

EDITORIAL

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President Lim Lan Yuan's Speech

The new Council took office after the recent Association's Annual General Meeting held on 4 July 2003. A few new faces were inducted in the Council while some of the older members were retained to provide continuity.

The single most important priority of the new Council is to raise the activity profile of the Association and to contribute to the practice of property and facility management. The accreditation of managing agents (MAs) is one such task. With the establishment of more management corporations (MCs) in Singapore, particularly those residential MCs, the control and supervision of management work in these strata titled developments need not be over-emphasised. The Association together with the Singapore Institute of Surveyors and Valuers (SISV) has worked out an accreditation scheme for MAs. This proposal was submitted to the Building and Construction Authority for endorsement. It is hoped with the introduction of the

accreditation scheme, a higher level of professionalism could be achieved in strata title management.

We take cognisance of the recent advances in technology and how they would impact on property and facility management. An important task is to organise more continuing professional development courses to update our members, and to form joint working groups with allied local and overseas bodies for the purposes of acquiring new know-how and learning about the latest developments in the field. It is hoped that these efforts will help to improve the general competencies and skills sets of the profession to meet the changing circumstances in the new knowledge-based economy.

We want to establish more dialogues with members and look forward to your continuing support and participation in the various activities.



6th APFM COUNCIL 2003/2005 • OUR OFFICE BEARERS

Seated from right: Raymond Wong - Hon Secretary, AP Lim Lan Yuan - President, Teo Poh Siang - Vice President, Florence Ong - Council Member
Standing from left: Jeffrey Chua - Council Member, Reymond Fernandez - Council Member, Alfred Chng - Asst Hon Treasurer, Dennis Tan - Hon Treasurer, Wan Fook Kong - Council Member, Jordan Neo - Council Member, Ramesh Daryanani - Asst Hon Secretary, Philip Poh - Immediate Past President

Is your M C ready for the task of self-management?

MCs without the expertise or resources to run their estates effectively should entrust them to professional MAs

This article was previously published in BT and was contributed by Knight Frank Estate Management

– By Jordon Neo

THE management council is usually vested with full authority to handle the management, maintenance and administration of an estate, as well as funds which can easily amount to millions of dollars.

But just as its powers are wide-ranging, so are its responsibilities and liabilities under the Land Titles (Strata) Act (L TSA).

In reality, most council members do not have the time to discharge the duties and responsibilities of a full-time property manager, attending to myriad problems and day-to-day management of the estate.

L TSA has therefore made provisions allowing for the appointment of managing agents (MAs) to help the council to discharge its duties. MAs can relieve the management council of its daily chores, allowing it to focus on the more strategic needs of the estate.

YOU NEED RELEVANT SKILLS

Estates, which are bigger than 100 units generally do need the services of a full-time maintenance staff. They usually would have sufficient work and complexity of content to justify engaging a full MA. Likewise, such estates can enjoy the benefit of sharing the cost involved with more owners.

However, council members of smaller estates often find it difficult to justify engaging an MA. A common explanation is that such an estate would have few facilities and hence 'nothing' much to be maintained. This is a simplistic view arising out of a lack of proper understanding of the total needs of an estate.

For a simple building without facilities, apart from physical maintenance for 'out of sight' equipment

such as water tanks, pumps, switch gears, lifts etc, there are also the financial and administrative functions to look after. Often these aspects are played down and attended to on a loose basis until something happens.

In addition, there is a need to look at routine matters such as cleaning, security, landscape, as well as out-of-ordinary issues such as burst water pipes or power failure.

BE PREPARED TO SHOULDER LIABILITIES

In the event of an exposure, would the Errors and Omissions policies commonly taken up for management councils grant you full protection?

Often exclusion clauses are attached. It is important therefore to be aware of possible exposures and take steps to protect the management corporation and your position as a council member.

PROFESSIONAL JUDGMENT

In reality, professional MAs do go beyond simply making sure that the grounds are swept. It is amazing how sometimes major decisions with long term implications are made by management councils consisting of individuals who do not have the necessary skills. In such situations, the existence of a professional MA could obviously help improve the quality of the decisions taken.

MAS AS MEDIATORS

An effective MA can breach gaps in possible areas of dispute such as cleaning, parking allocation, obstruction of common property, enforcing arrears in maintenance collection or rectification works for inter-floor leakages. Being a professional third party, with no potential conflict of interest, it is easier to play a successful mediator role in bridging gaps between affected parties.

AN IN-HOUSE MANAGER AS AN ALTERNATIVE?

In a larger estate where the cost of engaging an in-house manager is about the same as the cost of engaging an MA, it may appear viable to go in-house. But one must not forget that the council would not enjoy the benefit of being able to draw on the broader experience and support of the MA which is usually a company.

To be effective, the in-house person must be an all rounder, not only in the area of maintenance but in administration and accounting as well. He must also be trustworthy. In reality, such staff are difficult to come by.



Even if an individual with such a broad range of skills can be employed, would he be too costly? Would he survive the tough challenge of being on the job without backup?

There is also a final aspect of having to manage the staff or liabilities of the council if an in-house staff fails to discharge his duty according to the provisions of the Act.

In the situation above, a professional MA can help to strike a balance between skills of the staff available by supplying complementary services through the support from the MA's company. The overall cost may be slightly higher but the estate enjoys some of the benefits of having an MA.

LOOKING FOR OPTIONS

If your estate is relatively small and would like to explore ways of keeping your management cost down, before plunging into the self-management option, try alternatives such as reducing your onsite cost. If after some analysis, there is no real need for a full-time building supervisor, why not consider a maintenance technician instead.

Alternatively, you may – if the situation permits – do away with a full-time staff and get an MA to cover your maintenance needs through their head office executives.

However, it is important to appreciate that each compromise has its drawbacks and you should seek professional advice before proceeding. Generally, it is advisable for councils of new management corporations to start by engaging the MA so that at least they can have the benefit of learning the ropes.

CONCLUSION

It is fair to conclude that the need for a professional MA generally decreases with size of a development but increases with complexity.

In-house management with all its attraction of potential cost savings may make sense in a relatively small estate of say less than 10–20 units.

However, for it to work well, council members with the relevant experience must be willing to make themselves available to fully derive the benefits of such savings.

However, in reality, your management council is likely to change over the years. Your present management may be competent and highly devoted but the next team may not be. Would there be continuity in the management of the estate then?

Benefits of Strategic Energy Procurement in the New Electricity Market (NEM)

Martin Lim, President, TED Development Corporation Pte Ltd, B. Civil Eng (NUS)

Strategic Energy Procurement (SEP) is a cost-effective, systematic and efficient method of energy management consultancy. Though still in its infancy stage in Singapore, it is rapidly emerging as a highly-valued service delivering substantial savings to property owners and building operators.

Liberalisation of the Singapore electricity market is finally here. For over 30 years, the Singapore electricity industry had been vertically integrated and Government owned. In 1995, despite being one of the smallest markets, Singapore became the first country in Asia to kick-off de-regulation of the electricity market. Under the New Electricity Market (NEM), electricity will be traded between generator companies and retailers through a “real time” wholesale electricity market, a computer-based wholesale auction market set up and administered by the market operator – Energy Market Company (EMC).

Generator companies submit bids to the wholesale electricity market to sell electricity for each of their generator sets. Retailers procure electricity from the wholesale electricity market to serve end consumers. The wholesale market is subject to spot prices which can be volatile. A liberalized electricity market creates healthier competition among electricity suppliers allowing market forces to dictate the pricing of electricity.

Companies that have been declared contestable can procure energy independently from licensed electricity retailers. The process of achieving contestability and procuring energy from a licensed retailer is simply termed Strategic Energy Procurement or SEP.

SEP is a systematic, cost-effective and efficient method of energy procurement. It is rapidly gaining popularity among clients in the commercial and industrial sectors where energy consumption constitutes a significant amount of their operating expenditure. When applied correctly and with good management commitment, it is a highly efficient tool in turning a cost-centre into a revenue-generating centre.

The Energy Market Authority (EMA) was formed on 1 April 2001 to take over the regulatory functions of PUB whilst functioning as the power system operator

for the electricity and piped-gas markets. The Energy Market Company (EMC) was formed and tasked as the market operator of the new wholesale electricity market. Power Supply Ltd will eventually exit from the market as an energy retailer to become a Market Support Service Licensee (MSSL) focusing on metering and billing services and as the retailer of last resort.

On 24 June 2002, the EMA commenced the eight-week trial for a new software to manage dynamic energy trading in the New Electricity Market (NEM). The software comprises two distinct areas – energy market clearing engine and market settlement system (managed by the Energy Market Company or EMC and the electronic business transaction and retail settlement system managed by Power Supply Ltd. Several changes including check and balance mechanisms as well as co-optimisation for energy, regulation and reserve have been made to the revised electricity pool in the NEM.

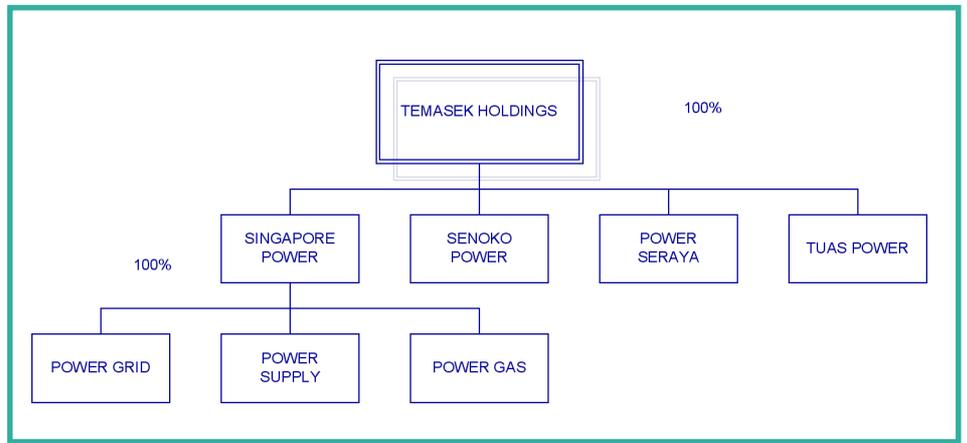
Currently, the licensed retailers in Singapore are: Tuas Power Supply Pte Ltd, SembCorp Utilities Pte Ltd, Keppel Electric Pte Ltd, Senoko Energy Supply Pte Ltd, Tractebel Asia Pte Ltd, Marubeni Petroleum and Seraya Energy Pte Ltd.

DIVESTMENT STRATEGY

The next stage of de-regulation is the 100 percent divestment of the three

generation companies owned by Temasek Holdings – Tuas Power, Power Seraya and Senoko Power.

The authorities will ensure that market equilibrium and reliability of supply are maintained while simultaneously fine-tuning the deregulation process so that prices are market driven and not influenced by regulatory or market power forces.



Current ownership structure

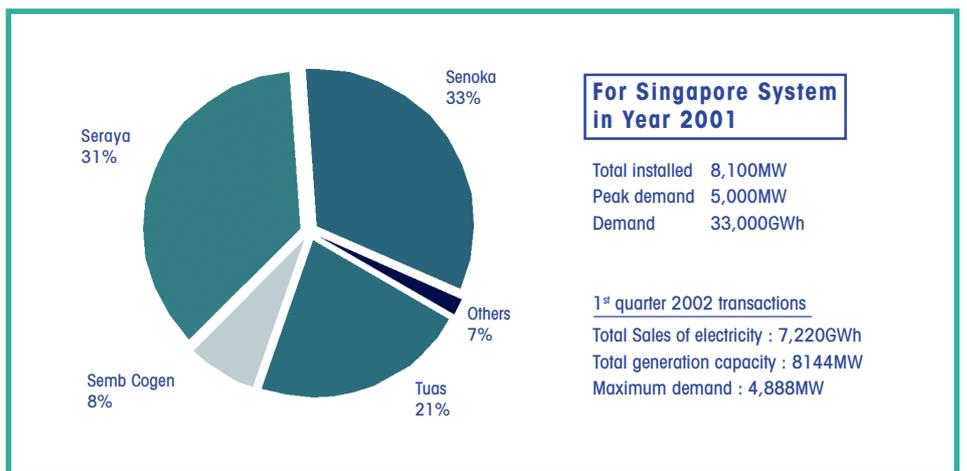
CURRENT ELECTRICITY ENVIRONMENT

According to statistics released by the Energy Market Authority (EMA), electricity sales for the first quarter 2002 was 7,220 GWh which is 2.4% higher than the same quarter last year. This increase was due to a 4.6% rise in domestic sales. Non-domestic customers increased by a further 1.9%. Currently, non-domestic customers comprise 80% of the total sales.

TIMELINES FOR LIBERALISATION

EMA has taken a phased approach in liberalizing the electricity retail market. Although the fully liberalized market is expected to be liberalized in the first quarter of 2003, consumers with High Tension (HT) or Extra High Tension (EHT) and a maximum power requirement of 2 MW have been made contestable on a case-by-case basis since July 2001. Further liberalisation of the retail market is expected to take place after the introduction of the NEM.

Currently, around 200 contestable consumers with a contracted capacity of 2 MW and above can opt to procure energy from an independent retailer. By 2003, another 6,000 consumers with an



Market Share by Installed Capacity

For Singapore System in Year 2001

Total installed	8,100MW
Peak demand	5,000MW
Demand	33,000GWh

1st quarter 2002 transactions

Total Sales of electricity	: 7,220GWh
Total generation capacity	: 8144MW
Maximum demand	: 4,888MW

Source: Tuas Power Supply Pte Ltd

annual energy consumption of at least 240,000 kWh will be able to participate in the NEM. This will be followed by a further 5,000 consumers subsequently. Retail contestability will progressively cascade to the remaining 1 million consumers including households eventually.

STRATEGIC PROCUREMENT STRATEGIES IN THE NEM

In the NEM, a contestable consumer will have the choice to buy electricity as follows :

- From the wholesale spot market directly

as a wholesale market participant;

- From the wholesale spot market through Market Support Services Company; or
- From a licensed electricity retailer through an agreed electricity purchase contract

Power Supply Ltd (PSL), a subsidiary of Singapore Power Ltd, will continue to supply to non-contestable consumers as SP Services but will cease to be an electricity retailer when the market is fully liberalized. Instead, SP Services will be the Market Support Services Licensee (MSSL) to provide market support services such as consumer registration, meter reading, billing and bill collection. MSSL will also be the retailer of last resort.

A Paradigm Shift is needed in the mind-set of Council Members of all MCSTin the custodian of management and sinking funds.

*An article by Mr David Tham,
MD of Dawson Property
Management Pte Ltd*

TRUSTEES ACT

Investment of Monies in Maintenance, Management and Sinking Funds

Before constitution of the management corporation under the Land Titles (Strata) Act, maintenance charges are paid to the developer. According to Section 10(2) of the Buildings and Common Property (Maintenance and Management) Act, the developer shall hold all monies in the maintenance fund on trust for the owners and purchasers of all the flats in the development.

Section 10(3) lays down how the developer shall deal with the funds. The monies:

- a) shall be deposited with any bank licensed under the Banking Act or the POSB or
- b) *may* be invested in such investments or securities as are for the time being authorised for the investment of *trust funds*.

After the constitution of the management corporation, the surplus monies in the maintenance fund are transferred to the management corporation. The power of a management corporation with respect to the investment of monies in the

management and sinking funds is provided in Section 50(a) of the Land Titles (Strata) Act, which reads:

A management corporation *may* subject to the regulations made under this Act, invest any moneys in its management fund and in its sinking fund in any manner permitted by law for the investment of trust funds.

Note the use of word “*may*” in the said section [as well as in Section 10(3) of the Buildings and Common Property (Maintenance and Management) Act]. This provides the management corporation with the discretion whether or not to invest the trust funds. In practice, where the funds are not substantial, the management corporation would merely keep them in the bank to earn interest, pending the use of the funds for the purposes of running the management corporation.

As no regulations were made under the Land Titles (Strata) Act in respect of the investment of monies, we need only refer to the Trustees Act (Cap 337, 1985 Ed) which governs the investment of trust funds. The said Act provides that the trustee may invest trust funds in the following authorised investments:-

- (A) Government Securities
- (B) Immovable Properties
- (C) Company Equities & Unit Trusts
- (D) Negotiable Certificates of Deposits (NCDs)

With the Trustees (Amendment) Act coming into effect since 26 June 1992, a bigger range of investment opportunities is provided for under the Act.

It is now time for the council members of MCST to reflect and be responsible for the public monies under their custody. Time of just simply putting into fixed deposits in banks are no longer the only way out. In the end, a paradigm shift in the mind set of council members is needed most urgently.

As a matter of fact, just talking about last year 2002, if you had placed your money in normal bank deposits, you were actually getting some 10% of interest earned as compared to your previous years. (assume you have some \$2 million and you have been getting say at 3%, that would be about \$60,000 in a year. But now, at 0.7% you have only \$14,000 in a year.)

We do not want the council members to be super financial managers, but with the help of the proliferation of financial advisors in town, one would be able to find out the best method to park your hard earned money. A good food for thought with less risk would be our Government Bonds, HDB Bonds, just to name a few. (They are paying some 5.5% per year for at least 5 year bond)—the question is Why Not?

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- Guarantees employment security for performing employees

Call **Jordan Neo, Managing Director**, at Tel: **63723000** or email: jordanneo@kfem.com.sg for a private discussion on any aspect of property or facility management.

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