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MAINTENANCE COSTING FOR HOUSING SOCIETY—AN EMERGING CONCEPT



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Housing and infrastructure development has seen new concepts come up substantially in the recent past. Gone are the times, when apartments used to be simple dwelling places with minimal amenities like house keeping, water, and common lighting. Lifts joined the list when the housing grew vertically with high rise buildings. With the shortage of continuous supply of power, generators graced the list. Meetings of such societies were mostly conducted in their terraces or in the society's office. All associated charges were strictly restricted and keenly monitored owing to the small size of the society. Of late, we see AGM's of housing societies being held in hotels or banquet/party halls and the member count running in hundreds.

Today we experience a new lifestyle with swimming pool, gym, club house, party hall, library, guest bedrooms, Jacuzzi, Sauna, landscaped gardens, tennis courts, cricket pitches, golf courses et al within the gated community/ housing society/ apartment complex (*hence forth referred to as housing society*). We are enticed with a never ending list of lifestyle facilities by the builders and developers. Life in such a place looks like a paradise. When you buy an apartment with some of the above amenities and actually start living there, paradise seems to turn into a mirage. Everything seems to fall apart in a few years due to poor maintenance.

Increase in cost and dwindling funds are cited as reasons for poor or non-maintenance. The administrative body (the managing committee - MC) of such housing societies (or the resident welfare association) are endlessly engaged in collecting maintenance and paying dues. There is no dedicated time either to analyse cost or to look into cost control. Sketchy budgeting, uninformed decisions due to poor knowledge of cost, lack of scientific methods to classify, allocate, apportion and manage costs have seen many MC's bite the bullet. No matter who heads the MC; it is back to square one all the time.

In this article, an attempt has been made to review the current methods of arriving at and allocating maintenance charges to individual units of the housing society and to provide an alternative/better method. Presently, the major

costs are identified by the MC's as and when they are incurred.

The decisions to incur the cost are predominantly based on

- a. The inevitable nature of the expense (like local taxes, maintenance expenses of lift or water seepage/leakage).
- b. Majority members agree to incur a cost. (When members of 2nd and 3rd floor of a society decide to install a lift they may bully the minority first floor members to share the capital cost and running cost of the lift). Such decisions are not based on any cost benefit analysis.

Invariably, costs are classified and charged as maintenance cost irrespective of the fact that they are running costs (e.g. Diesel for generators/ energy charges). Thus, the cost and its classification into maintenance cost itself is a matter of huge debate. Even if such a cost is accepted as maintenance cost, then

How to share this cost? And who should share the cost? are some vital questions.

How to share the cost?

The first step to this question is:

To review the present method of calculating maintenance cost per unit.

In a majority of cases it is either a flat rate or on per square foot (PSQF) basis.

Review of the existing method

1. Flat rate

Reason behind using flat rate: All the expenses are common so it is to be shared equally by all. (Total expenses / Number of apartments).

However, flat rate method is indisputable only when

- a. All the apartments are occupied.
- b. The *number of persons* in each apartment is the same. (The consumption of utilities per apartment

occupied by 10 persons is definitely more than an apartment occupied by a 4 persons.)

- c. The maintenance expenses incurred by a housing society is unaffected by price and consumption changes due to external factors.

In reality, these conditions exist only theoretically. Even if (a) and (b) are satisfied, (c) cannot be fixed in the current scenario, as there is **no guarantee** that

- i. Electricity/fuel charges and consumption will remain the same throughout the year.
- ii. There will be enough water supplies and no additional procurement will be needed.
- iii. No additional cost will be incurred for the existing facilities.

2. Per square feet rate (PSQF) ((Total Expenses/Total area)*area of the apartment)

The logic behind charging maintenance on PSQF is as under:

- 1. Builder/Promoter charges maintenance on PSQF. So, the same is continued by the society as well.
- 2. Easier to calculate.
- 3. Property tax is on PSQF basis.

The above bases are illogical and are analysed below in seriatim:

- 1. Builder/Promoter may not have any other easier base initially. The Builder/Promoter conveniently adopts PSQF basis as (s) he gets more than what (s) he spends towards maintenance. We may note that the Builder/Promoter provides minimal facilities on PSQF rate and most of the facilities like a swimming pool, or gym or a clubhouse invariably remains *under construction* or under the builder's maintenance. Since, the occupancy is low in the initial year/s and the manufacturer's warranty covers the assets in the initial years; the builder/promoter is able to absorb any fluctuation in maintenance expenses even after adopting PSQF basis easily.
- 2. Adopting a method because it is easier to calculate reflects a *resistance to change in the present scenario*.
- 3. Property tax is a tax collected for the welfare of the area/locality and not necessarily that particular property. However, **a maintenance charge levied by a housing society on its members is not a tax**. It is collected for maintaining the said housing society and has several components which are not connected area. For example, water consumed is related to number of persons and occupancy and not area.

The above methods are not scientific but crude arithmetic.

When a MC fixes maintenance at say Rs.1000 per month per apartment (on either of the above methods) it is bound

to stick to the same until a revision can be authorised by the Annual General Body Meeting.

Since identification and allocation of costs are not done scientifically, when prices go up, there is a compromise in service. Preventive maintenance is postponed, breakdown maintenance is not undertaken on time and essential supplies get rationed leading to disagreement and chaos in every meeting and ultimately a new MC takes over.

On the other hand, sometimes, the actual cost plus a premium is charged as maintenance. This premium has been a constant feed for impropriety in housing societies.

The next question is: **Who should share the cost?**

In the present scenario, member shares the cost because it is considered to be incurred by one and all. In the real sense it is not. Many of its components are variable (running costs). They tend to be affected by the number of people/usage and occupancy.

Result: Be it flat rate or PSQF, there is a lag in collection as the members of unoccupied apartments and the members who do not use certain facilities feel fleeced and delay payment in addition to the habitual defaulters. The basis of charging also creates a lot of disagreement and there is a constant delay in collecting maintenance charges from members.

Classification of cost, allocation and apportionment are the areas of expertise of a professional accountant. The MC is not necessarily qualified to handle cost issues. The housing society committees impose '**majority decision binds one and all**' rule leaving enough room for disagreement.

Allowing the MC to make cost/financial decision tends to have a negative effect on the overall welfare of the housing society and all its members. Further, failure to classify cost and poor cost management results in erosion of Corpus funds of the housing society.

Is there a logical, scientific and appropriate method?

Yes.

We have to adapt to the changing scenario of *housing societies being more than mere dwelling places* and educate people about the fact that maintenance cannot be a completely fixed cost especially when the running costs are included and charged under the head 'maintenance'.

First step would be to classify the elements of maintenance cost into fixed (which in the real sense is maintenance cost) and variable cost (predominantly running expenses). The fixed and variable cost should be allocated on a logical and appropriate basis. *Variable maintenance costs are those which will have a direct impact on the number of residents in the housing society.*

Fixed maintenance costs are those which are incurred **irrespective** of number of persons residing in the housing society/occupancy.

- Annual Maintenance contracts (AMC) of lift, Diesel Generator, common air conditioner etc.
- House keeping contract.

- Salary to maintenance staff.
- Local taxes levied on the society.

The above items form part of fixed cost. These costs are relatively stable over a period of time (say one year) and are necessary to maintain the facilities of a housing society.

Diesel Generator fuel expenses, cost of procured water, expenses on sewage disposal, common electricity charges towards- lift, bore well motor and lighting are examples of running expenses.

Suggested approach

A qualified accountant may be appointed to arrive at, allocate and apportion cost and certify the same.

A law passed in this regard, making maintenance costing mandatory for every housing society will go a long way in ensuring continuous quality living in the society.

This will avoid legal battles between members and the MC of societies regarding non-provision / discontinuance of facilities, misappropriation of society funds etc.

In addition to the above, the following results are expected from the above approach:

- Society members will know the cost and how/why it is incurred, on a periodic basis reducing the risk of misappropriation.
- The monthly maintenance bills will be positively impacted by the conservation steps taken by the residents of the society. They will be motivated to actively participate in using common assets with prudence and care.
- Managing committee can spend adequate time on implementing cost reduction as well as cost control measures, thereby enhancing the satisfaction of the members of the residential community.
- Cost awareness is created. Any change in cost will be known to all members in the same period in which it is incurred. This avoids the need to wait for the annual audit of accounts to identify any mismanagement.
- Members will pay for what they use. If a variable cost is not incurred towards a property, then the same will not be payable, especially when the properties are unoccupied or if certain lifestyle facilities like swimming pool/gym are not used by member/s.
- The disputes regarding allocation of cost viz. flat rate or PSQF method can be put to rest, as the maintenance cost of every apartment will be determined by a scientific and logical method.
- If the costs are separated, then the society can charge a variable maintenance cost along with the fixed cost it incurs every month (similar to an electricity bill).
- When the variable portion of maintenance cost (running expenses) is assumed to be fixed, there is an overcharging or undercharging of cost. This situation can be eliminated.

Conclusion

Adopting a costing method to arrive at and charge maintenance is purely the choice of the members of the housing society. However, considering the number of pending law suits on various aspects like basis of charging maintenance, mismanagement of funds/misappropriation of funds and impropriety, a legislation to this effect will benefit every member of the society as well as the economy both in the short and long term.

There is an urgent need to look into this costing, as many of the apartment complexes charge anywhere from Rs.30000 to Rs. 200000 (or more) per apartment per annum under the guise of maintenance.

The idea of Co-operative housing society can be only strengthened by the fact that its members are treated fairly and equally. The expertise of a cost accountant will go a long way in not just identifying, classifying, allocating / apportioning cost, but also suggesting cost reduction and cost control measures.

Case study

A detailed study was conducted on *The Riviera by Casa Grande* in the suburbs of Chennai from May 2012 to Aug 2012.

Casa Grande Riviera is a 3.5 acre, 220 apartment complex with the dwelling units of the following sizes:

Area (sqft)	No of apartments
1220	4
1316	28
1400	44
1486	4
1555	44
1585	92
1615	4
Total	220

The 220 apartments fall into 4 blocks with 15 sub blocks of stilt plus four floors each, with a lift in every sub block. There are 5 Diesel generator sets (DG) of varying capacity covering all the blocks and 7 bore wells to supply water to the residents. There is a club house, party halls, 3 guest bedrooms, swimming pool, gymnasium, landscaping and waterfall, sewage treatment plant and covered car parking.

Common services include security, common house keeping services, on site plumber and electrician, treated sewage water removal, DG back up for lift and individual apartment, in addition to occasional purchase of water for residents.

There are apartments of 7 different areas with a difference between the smallest and the largest being 395 sqft. The first MC has taken charge of collecting maintenance from June 2012.

Initially, the MC proposed to continue with the PSQF method charged by the builder and tried to arrive at a rate with the available data.

In such a situation, the owner of the largest flat had to bear an additional Rs.790 (@Rs 2/- PSQF) as compared to the owner of the smallest size apartment, for no extra benefit. Owing to protest from the majority large flat owners, the PSQF idea was shelved and a decision was taken to experiment with a flat rate of Rs.2500 per flat from June 2012. Of course, the minority smaller flat owners were not happy and recorded their protest against the flat rate method.

Both the above methods are arbitrary and do not have a scientific back up, but simple arithmetic.

The problems we are confronted with are:

1. Varied size apartments.
2. There is no link between the sizes of the apartment the number of occupants in the apartment.
3. Gymnasium is not used by some residents.
4. Swimming pool is not used by some residents.
5. Party hall/club house is not used by many residents, whereas some of them have been using the same continuously for conducting/ availing extra curricular activities.
6. Some residents have purchased 2 car parks whereas others have single car parking in the basement.
7. Unoccupied apartment (32% approx).

In addition to the unoccupied category, we have the following situation:

Apartments remaining unoccupied for a short duration (one or more months):

- People lock up their apartments for a few months when they have an assignment abroad.
- Go out on vacations during summer holidays.
- Sometimes there is a gap in renting the apartment as a result of which it remains unoccupied.

The following were noted in this case:

- a. Cost has not been classified into fixed maintenance cost and variable (running) cost.
- b. Variable cost and occupancy have not been linked. All costs are presumed to be fixed.

In the present scenario, the cost per apartment is calculated by using the following formula:

$$\frac{\text{(expenses + arbitrary premium)}}{\text{total number of members}}$$

But the expenses considered here comprise of variable cost (which has been incurred by the 68% resident population) and 100% of some fixed cost like security and house keeping. Since 32% is unoccupied, the proportionate variable cost is not incurred yet.

i.e. Expenses = 68% variable expenses + 100% of some fixed expenses + arbitrary premium

Critical fixed expenses like Annual Maintenance Charges on lift and DG have been ignored. Hence, as the occupancy improves and/or fixed costs are incurred (lift/DG breakdown), current maintenance cost of Rs.2500 per apartment will not be sustainable. The variable cost like diesel consumption for Diesel Generator, Sewage disposal, water consumption (purchased and bore well) and corresponding power consumption will go up and the MC will have to present a review of rates.

It was observed that, by charging both fixed and variable cost to the unoccupied apartments, the members of the unoccupied apartments are compelled to bear the running expenses (variable cost) which was never incurred by them.

Maintenance imposed under the **Majority Decision** rule has not gone well with some members owing to the conflict of interest in the decisions.

The MC currently charges the member a fee for accessing the club house and party hall and guest bedrooms (which again is not derived scientifically) whereas there were no plans regarding the allocation/absorption/recovery of swimming pool and gym cost.

It was also noted that the revenue generating potential of Gymnasium and Swimming pool has been ignored. The lease rental from these sources can be used to maintain the assets and surplus if any can enhance the corpus fund. This will avoid a situation of abandoning the asset due to high cost of maintenance or enforcing a compulsory charge on every member to maintain the asset. The opportunity of renting the Party hall to the non members at an enhanced rate (based on the recommendation of members) is also not explored.

Since The Riviera by Casa Grande has a lot of fixed assets (club house, swimming pool, 15 lifts, 5 Diesel Generators, Sewage treatment plant, gym equipment, common air conditioner, bore well motors etc.) non provision for repair/replacement cost in the future will affect the sustainability of all the assets/ facilities. Prudence demands a decision to put the assets to good use and earn revenues towards the above objective.

The above case study highlights the problems faced by the MC's and members of housing societies where non-scientific methods are used in arriving at and allocating maintenance cost. If maintenance costing is made mandatory for housing societies, all the above problems can be sorted out on a scientific and logical basis. In addition, the MC can be guided in making prudent cost/ financial decisions.

Numeric data courtesy - Ms Jothika Sibal - Casa Grande Private Ltd and Mr Parthiban - Casa Propcare pvt ltd. Period of study June 2012 to Aug 2012.