

Owners Corporation Budget Guide – Planning for Essential Safety Measures (ESM)

A practical checklist for Strata Managers and Committees preparing annual building budgets.

Many buildings treat fire compliance as a single line item in the Owners Corporation budget.

In practice, Essential Safety Measures are easier to plan for when they are separated into several distinct budget categories, covering routine servicing, defect rectification and longer-term compliance obligations.

The section headings in this guide represent ESM-related budget line items that can be used by Owners Corporations. When preparing the Owners Corporation budget, committees may find it useful to consider each of these categories separately.

This checklist highlights the key items that should be reviewed when planning funding for each of those categories.

1. ESM Service Contractors

(Annual servicing and compliance oversight)

Confirm that all systems listed on the **Occupancy Permit** are covered by an appropriate contractor appointment.

Typical service areas may include:

- Wet fire systems (sprinklers, hydrants, hose reels)
- Dry fire systems (fire detection, alarms, FIP)
- Mechanical ventilation / smoke control systems
- Lift servicing (including fire service mode)
- Passive fire inspections (fire doors, penetrations, fire walls)
- Paths of travel inspections
- ESM compliance monitoring, auditing and AESMR signing

Things to consider when budgeting

- Confirm contractor appointments align with the systems listed on the Occupancy Permit
- Check whether **periodic testing routines** (eg 5-year or 10-year inspections) are included within contractor appointments or treated as additional works

- Ensure the servicing program supports accurate **AESMR compliance reporting**

Where periodic routines are not included in the standard servicing contract, they will generally need to be planned for separately (see Section 2).

2. Periodic Compliance Testing Cycles

(Major inspection routines required under AS1851)

Some Essential Safety Measures require inspection and testing routines at intervals greater than annual servicing.

AS1851.2012 identifies several key asset groups where these periodic inspections apply. If your building contains any of the following systems, periodic inspection routines will apply at defined intervals:

- Sprinkler systems
- Fire pump sets
- Hydrant systems
- Fire water storage tanks
- Fire detection and alarm systems
- Special hazard fire protection systems
- Fire extinguishers
- Fire and smoke control features of mechanical services

Depending on the system, these assets may require **5-year, 10-year, 25-year and sometimes 30-year inspection routines** to verify system condition and performance.

These major routines are often not included in standard servicing contracts and can represent a significant cost if they have not been planned for.

- Review the **ESM audit report** to identify which periodic routines apply to your building and when they are expected to occur.

Where the timing of the next routine is unclear due to historical documentation gaps, your ESM auditor can liaise with the servicing contractor to estimate when the next routine is likely to fall due.

Budget guidance

- If these routines are more than one year away → you should consider funding them through the **Long Term Maintenance Plan (LTMP)**
- If a routine is due within the next budget period and has not previously been planned → it may need to be included in the **administrative budget**

Including these items in the LTMP allows committees to save gradually rather than face large one-off expenses.

3. Defect Rectification Allowance

(Addressing defects identified through inspections and audits)

Review the defect schedule from the most recent ESM audit report. AS1851 recommends that:

- **Critical defects are rectified immediately**
- **Non-critical and non-conforming defects are rectified before the next annual inspection**

- Confirm critical defects have already been addressed
- Allow funding for non-critical and non-conforming defects

If defects from previous audit reports remain unresolved, they should generally be prioritised for funding in the upcoming budget period.

In circumstances where financial constraints prevent rectification within the recommended timeframe, some committees attempt to prioritise works using a risk-based approach considering:

- Likelihood of failure or incident
- Consequence if the system does not perform as intended

While this approach does not replace the rectification expectations set out in AS1851, it may provide a practical method for prioritising works when immediate full rectification is not achievable.

If the urgency or validity of a defect is unclear, your ESM auditor can assist with reviewing and prioritising rectification works.

Funding timing

Owners Corporations typically collect levies quarterly.

If urgent rectification work is required early in the financial year, waiting for levy income to accumulate may delay necessary safety works.

Committees may need to consider alternative funding options such as:

- Special levies
- Short-term financing arrangements

4. Building Risk Review (BRR)

(Independent review of broader building safety risks)

A **Building Risk Review** assesses safety and governance risks beyond routine ESM servicing.

- Review findings from the most recent BRR
- Consider whether any risks should be addressed during the upcoming budget period

As a general guide:

- **High-risk issues** should typically be budgeted for rectification
- **Medium-risk issues** should be considered and prioritised alongside other compliance works

5. BRR Rectification Works

(Funding improvements identified through the BRR)

Where risks or safety issues have been identified through a Building Risk Review:

- Consider funding rectification works in the upcoming budget
- Stage works where appropriate based on risk priority

Funding timing

Where higher-risk issues require early attention, committees may need to consider whether available levy income will be sufficient to fund the works within the required timeframe.

If not, alternative funding mechanisms such as **special levies or financing** may need to be considered.

Budget Planning Note

Budget preparation does not require perfect pricing. An indicative estimate or incumbent contractor quote is usually sufficient to establish a budget allowance

Once funding is approved, competitive quotations can be obtained before works commence.

Final Thought

Buildings that actively manage their compliance and risk profile are generally safer places to live and manage, and this level of oversight increasingly influences how buildings are perceived by insurers, purchasers and property professionals.

Delaying rectification rarely reduces cost. Over time, inflation, system deterioration and regulatory expectations tend to make compliance work more complex and more expensive.

Planning ahead allows committees to address safety and compliance risks methodically rather than reactively.

Prepared by

Focus Building Risk & Compliance
Independent ESM Auditors – Melbourne