

WHY DEBT COLLECTION IS THE LIFEBLOOD OF A SECTIONAL TITLE?

(By Elwin Els)



Elwin Els

Why Reliable Levy Recovery Determines the Financial Health and Stability of Every Community Scheme.

In most businesses, if a customer doesn't pay, the business absorbs the loss, tightens its belt, and looks for new revenue elsewhere. A body corporate has no such luxury. It cannot sell a product, chase new customers, or trade its way out of a shortfall. Its only source of income is the levies contributed by the very owners it serves. That single fact is why debt collection is not an administrative afterthought in a sectional title scheme — it is the mechanism that keeps the scheme solvent, functioning, and legally compliant.

This makes a body corporate structurally different from almost any other financial entity. Its budget is not a forecast of what it hopes to earn — it is a calculation of what it needs to spend, divided among owners according to participation quota. Every rand of that budget assumes one thing: that the levies raised will actually be collected. The moment collection falters, the assumption underpinning the entire budget falls away. This also has a direct and immediate effect on services the scheme can provide the members with.

The obligations don't wait for the money

The reason cashflow matters so acutely is that a scheme's expenses are overwhelmingly fixed, recurring, and non-negotiable. Consider what a typical body corporate must pay, month in and month out:

- **Municipal accounts** for water, electricity, sewerage, and refuse — often the single largest line item, and one where arrears attract interest and the risk of disconnection.
- **Insurance premiums**, which the STSMA requires the body corporate to maintain for the buildings and common property. A lapsed policy exposes every owner in the scheme to catastrophic risk.
- **Security, cleaning, garden services, and repairs** — the day-to-day upkeep that preserves both the living environment and the value of the units.
- **Managing agent and professional fees**, audit costs, and statutory levies such as the CSOS contribution.

None of these creditors are interested in the reason a scheme is short. The municipality does not waive interest because three owners are in arrears. The insurer does not extend cover on goodwill. These obligations fall due on their own timetable, and the scheme must meet them from cash it has in hand. When levy collection lags, the body corporate is forced to pay tomorrow's fixed costs with money that hasn't yet arrived — and frequently never does or even worse, cut out costs leading to an erosion in value and lifestyle for owners in general.

The domino effect of poor collection

Weak debt collection rarely stays contained. It sets off a chain reaction that compounds with every cycle.

It begins as a simple timing gap: a handful of owners fall behind, and the scheme's bank balance dips below what the month's expenses require. To keep the lights on, trustees delay a municipal payment or defer a repair. The municipal account starts accruing interest and penalties, so the scheme now owes more than the original shortfall. Maintenance that was postponed becomes more expensive to carry out later. If the pressure continues, trustees may be tempted to draw on the reserve fund to cover operating costs — quietly hollowing out the money set aside for long-term repairs and replacements.

Meanwhile, the shortfall created by non-paying owners is, in real terms, being carried by the owners who do pay. They are subsidising their neighbours. When those owners eventually see a special levy raised — often the visible symptom of a collection problem that was left to fester or inadequate budgeting — resentment sets in, and levy compliance across the scheme tends to weaken further. A scheme with a reputation for financial distress becomes harder to sell into and harder to let, unit values soften, and the arrears book grows. What started as three late payers can, if unmanaged, mature into a full cashflow crisis.

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Collection is a legal duty, not a discretion

WIt is worth being clear that pursuing arrears is not merely good practice — it is part of the trustees' and the managing agent's fiduciary responsibility. The body corporate has a statutory duty to recover the contributions levied on owners, and the STSMA and the Prescribed Management Rules provide the tools to do so, including the right to charge interest on overdue amounts and to recover the reasonable costs of collection. This unfortunately further drains cashflow and is often hampered by schemes being unable to pay legal fees, causing delays in an already extremely delayed legal system.

Effective collection means predictable cashflow

Turn the picture around and the value of disciplined collection becomes obvious. A scheme that collects consistently enjoys something rare and valuable: predictability. When levies arrive on time, the trustees know precisely what cash is available, the budget behaves as intended, and the administrative fund covers operating costs without improvisation.

That predictability is what allows a scheme to preserve your investment by:

- **Paying its creditors on time**, avoiding interest, penalties, and the reputational damage of a disconnected supply or a lapsed policy.
- **Protecting the reserve fund**, so that planned maintenance actually happens and owners are shielded from sudden special levies.
- **Maintaining the common property properly**, which directly supports — and often lifts — the market value of every unit in the scheme.
- **Plan with confidence**, budgeting for the future rather than firefighting the present.

Good cashflow is not a happy accident. It is the direct product of a collection process that is prompt, consistent, and applied without exception: levies invoiced on time, arrears identified early, reminders and interest applied as the rules allow, and escalation to CSOS or legal recovery when engagement fails. The schemes that stay financially healthy are almost always the ones that treat the first missed payment as an immediate call to action, not a matter to watch.

Conclusion

A sectional title scheme lives or dies on the reliability of its income, and its income is nothing more than the sum of the levies it manages to collect. Effective debt collection is therefore not a peripheral function of body corporate administration — it is the function that makes every other function possible. Without it, budgets are fiction, creditors go unpaid, reserves are eroded, and the value of the property itself is placed at risk. With it, the scheme has the one thing it needs above all else to serve its owners: cash in hand when the bills fall due.



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