advice.

The authors will not be held liable for any specific, indirect or consequential damages whatsoever resulting from or in connection with the use or performance of any information in this guide.

The booklet was originally developed by Aged Care Queensland Inc. (ACQI) and updated in 2011/2012 in consultation the Committees/organisations of Retirement Village Association Ltd. Queensland (RVAQ) and The Association of Residents of Queensland Retirement Villages Inc. (ARQRV).

The guidelines have been updated in 2018 by ARQRV.

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## INTRODUCTION

The purpose of these guidelines is to assist retirement village operators and residents to classify everyday maintenance and capital expenditure in accordance with the provisions of the *Retirement Villages Act 1999* (the Act).

The need for these guidelines flows from the Act's provisions, and the requirement for a separate Maintenance Reserve Fund (MRF) and a Capital Replacement Fund (CRF) to be established and maintained for every registered retirement village in Queensland.

In the absence of legislated model classification rules (s 113A) and to ensure consistent application throughout the industry, these guidelines:

1. State the general principles;
2. Set out the issues to be considered when deciding how to classify a particular item of expenditure, and
3. Offer practical examples

These guidelines are directed predominately to those retirement villages which operate on loan-licence or lease for life contracts.

They do not address expenditure in strata title retirement villages as they operate under the *Body Corporate and Community Management Act 1997* (BCCM Act), unless they have some leasehold areas, or some part of the Scheme is land owned by the Scheme Operator. In strata title villages, budgets for an administrative fund which covers expenses that are incurred annually or during the 12 months as recurrent expenditure; and a sinking fund to cover those expenses which are infrequent and are of a capital nature are in place. These funds are established to manage, maintain and protect the 'common property' of the schemed land which is not part of a lot.

If there are lots which are leased and/or some part of the scheme land which is for the residents' benefit but is owned by the scheme operator the strata title village will have an MRF and CRF as well as the administrative and sinking funds. The body corporate is responsible for the 'common property' only. It is not an onerous task to have the different funds operating but care is required to allocate costs accurately and transparently.

If there is any inconsistency between the BCCM Act and the Retirement Villages Act in relation to a person's rights and obligations under a retirement village scheme, the Retirement Villages Act prevails.

## RETIREMENT VILLAGES ACT REGIME

Refer to the glossary provided at the end of these guidelines for a summary of the specific Act provisions.

Before the allocation of responsibility for the various categories of expenditure is looked at, the definition of '*capital items*' in the dictionary to the Act must be stated. This definition is provided in the glossary.

It is important to understand what village capital items include, and what are excluded, to determine who is responsible to maintain, repair or replace them.

### What are the different categories of expenditure identified in the Act?

#### Capital Improvement

Is defined in the Act to mean 'the first-time provision of a capital item' and, provided it is not inconsistent with this definition, includes a thing that is a capital improvement under a ruling under the *Taxation Administration Act 1953* (Cwlth). The concept covers work that must be done on the newly acquired item before it can properly function, and when there has been an enhancement or increase in value by way of an improvement such as the use of a superior product.

This expenditure is not of a recurrent or regular nature and the benefit is derived over several years.

#### Replacement of Capital

Is defined in the Act to mean 'the substitution of the same type of item or an equivalent item' and provided it is not inconsistent with the definition, includes doing something that is replacement of the capital item under a ruling under the Tax Act.

(see: <http://law.ato.gov.au/atolaw/view.htm?locid='TXR/TR9723/NAT/ATO'>). The key consideration in respect of replacement is that it involves expenditure that gives rise to an enduring asset in its entirety and the replacement involves a similar or equivalent item. If a superior item is purchased, the cost will be considered improvement.

This expenditure is not of a recurrent or regular nature, and the benefit is derived over several years.

Note that it is common commercial practice not to capitalise items costing \$300 or less. This is supported by ATO tax rulings.

#### Repairs to Capital

This is defined in the Act to mean '*the restoration of the item by fixing or replacing parts of the item*'. Under the Tax Act rulings, 'repair' involves a restoration of something to a condition it formally had without changing its character. Simply, this includes expenditure on an asset so that it is kept in a condition equivalent to its original state and function. The significant factor is the restoration of efficiency rather than exact replication of form or material.

A 'repair' is no longer a 'repair' where the extent of the work carried out represents a renewal or reconstruction of the entirety of something, rather than restoration of it by replacement or renewal of a worn or dilapidated *part* of it. Then it will constitute a 'capital replacement' or, if it provides a greater efficiency of function, a 'capital improvement'. An 'entirety' is defined in ATO ruling as something 'separately identifiable as a principal item of capital equipment'.

‘Maintenance’ of a capital item is also defined in the Act to mean *‘the upkeep of a capital item in good condition and efficient working order’*. Taxation Ruling TR 97/23 provides that ‘maintenance, as generally understood, includes the prevention of defects, damage, or deterioration, a common example being the repainting of business premises’. Preventative maintenance is also included in the concept.

Note: Where new improved materials are used because old materials are unavailable, then the expenditure would still be repairs and maintenance, if the closest available materials to the old materials are used.

The Act requires the scheme operator to obtain an independent Quantity Surveyor’s written report about the expected capital replacement and maintenance reserve fund costs for a village for each ten-year period of operation. Every third year a full report is required following an on-site inspection (or in any financial year in which substantial changes have been made to the retirement village) and in the two intervening years an updated QS report is required for each financial year (see the Act, Divisions 4 and 5). It is important that village management keep detailed information of the MRF and CRF expenditure over any year to ensure that an appropriate level of maintenance is carried out on each capital item to maintain it in good repair and to determine if an item is to be replaced at its perceived end of its useful life.

The Act also requires that in the Annual Financial Statements (S113) advice is provided to residents, amongst others, about:

- Income and expenditure of the CRF for the financial year
- Income and expenditure of the MRF for the financial year.

**Day to Day Maintenance:**

‘Day to day maintenance’ of a capital item, is defined in the Act as *‘maintenance of the item that is carried out regularly and with little expense’*. This will generally encompass work that is carried out as part of the provision of ‘General Services’ at set intervals or in accordance with a schedule.

**Who is responsible for bearing the cost of these different types of expenditure?**

- capital costs that are capital improvements and which are not paid from the CRF as opposed to capital replacements which are paid from CRF; and
- costs that are day to day repairs and maintenance which are paid from the village General Service Charges versus other repairs and maintenance which are paid from the MRF

	Capital Improvements (Capital)	Capital Replacement (Capital)	Maintenance/Repairs – Non-Day to Day (non-Capital)	Day to Day Maintenance (non-Capital)
<b>Responsibility for Cost</b>	Scheme Operator - Direct	Scheme Operator Capital Replacement Fund (CRF)	Collective Residents Maintenance Reserve Fund (MRF)	Collective Residents General Services Charges (GSC)

<b>Frequency</b>	Non- Recurrent/Irregular Consistent with QS reports	Non- Recurrent/Irregular Consistent with QS reports	Periodically	Regular and with little expense
<b>Materials</b>	Superior materials improve the value and function of the asset		New materials (closest available) used because the old materials are no longer available doesn't change the nature of the expense	
<b>Part Versus Whole Concept</b>	Asset as a whole	Asset as a whole	Replacement of a Part	

Note: After a resident has left the village, the scheme operator becomes responsible for MRF contributions after a certain time, as designated in the resident's contract and in accordance with the Act.

### **ISSUES TO BE CONSIDERED IN THE DECISION-MAKING PROCESS**

The objective is to identify the category of expenditure based on the purpose of the expenditure, and then decide who is responsible to bear the cost of the expenditure.

- **Functionality** – If the expenditure changes and substantially improves the functionality of the asset as a whole, then the expenditure is of a capital nature. There will be issues about whether the cost of work done should be classed as repairs and maintenance to the extent that it merely restores a previous function, versus the extent to which it may improve function in some areas.
- **Part versus Whole** – expenditure to replace an asset as a whole is generally regarded, as capital, whereas a part replaced is not capital in nature. The distinction between whole and part lies in the function and purpose of that thing.
- **Materials Used** – Generally, if there is change of materials used which improves the value and function of the asset then the expenditure is likely regarded as capital. However, where new improved materials are used because old materials are unavailable, then the expenditure would still be repairs and maintenance, if the closest available materials to the old materials are used.
- **Direct or Indirect Expenditure** – most expenditure will be direct, paid to external suppliers. Other expenditure may include the cost for services provided from the internal resources of a scheme operator such as labour or other resources and may require appropriate allocations. In these instances, adequate records should be prepared and retained to support the allocations:
  - direct (e.g. employee costs for an in-house maintenance section or workshop); or
  - indirect (e.g. a share of general overheads for an in-house maintenance section or workshop).
- The method of **financing** the acquisition of a replacement item of capital or repair does not change the nature of the cost. It is important to consider all components of the payment rather than just the payment itself. These payments, for example, can include one or more of the following purposes and therefore alter their classification:

- Payment of part of the price for acquisition of the capital item;
- Payment of interest incurred as consideration for the right to pay that price over time;
- Payment for service and maintenance of the capital item over a fixed period of time;
- Payment for use of the item; or
- Payment reflecting a right to acquire the item at a contractually determined rate at the end of the contractual period.

● **Refurbishment versus Reinstatement:**

- Refurbishment Costs – Generally, these capital costs are incurred when a unit is being altered or upgraded from its original configuration. In most part, these costs will be associated with improvement of the unit and, if these costs are borne by the scheme operator, then they are not payable from the Capital Replacement Fund. If, however, there were items that are replaced, and the costs are not recoverable from the resident, then they would be drawn from the Capital Replacement Fund in accordance with the Act
- Reinstatement costs – These expenses (capital or repairs and maintenance) are incurred in returning the unit to its original or marketable condition after a resident has vacated. Generally, residents’ contracts will determine who is liable for these costs. However, if the scheme operator is responsible then they must be paid out of the Capital Replacement Fund under section 237K and former section 62(2) of the Act.
- The reinstatement costs are as per the resident’s contract and in accordance with the Act. If there is repair or replacement work not related to the resident’s occupation of the unit that would be drawn from MRF or CRF. See the below Reinstatement Work Quick Reference Table for the further clarification.

<b>REINSTATEMENT WORK QUICK REFERENCE TABLE:</b>			
Excluding Accelerated Wear and Tear/Deliberate Damage	<b>Residence Contract Pre 1/7/2000</b>	<b>Residence Contract before Amended Act 1/7/2000 and 15/3/2006</b>	<b>Residence Contract post 2006 Amended Act post 15/3/2006</b>
	<ul style="list-style-type: none"> <li>● The person stated in the contract; or</li> <li>● If no person stated, then shared between parties in the same proportion they share the gross ingoing contribution on sale</li> </ul>	<ul style="list-style-type: none"> <li>● The person state in the contract; or</li> <li>● If no person stated, then the scheme operator</li> </ul>	<ul style="list-style-type: none"> <li>● The way they share the capital gain or</li> <li>● The scheme operator (if the resident has no share in the gain</li> </ul>

Under the 1 February 2019 revision of the RV Act, Reinstatement cost has been redefined to exclude reference to returning a unit to a “marketable condition”. It must now be returned to the same condition as it was when the resident started occupying it, apart from “fair wear and tear and renovations and other changes to the condition of the unit carried out with the agreement of the

resident and scheme operator". This change only applies to residence contracts dated after the commencement of the changes as at 1 February 2019.

The Act's revision also clarified the meaning of "Refurbishment" by renaming it Renovation and defining it as "Renovation Work means replacements and repairs other than reinstatement work." For any renovation to a resident unit start and finish dates must be agreed. If the resident's contract provides for the resident and scheme operator to share capital gain on sale then the cost is shared in that proportion, otherwise the scheme operator must pay.

## **DETAILED EXAMPLES**

**Following are a series of detailed examples which are provided to assist in understanding the principles outlined in this document.**

**Note: These are typical examples, but all expenditure items must be assessed on their own individual merits.**

## EXTERNAL ITEMS

OPERATOR EXPENSE IMPROVEMENTS	CAPITAL REPLACEMENT FUND (to be consistent with the Quantity Surveyors CRF reports)	MAINTENANCE RESERVE FUND (to be consistent with the Quantity Surveyors MRF reports)	OPERATING BUDGET REPAIRS / MAINTENANCE
<b>Swimming Pool</b>			
<p><b>Pool generally</b></p> <p>Upgrading the pool surface finish or changing the structure of the pool.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Removing an existing pebblecrete finish and upgrading it with a tiled finish that has a longer life cycle and is easier to keep clean</i></li> <li>• <i>Adding depth marker signs around the exposed edge of the pool to meet safety standards</i></li> <li>• <i>Building in steps or a ramped entry to the pool</i></li> </ul>	<p>Replacing all of the pool finish with a similar surface finish.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Replacement and retiling of all of the tiles on the pool surface, rather than just an area of damaged tiles, when matching replacement tiles are not available and the operator wishes for aesthetic reasons to retain a uniform tiled appearance</i></li> </ul>	<p>Repairing damaged pool finish, provided that the work is limited to what is required to reinstate the surface finish.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Re-grouting the tiled surface</i></li> <li>• <i>Replacement of part of the pool surface to repair physically damaged areas</i></li> </ul>	<p>Regular upkeep done on a short time cycle or minor cost repairs.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Cleaning down the exposed tiling once a week</i></li> <li>• <i>Repair of a small area of grouting costing less than \$300</i></li> <li>• <i>Weekly cleaning of pool and testing of pool water</i></li> <li>• <i>Supply of pool chemicals</i></li> </ul>
<p><b>Pool equipment and furniture</b></p> <p>Purchase of first pool cleaner or furniture items or upgrading existing equipment or furniture.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Installing a pool heater for the first time</i></li> <li>• <i>Upgrading to a solar powered pool heater to reduce the operating costs</i></li> </ul>	<p>Replacement of pool equipment &amp; furniture with similar items.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Purchase of replacement pool cleaner, pool pumps, pool filtration pump, pool umbrella or deck chairs</i></li> </ul>	<p>Maintenance and repairs of existing pool equipment and furniture, including routine servicing of equipment as preventative maintenance.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Scheduled servicing/maintenance of filtration equipment done every four months</i></li> <li>• <i>Replacing motor in pool pump</i></li> <li>• <i>Mending tear/rips in the fabric of pool umbrella or replacement of umbrella pole</i></li> </ul>	<p>Regular maintenance/servicing done on a short time cycle, minor cost repairs and provision of consumable items.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Scheduled servicing/maintenance of filtration equipment done once a month</i></li> <li>• <i>Wiping down pool furniture</i></li> <li>• <i>Replacing the filter in filtration equipment</i></li> </ul>

OPERATOR EXPENSE IMPROVEMENTS	CAPITAL REPLACEMENT FUND (to be consistent with the Quantity Surveyors CRF reports)	MAINTENANCE RESERVE FUND (to be consistent with the Quantity Surveyors MRF reports)	OPERATING BUDGET REPAIRS / MAINTENANCE
<b>Termite Treatment to Village</b>			
<p>Installing a termite barrier or a bait/monitoring system for the first time.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Installation of a termite proof metal barrier around the bottom of pergola posts</i></li> <li>• <i>Injection of termite protection chemicals into ground or building structure to commence an ongoing chemical treatment program</i></li> </ul>	<p>Replacement of (or replacement of discrete, independent sections of) assets damaged by termites and replacement of termite barriers (e.g. 'termi mesh') and protection systems.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Replacement of termite damaged retaining wall along one side the property (where the retaining wall continues further around the property boundary)</i></li> </ul>	<p>Scheduled and one-off termite treatment to prevent termite damage and remedial work to repair termite damage (where the repair does not comprise a capital replacement).</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Annual termite inspection and application of spray</i></li> <li>• <i>Injecting termite protection chemicals into ground or building structure to renew existing chemical barrier</i></li> <li>• <i>Replacing termite damaged pergola posts</i></li> <li>• <i>Replacing damaged portion of retaining wall (but not entire retaining wall)</i></li> <li>• <i>Replacement or inspection of termite baits/traps if not done more than four times a year</i></li> </ul>	<p>Inspection of termite baits/traps and replacement of baits if done more than four times a year.</p>

OPERATOR EXPENSE IMPROVEMENTS	CAPITAL REPLACEMENT FUND (to be consistent with the Quantity Surveyors CRF reports)	MAINTENANCE RESERVE FUND (to be consistent with the Quantity Surveyors MRF reports)	OPERATING BUDGET REPAIRS / MAINTENANCE
<b>Roads, paths and paved areas</b>			
<p>Construction of new road, path or paved area and replacement of the road, path or paved area with one of a superior construction.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Construction of path to new community building</li> <li>• Replacing existing concrete road with new higher strength concrete road to prevent ongoing damage by heavy vehicles</li> </ul>	<p>Replacement of (or replacement of discrete, independent lengths of) roads, paths and paved areas of similar construction.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacing damaged pavers, building new sand bed and relaying to 100% of the pathway between the main path and the community building</li> <li>• Removal of existing bitumen road, rebuilding the road base and applying new road surface (to full length of driveway)</li> </ul>	<p>Repairing or resurfacing the village roads, paths and paved areas to original condition. (Where the repair involves the complete reconstruction of the paved area, it must be to less than the total length of any discrete, independent roadway, path or paved area.)</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Repair of potholes in the road</li> <li>• Relaying existing path pavers that have subsided (can be to total length of path)</li> <li>• Replacing a percentage of the length of a cracked concrete unit driveway</li> <li>• Replacing damaged pavers, building new sand bed and relaying to a percentage of the pathway between the main path and the community building</li> <li>• Removal of existing bitumen road surface and reapplying new road surfaced to a percentage of the roadway</li> <li>• High pressure cleaning of a paved area every six months</li> </ul>	<p>Regular maintenance done on a short time cycle, minor cost repairs.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• High pressure cleaning of a concrete BBQ surrounds every two months</li> <li>• Replacing a single damaged paver</li> </ul>

OPERATOR EXPENSE IMPROVEMENTS	CAPITAL REPLACEMENT FUND (to be consistent with the Quantity Surveyors CRF reports)	MAINTENANCE RESERVE FUND (to be consistent with the Quantity Surveyors MRF reports)	OPERATING BUDGET REPAIRS / MAINTENANCE
<b>Telephone / Television Cabling</b>			
<p>Purchase and installation of the cabling system for the first time or upgrading of existing system.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacement of the total cabling system throughout the village, or some of its components, to take advantage of better technology or enable compatibility with other systems</li> <li>• Installation of booster of TV cabling</li> <li>• Installing new antenna or phone point</li> </ul>	<p>Replacement of (or replacement of discrete independent sections of) cabling or major equipment.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Total replacement of the phone cabling between the central PABX and an accommodation unit</li> <li>• Replacement of satellite dish</li> <li>• Replacement of phone handsets</li> </ul>	<p>Repair and maintenance of the cabling system and related equipment. (Where the repair involves the replacement of cabling, it must be to less than the total length of any discrete, independent cable run.)</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacement of part of phone cabling between the central PABX and accommodation unit</li> <li>• Replacement of component in satellite dish</li> </ul>	<p>Regular maintenance done on a short time cycle, minor cost repairs and provision of consumable items.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacing a connector on the end of a cable</li> <li>• Adjusting an antenna's orientation to improve reception costing less than \$300</li> </ul>
<b>Village Bus</b>			
<p>Purchase of initial bus for the village or upgrade of the bus</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacing bus motor with more powerful motor</li> <li>• Converting the bus from petrol to diesel or gas</li> </ul>	<p>Purchase of replacement bus (regardless of reasons for replacements) and leasing cost for bus acquired on long-term lease.</p> <p><b>Or</b></p> <p>Replacement of a full engine with a rebuilt one</p>	<p>Repair and maintenance of bus.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Regular service every three months</li> <li>• Purchase and installation of replacement parts, including motor, wheels and gearbox</li> <li>• Purchase of new tyres</li> <li>• Regular inspections</li> </ul>	<p>Regular maintenance done on a short time cycle, minor cost repairs and provision of consumable items.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Checking and replacing the water and oil</li> <li>• Replacing a headlight fuse or bulb</li> <li>• Cleaning and polishing the bus</li> </ul>

OPERATOR EXPENSE IMPROVEMENTS	CAPITAL REPLACEMENT FUND (to be consistent with the Quantity Surveyors CRF reports)	MAINTENANCE RESERVE FUND (to be consistent with the Quantity Surveyors MRF reports)	OPERATING BUDGET REPAIRS / MAINTENANCE
<b>Storm Water or Sewerage Pipes</b>			
<p>Installation of new storm water and sewerage pipes and replacement with pipes of a superior quality</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Replacing existing pipes with new higher strength pipe materials to prevent ongoing damage</i></li> </ul>	<p>Replacement (or replacement of discrete independent sections of) storm water or sewerage pipes.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Replacing all storm water or sewerage pipes</i></li> <li>• <i>Replacement of whole length of sewerage pipe between an accommodation unit and sewer main</i></li> </ul>	<p>Repairing the village storm water or sewerage pipes to original condition. (Where the repair involves the complete replacement of the storm water or sewerage pipe, it must be to less than the total length of any discrete, independent section of storm water or sewerage pipe.)</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Repair of a storm water or sewerage pipe that is leaking at a joint in the piping</i></li> <li>• <i>Replacing a percentage of the length of a storm water or sewerage pipe that has cracked</i></li> </ul>	<p>Regular maintenance done on a short time cycle and minor cost repairs.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Cleaning of storm water pipes</i></li> </ul>
<b>Leaf Guard</b>			
<p>Initial purchase and installation of leaf guard.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Initial installation of leaf guard to gutters of existing accommodation units</i></li> </ul>	<p>Replacement (or replacement of discrete independent sections of) leaf guard.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Replacing of all leaf guard to gutters of an accommodation unit</i></li> <li>• <i>Replacement of leaf guard to all of a patio's guttering</i></li> </ul>	<p>Repair and maintenance of existing leaf guard. (Where the repair involves the complete replacement of the leaf guard, it must be to less than the total length of a discrete independent section of leaf guard.)</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Replacement of small length of leaf guard to patch a damaged section to one arm length of gutter on an accommodation unit</i></li> </ul>	<p>Regular maintenance done on a short time cycle, minor cost repairs.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Cleaning out leaves caught in leaf guard</i></li> </ul>

OPERATOR EXPENSE IMPROVEMENTS	CAPITAL REPLACEMENT FUND (to be consistent with the Quantity Surveyors CRF reports)	MAINTENANCE RESERVE FUND (to be consistent with the Quantity Surveyors MRF reports)	OPERATING BUDGET REPAIRS / MAINTENANCE
<b>Landscaping/Gardens</b>			
<p>The initial creation of a new garden bed or lawn; the installation of a new feature plant/tree; the installation of a new water feature or garden statue; or the alteration of an existing garden bed, lawn or plant to one having improved features.</p>	<p>Re-establishment of a substantial component of the overall gardens and grounds in the village</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li><i>In a large garden bed all the existing plants are removed and the bed is completely replanted with new flowers (that are different but does not substantially change the life or use of the gardens)</i></li> </ul>	<p>Plants, trees and lawns:</p> <p>Maintenance of the existing plants, trees and lawns and one-off replacement of individual small/non-feature plants.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li><i>Irregular replacement of individual 'non-feature' plants forming part of a larger garden bed (with the same plant or a plant filling a similar function in the bed) at a cost greater than \$300</i></li> <li><i>Re-turfing of a lawn area</i></li> <li><i>Tree lopping carried out on a systematic basis four or less times a year, or costing more than \$300</i></li> <li><i>The cost of having trees inspected to determine their health or if they are a safety risk</i></li> <li><i>Systematic fertilisation of garden beds and lawns</i></li> </ul>	<p>Regular gardening activities done on a short time cycle, replacement of individual low-cost plants and provision of consumable items used on an on-going basis.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li><i>Daily watering of the lawn and weekly mowing</i></li> <li><i>Irregular replacement of individual azalea plants forming part of a larger garden bed at a cost of less than \$300</i></li> <li><i>Pruning of small trees and shrubs as part of the routine maintenance of the village gardens and grounds</i></li> <li><i>Spot application of fertilizer around existing plants</i></li> </ul>
<p><b>Mulching/Bark</b></p> <p>The application of mulch/bark for the first time on an existing garden bed or as part of the construction of a new garden bed.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li><i>Mulch is applied as part of the construction of new gardens in a new development state of the village</i></li> </ul>	<p>Where systematic application of mulch/bark has not been applied over a period of time and garden beds need complete remulching/rebarking then refer to Landscaping/Gardens example.</p> <p>It is only a CRF item if a substantial re-establishing of the village gardens is involved – refer Landscaping/Gardens example.</p>	<p>Reapplying mulch or bark systematically over all of (or large discrete stages of) the village's garden beds in a regular schedule.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li><i>Reapplication of mulch to the garden beds in three stages of the village every six months on a rolling stage by stage schedule</i></li> </ul>	<p>Spot application of mulch to existing mulched garden beds.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li><i>The spot application of mulch around a tree after the existing mulch has been disturbed by general gardening activities</i></li> </ul>

OPERATOR EXPENSE IMPROVEMENTS	CAPITAL REPLACEMENT FUND (to be consistent with the Quantity Surveyors CRF reports)	MAINTENANCE RESERVE FUND (to be consistent with the Quantity Surveyors MRF reports)	OPERATING BUDGET REPAIRS / MAINTENANCE
<p><b>Garden equipment and tools</b></p> <p>Purchase of garden equipment for the first time or upgrading of existing items.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>• Initial purchase of a brush cutter</li> <li>• Purchase of a larger diameter mower blade in order to reduce mowing time</li> </ul>	<p>Replacement of equipment costing more than \$300 per item (Some groups of items such as a set of spanners should be treated as a single conglomerate item when purchased together.)</p> <p>For example:</p> <ul style="list-style-type: none"> <li>• Replacement of ride on mower</li> <li>• Purchase of a full set of drill bits when it is not possible (or practical) to replace a number of individual broken bits</li> </ul>	<p>Maintenance and repairs of existing garden equipment and tools, (including routine servicing of equipment as preventative maintenance.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>• Quarterly service of ride on lawn mower</li> <li>• Sharpening of mower blade</li> <li>• Replacement of a gearbox in a ride on mower</li> </ul>	<p>Regular maintenance/servicing done on a short time cycle, minor cost repairs and replacements and provision of consumable items.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>• Replacement of rake handle</li> <li>• Replacement of a shovel/spade</li> <li>• Sharpening of saw blades costing \$100</li> <li>• Purchase of oil</li> </ul>

## EXTERNAL ITEMS

OPERATOR EXPENSE IMPROVEMENTS	CAPITAL REPLACEMENT FUND	MAINTENANCE RESERVE FUND	OPERATING BUDGET REPAIRS/MAINTENANCE
<b>Furniture, fixtures and equipment in community buildings and office/service provision</b>			
<p><b>Kitchen equipment and utensils</b></p> <p>Purchase of the kitchen equipment for the first time or upgrading of existing equipment.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Initial purchase of a deep fryer</li> <li>• Purchase of a new attachment for a multi-function dough-mixing machine</li> <li>• Replacement of a standard microwave with a convection microwave</li> </ul>	<p>Replacement of equipment costing more than \$300 per item</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacement of a microwave</li> <li>• Replacement of commercial toaster</li> <li>• Replacement of a full setting of crockery when it is no longer possible to replace individual small cost items from an older setting</li> </ul>	<p>Maintenance and repairs of existing kitchen equipment, utensils and cold rooms including routine servicing of equipment as preventative maintenance and replacement components of the equipment.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacement of blades for the in-sink-erator</li> </ul>	<p>Regular maintenance/servicing done on a short time cycle, minor cost repairs and replacements.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacement of stove element and cost of employee time to change</li> <li>• Replacement of a toaster costing \$50</li> <li>• Replacement of jug costing \$80 from crockery setting</li> </ul>
<p><b>Furniture and drapes in community building</b></p> <p>Purchase of furniture or drapes for the first time or upgrading of existing furniture or drapes.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacing existing curtains with timber Venetian blinds</li> <li>• Initial purchase of a display case</li> </ul>	<p>Replacement of furniture and drapes costing more than \$300 per item.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacement of lounge sofa</li> <li>• Replacement of a set of French curtains</li> </ul>	<p>Maintenance and repairs of existing furniture and drapes, including preventative maintenance and replacement of components of the furniture and drapes.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Dry cleaning of window furnishings done every 6 months</li> <li>• Recovering upholstered chairs</li> </ul>	<p>Regular maintenance/servicing done on a short time cycle, minor cost repairs and replacements.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Stitching/minor repairs</li> <li>• Cleaning venetian blinds every 3 months for less than \$100 per blind</li> </ul>

OPERATOR EXPENSE IMPROVEMENTS	CAPITAL REPLACEMENT FUND	MAINTENANCE RESERVE FUND	OPERATING BUDGET REPAIRS/MAINTENANCE
<p><b>Carpet and vinyl floor coverings</b></p> <p>Initial purchase of carpet or replacement of carpet with a superior surface</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Carpet is laid over what was previously polished timber flooring</i></li> </ul>	<p>Replacement of all of (or a discrete area of) the existing carpet with similar carpet.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Replacing the carpet in one room that is damaged beyond spot patching, but leaving the existing matching main corridor carpet unchanged</i></li> </ul>	<p>Cleaning and repairs to carpet or vinyl flooring.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Steam cleaning of carpet</i></li> <li>• <i>Spot patching of carpet to repair small area of stain or damage</i></li> </ul>	<p>General maintenance and cleaning of carpet.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Daily vacuuming of carpet</i></li> <li>• <i>Simple spot stain removal</i></li> </ul>
<p><b>Emergency Call System</b></p>			
<p>Purchase and installation of emergency call system for the first time or upgrading of existing system.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Initial emergency call system purchase and installation</i></li> </ul>	<p>Replacement of all of (or of discrete, independent sections of) the existing emergency call system or major components with a similar system or components.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Replacement of the total emergency call system (regardless of whether the old system failed)</i></li> <li>• <i>Replacement of independent radio system emergency call points</i></li> <li>• <i>Replacement of handsets in Small Caller phone system</i></li> </ul>	<p>Maintenance and repairs of existing emergency call system, including preventative maintenance and replacement of components of the system.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Replacement of individual hardwired call point where existing call points are located</i></li> <li>• <i>Repairs and maintenance to the system, including the receiving computer system</i></li> </ul>	<p>Regular maintenance/servicing done on a short time cycle, minor cost repairs and replacements.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Monitoring of system</i></li> <li>• <i>Minor repairs to individual emergency call points</i></li> </ul>

OPERATOR EXPENSE IMPROVEMENTS	CAPITAL REPLACEMENT FUND	MAINTENANCE RESERVE FUND	OPERATING BUDGET REPAIRS/MAINTENANCE
<b>Electrical</b>			
<p>Purchase and installation of the electrical system for the first time or upgrading of existing system.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Initial wiring of village</li> <li>• Installation of safety switch</li> <li>• Installation of a power point in a new location</li> <li>• Circuit board upgrade</li> </ul>	<p>Replacement of all (or of discrete, independent sections of) the existing wiring or major components with similar wiring or components.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Complete rewiring of a building</li> <li>• Replacement of a complete meter board with a similar meter board</li> </ul>	<p>Maintenance and repairs of existing electrical system, including preventative maintenance and replacement of components of the system.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• An annual electrical system audit</li> <li>• Replacement of part of the length of electrical cable between an accommodation unit and the main distribution board</li> </ul>	<p>Regular maintenance/servicing done on a short time cycle, minor cost repairs and replacements.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacement of an existing power point cover costing less than \$200</li> <li>• Replacement of a blown fuse</li> </ul>
<b>Windows/Doors and Other Glazing</b>			
<p>Purchase and installation of the glazing system for the first time or upgrading of existing glazing.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacing timber framed windows with aluminium framed windows that require less maintenance</li> <li>• Upgrading to double glazing or UV protection glazing</li> <li>• Replacing clear glazed feature wall with frosted glazing</li> </ul>	<p>Replacement of doors or windows or glazing (where the glazing is a discrete, independent element) with similar items.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacement of glazing forming a shop front or feature wall (where not part of an insurance claim)</li> <li>• Replacement of timber window with similar window due to deterioration of timberwork</li> <li>• Replacement of timber entry door</li> </ul>	<p>Maintenance and repairs of windows and doors and other glazing elements, including preventative maintenance and replacement of components.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Repair to window or door glass where old glass has been damaged or smashed (where not part of an insurance claim)</li> <li>• Patching and repainting of damaged door</li> <li>• Annual cleaning of exterior of glazing in non-operable windows on a high-rise building</li> </ul>	<p>Regular maintenance/servicing done on a short time cycle, minor cost repairs and replacements.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacement of the putty in a timber framed window</li> <li>• Weekly cleaning of glazing</li> <li>• Replacement of keys</li> <li>• Lubrication of hinges</li> </ul>

## UNIT RELATED – INTERNAL & EXTERNAL

NOTE:

1. These unit categorisations only apply if the resident’s contract does not make them responsible for the maintenance or replacement of certain items, or where the work is not required because of deliberate or accelerated wear and tear by the resident.
2. This section of examples will not apply where the units fall under the Body Corporate and Community Management Act jurisdiction.

SCHEME OPERATOR EXPENSE FOR IMPROVEMENTS	CAPITAL REPLACEMENT FUND	MAINTENANCE RESERVE FUND	VILLAGE OPERATING BUDGET DAY-TO-DAY REPAIRS/MAINTENANCE
<b>Painting</b>			
<p>Painting of new additions to the village, repainting of existing paintwork with a higher quality finish and repainting of existing paintwork as an incidental part of other improvement works.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>When a wall is due for painting, replacing the existing standard paint finish with a suede finish paint</i></li> </ul>	<p>Repainting of accommodation unit on termination as part of reinstatement costs only if the operator is responsible for the cost (refer to individual resident’s contract).</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>A determination of the requirement to repaint the walls will be made on re-instatement and responsibility for these costs is in accordance with the resident’s contract</i></li> </ul>	<p>Repainting of interior or exterior of accommodation unit during period of resident’s occupancy.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>The resident has occupied the unit for a number of years and the normal life of the painting has been reached</i></li> <li>• <i>The bathroom ceiling in a multi storey building requires repainting due to a water leak in the upstairs bathroom</i></li> </ul>	<p>Minor touch-up/spot painting.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Touching up scratches on stair balustrades or door frames</i></li> </ul>
<b>Carpet and vinyl floor coverings owned by operator</b>			
<p>Initial purchase of carpet or replacement of carpet of a superior quality is installed</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Carpet is laid over what was previously polished timber flooring</i></li> <li>• <i>The old carpet is replaced with a carpet of superior quality</i></li> </ul>	<p>Replacement of all of (or a discrete area of) the existing carpet with similar carpet.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Replacing the carpet in one room that is damaged beyond spot patching, but leaving the existing matching main corridor carpet unchanged</i></li> <li>• <i>The carpet in the unit is slightly worn, so the operator elects to replace it when the resident vacates the unit</i></li> </ul>	<p>Cleaning and repairs to carpet or vinyl flooring during the occupancy of the resident.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Steam cleaning of carpet</i></li> <li>• <i>Spot patching of carpet to repair small area of stain or damage</i></li> </ul>	<p>General maintenance and cleaning of carpet.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• <i>Daily vacuuming of carpet, where service is provided as part of resident contract</i></li> <li>• <i>Simple spot stain removal, where service is provided as part of resident contract</i></li> </ul>

## UNIT RELATED – INTERNAL & EXTERNAL (Continued)

NOTE:

1. These unit categorisations only apply if the resident's contract does not make them responsible for the maintenance or replacement of certain items, or where the work is not required because of deliberate or accelerated wear and tear by the resident.
2. This section of examples will not apply where the units fall under the Body Corporate and Community Management Act jurisdiction.

SCHEME OPERATOR EXPENSE FOR IMPROVEMENTS	CAPITAL REPLACEMENT FUND	MAINTENANCE RESERVE FUND	VILLAGE OPERATING BUDGET DAY-TO-DAY REPAIRS/MAINTENANCE
<b>Fixtures and fittings and drapes owned by operator</b>			
<p>Purchase of furniture, fixtures or drapes for the first time or upgrading of existing furniture or drapes.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacement of fluorescent light with down lights</li> <li>• Initial installation of security door</li> <li>• Replacement of kitchen cupboards during upgrade with cupboards of higher quality finish</li> </ul>	<p>Replacement of furniture, fittings and drapes costing more than \$300 per item.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacement of light fittings with similar light fittings</li> <li>• Replacement of air-conditioning system (where air-conditioning not added by resident and their responsibility)</li> <li>• The kitchen cupboard laminate colour is no longer fashionable, so the operator elects to replace the kitchen cupboards when the resident vacates the unit</li> </ul>	<p>Maintenance and repairs of existing furniture, fittings and drapes, including preventative maintenance and replacement of components, during the occupancy of the resident</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Replacement of thermostat in hot water unit</li> <li>• Quarterly maintenance of air-conditioning system</li> <li>• Replacement of damaged insect mesh in a security screen door (where screen not added by the resident and their responsibility)</li> </ul>	<p>Regular maintenance/servicing done on a short time cycle, minor cost repairs and replacements.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Rehangng of kitchen cupboard door, where service is provided as part of resident contract</li> <li>• Replacing a light bulb, where service is provided as part of resident contract</li> </ul>
<b>Underpinning of Accommodation Unit</b>			
	<p>Replacement of all of (or a discrete part of) the existing underpinning with similar underpinning.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Complete replacement of patio underpinning</li> </ul>	<p>Maintenance and repairs including underpinning.</p> <p><i>For example:</i></p> <ul style="list-style-type: none"> <li>• Repair work due to subsidence</li> </ul>	<p>Regular maintenance/servicing done on a short time cycle, minor cost repairs and replacements.</p>

# GLOSSARY

## RETIREMENT VILLAGES ACT PROVISIONS

The Act includes the following relevant provision:

- Section 91(1) describes the Capital Replacement Fund (CRF) as being established *‘for replacing the retirement village’s capital items’*
- Section 91(3) states that an operator must not use the CRF for a purpose other than *‘replacing the village’s capital items’* and paying certain quantity surveyor and tax costs.
- Section 91(5) states that an operator must not use the CRF for *‘the village’s capital improvement, maintenance or repairs’* or *‘capital replacement, maintenance or repairs of body corporate property to which the Body Corporate and Community Management Act applies.’*
- Section 97(1) describes the Maintenance Reserve Fund (MRF) as being established *‘for maintaining and repairing the retirement village’s capital items.’*
- Section 97(3) states that an operator must not use the MRF for a purpose other than *‘maintaining and repairing the village’s capital items’* and paying certain quantity surveyor and tax costs.
- Section 97(4) states that an operator must not use the MRF *‘for day to day maintenance of the village’* or *‘the village’s capital improvement or replacement’* or *‘capital replacement, maintenance or repairs of body corporate property to which the Body Corporate and Community Management Act applies’.*
- Section 237K or former section 62(2) prior to 1 Feb 2019 covers the reinstatement work that must be paid for by an operator or former resident in respect of a leasehold or licence-based interest. (Other issues are also covered in this section *where a resident causes accelerated wear or deliberate damage and if a resident contract states who is to make the payment.*)
- Section 58 states that when a resident vacates a unit “the former resident must leave it in the same condition as it was in when the former resident started occupation of it, apart from fair wear and tear and renovations.....”
- Section 59 includes the requirement that reinstatement work must be completed “by the agreed time” or if this is not agreed, 90 days after the vacation date.

The Dictionary to the Act includes the following relevant definitions:

- *‘capital improvement’* – means the first-time provision of a capital item, including a thing that is a capital improvement under a ruling under the *Taxation Administration Act 1953* dealing with capital improvement.
- *‘capital items’* include the following: -
  - (a) all buildings and structures located in the retirement village and owned by the scheme operator, including the communal facilities, amenities and accommodation units, other than items that, under the residence contract, are to be maintained, repaired and replaced by the resident;
  - (b) all plant, machinery and equipment used in the operation of the village other than items that are body corporate property;  
*Examples for paragraph (b) – Communal hot water and air conditioning services, kitchen and dining room equipment, community facility furnishings, gardening equipment, village bus or transportation services.*
  - (c) all village infrastructure owned by the scheme operator.  
*Examples for paragraph (c) – Roadways, pathways, drainage, sewerage mains, landscaping, electrical distribution systems, water services and connections and distribution systems.*
- *‘maintenance’ of a capital item* – means the upkeep of the capital item in good condition and efficient working order, consistent with the principles applied under the *Taxation Administration Act 1953* dealing with maintenance of capital items.
- *‘repairs’ to a capital item* – means the restoration of the item by fixing or replacing parts of the item, consistent with the principles applied under the *Taxation Administration Act 1953* dealing with repairs to capital items.

- '*replacement of a capital item*' – means the substitution of the same type of item or an equivalent item consistent with the principles applied under the *Taxation Administration Act 1953* dealing with replacement of capital items.