

## **FAQ ON TOWN COUNCIL INVESTMENTS**

### **1) What kind of funds do Town Councils have?**

All Town Councils maintain two funds: an operating fund for our day to day operations expenditure, and a sinking fund, to cater to the long-term cyclical maintenance expenditure needs of the common property in HDB estates.

These funds come from the monthly Service & Conservancy Charges (S & CC) as well as grants from the Government.

### **2) Why is there a need for Town Councils to accumulate sinking funds?**

As more and more flats get older, Town Councils need to maintain sinking funds to finance long-term cyclical works such as replacement of lifts, water supply systems, repainting, re-roofing, electrical re-wiring works as well as repairs and redecorations.

In addition, the Town Councils use sinking funds to co-pay for lift upgrading so that residents pay a smaller portion of the total cost.

By accumulating sinking funds over time, our residents do not have to pay an additional lump sum each time one of these major works needs to be done. For example, lift replacements are carried out every 28 years on average.

In total, the Marine Parade Town Council manages about 68,847 HDB flats or 628 HDB blocks. After almost two decades of accumulation, our Town Council's sinking fund amounts to about \$168 million or just over \$250,000 per HDB block. This is not excessive as cost of cyclical maintenance is substantial; for example, the overhaul cost of just one lift for a 12-storey block can cost about \$100,000.

### **3) What is our sinking fund now?**

Our sinking funds have been growing and is being managed well. The size of our sinking funds has grown steadily over the years. We had \$97.5 million as of 31 March 2004 and this has grown to about \$168 million as of 31 March 2008.

#### **4) How are our sinking funds managed?**

Majority of our funds are placed in Fixed Deposit, statutory and government bonds. We also invest part of the sinking funds through fund managers that are carefully vetted and selected by our Tender and Finance Committee (TFC) and approved by the Council.

Appointment of fund managers are evaluated against criteria such as performance of the fund managers, fees charged and mandate to be given. Our Town Council takes a prudent and diversified investment approach with an aim to achieve a reasonable return over the long run that will protect our funds against erosion by inflation, but also help to increase the overall value of the sinking funds.

Our TFC members include professionals with finance and accounting background. They review the fund managers' performance with the fund managers on a regular basis.

#### **5) What is our exposure to Lehman Brothers' Minibonds?**

We did not invest in Lehman Brothers' Minibonds. However, we do have \$350,000 of exposure to Lehman Brothers' corporate bonds, which were included by our fund manager in its diversified investment portfolio. This amount accounts for 0.2 per cent of the Town Council's total sinking funds.

#### **6) Can the TCs guarantee that their investments will always generate net positive returns? What actions will be taken to prevent future investment losses like these?**

All investments carry an element of risk. From time to time, some investments may not deliver the projected returns depending on market conditions as portfolio is marked to market value in accordance with the Financial Reporting Standards in Singapore. However, our approach is to be prudent and diversify our sinking fund with the aim of achieving a reasonable return over the long run. This is necessary because the sinking funds are used for long term projects such as replacement of lifts and water supply systems as well as repainting, re-roofing and electrical re-wiring works.

**7) Will future improvements in HDB estates be postponed or affected? Will there be insufficient funds left to support ongoing or future projects?**

The Town Councils' funds are healthy and intact and we would like to assure residents that all our upgrading/ improvement projects and cyclical works will not be compromised and will proceed as planned.

**8) How will the Town Council ensure that residents are kept informed of their finances?**

Financial statements and annual reports are made available at our Town Council's website <http://www.mptc.org.sg>.

**9) Will Town Council increase Service & Conservancy Charges (S & CC) because of Lehman Brothers' exposure?**

Our financial position is healthy. There are sufficient funds for MPTC to meet all our daily operations and maintenance. There will not be an increase of S & CC due to our small exposure to Lehman Brothers' corporate bonds.

We wish to reassure our residents that their estate is well-looked after and that there are sufficient funds for the proper maintenance of their town, both now and in the longer-term.