

Building Reserve Funds – a workable model for Scotland

Final Report

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Executive Summary

Context

Scotland faces a critical challenge in managing and maintaining its tenements and flatted buildings. With over 900,000 flats across the country, 45% of properties show disrepair to critical elements, whilst complex decision-making processes, insufficient financial capacity and lack of awareness of building condition continue to hold back essential maintenance work. This crisis is compounded by Scotland's commitment to reach net zero by 2045, requiring almost all homes to switch from fossil fuel heating to zero-emissions systems—a transition that flat owners are currently ill-equipped to manage.

The Scottish Parliament's Tenement Maintenance Working Group identified three interconnected solutions in 2019: five-yearly building inspections, compulsory owners' associations, and mandatory building reserve funds. Whilst progress has been made on owners' associations through the Scottish Law Commission's review, the other recommendations remain unaddressed. This research, commissioned by Under One Roof with funding from the MCS Foundation, examines how building reserve funds could operate effectively in Scotland, drawing on international experience and stakeholder engagement to develop practical recommendations.

Key Findings

International Experience Provides Clear Direction

Lessons can be learned from the approaches to building reserve funds in Germany, the Netherlands, Ireland, Spain, and France. All five countries mandate participation in building reserve funds, recognising that voluntary approaches lead to systematic underfunding. Contributions remain with the property upon sale, ensuring continuity. However, each country has learned that without clear guidance on minimum contributions, owners tend to set inadequate levels—several have strengthened regulations in recent years to address this shortfall.

European experience suggests that reserve funds work most effectively when linked to long-term maintenance planning and regular building inspections. Professional property management and appropriate banking infrastructure are critical enablers, though even well-established systems face challenges with suitable banking products and owner reluctance to contribute adequately.

Building Reserve Funds Must Form Part of an Integrated System

This research concludes that building reserve funds cannot operate in isolation. They require supporting infrastructure including compulsory owners' associations with legal personality, five-yearly building inspections, appropriate banking products, accessible financing mechanisms, effective enforcement, and enhanced awareness of the obligations and costs of flat ownership. Without this integrated approach, reserve funds risk becoming an ineffective policy intervention.

The optimal approach requires owners' associations to determine annual contributions at their AGM, with these contributions being "reasonable" and informed by five-yearly maintenance inspection reports. Where inspection reports do not exist, associations should agree alternative mechanisms until such reports are in place. Contributions should be apportioned according to titles and the Tenement Management Scheme, with funds held separately from operational accounts and used only for specified purposes including major repairs, energy efficiency improvements, and clean heating installation.

Implementation Requires Careful Phasing and Support

Given Scotland's starting point—limited professional property management outside Glasgow, lack of suitable banking products, and significant cultural barriers—a phased implementation is essential. The research recommends mandatory participation from the outset, learning from European experience that voluntary approaches fail, but with careful sequencing of requirements and robust support mechanisms.

Early phases should focus on building awareness, enabling the market to develop appropriate banking products, and supporting voluntary adoption to create successful examples. The Scottish Government should introduce legislation establishing compulsory owners' associations in 2026, with building reserve funds as a mandatory duty, but allow time for awareness-raising, product development, and capacity building before enforcement begins.

Banking Infrastructure Requires Development

Scotland (and the wider UK) currently lacks banking products specifically designed for owners' associations and building reserve funds. The introduction of compulsory owners' associations with legal personality will address many barriers to accessing banking services, and mandatory reserve fund requirements will create market demand for approximately half a million property owners in Scotland alone.

The research recommends a blended approach, with the market providing a range of products—from traditional banks offering interest-bearing accounts to e-money institutions providing advanced digital platforms—supported by government or local authority backstop arrangements for those unable to access mainstream products. A Tenement Maintenance Finance Short Life Working Group should bring together government, banking representatives, and stakeholders to develop appropriate solutions.

The Backlog Challenge Requires Multiple Financing Mechanisms

Scotland's significant backlog of repairs presents the most challenging obstacle to implementing building reserve funds. Many buildings will require years, if not decades, to accumulate adequate reserves whilst simultaneously addressing existing disrepair. The research identifies multiple financing mechanisms required to support owners in addressing this backlog, recognising that whilst owners should fund works, government intervention is necessary to ensure fairness and prevent vulnerable households from being left behind.

Market-led solutions should provide the foundation, with owners' associations enabled to access credit collectively—debt resting with the association rather than individual owners. Credit unions and community interest companies like Lendology could develop tailored products for lower-income owners. Equity-release schemes could support asset-rich but income-poor households, particularly older owners. Property-linked finance—where debt attaches to the property rather than the individual—offers a potential solution by spreading costs fairly across those who benefit from improvements. Grant funding must remain available as a backstop for households unable to access alternative financing.

Conclusions

The current approach to tenement maintenance in Scotland is failing. Without intervention, building conditions will continue to deteriorate, and flat owners will be unable to participate in the transition to clean heating required to meet net zero commitments. Building reserve funds, implemented as part of an integrated system, offer a sustainable solution to these long-standing challenges.

European experience demonstrates that mandatory systems with clear contribution guidance are essential. Scotland should learn from these experiences, introducing requirements that address identified weaknesses whilst adapting to the Scottish context. The research strongly supports mandatory participation in building reserve funds, incorporated into forthcoming owners' association legislation, with contributions informed by five-yearly building inspections and appropriate enforcement mechanisms.

Implementation must be carefully managed with awareness-raising, market development, and capacity building preceding enforcement. Multiple financing mechanisms must be available to address the backlog of repairs affordably and fairly. The banking and finance sector must be supported to develop appropriate products, whilst vulnerable households require targeted support.

Building reserve funds represent not just a financial mechanism but a fundamental cultural shift towards proactive, planned maintenance of Scotland's tenements. This change will take time, requiring sustained commitment from government, stakeholders, the property industry, and flat owners themselves. However, with the right legislative framework, adequate support mechanisms, and phased implementation, building reserve funds can become a cornerstone of effective tenement management, ensuring that this substantial segment of Scotland's housing supply is maintained for current and future generations.

Recommendations

The research makes 19 detailed recommendations across five key areas:

Establishing the Framework (Recommendations 1-4): Mandate participation in building reserve funds as a duty of owners' associations; require five-yearly maintenance inspections and block buildings insurance; establish that contributions must be "reasonable" and informed by inspection reports, apportioned according to titles.

Determining and Enforcing Contributions (Recommendations 5-9): Provide non-statutory guidance on contribution methodologies; enable Ministers to introduce statutory minimums through secondary legislation if necessary; specify permitted and prohibited uses of funds; establish enforcement through First-tier Tribunal; enhance Home Report requirements for transparency.

Managing and Holding Funds (Recommendations 10-13): Support creation of blended banking approaches with market-provided products; ensure backstop products for financial inclusion; establish a Tenement Maintenance Finance Short Life Working Group; support growth and professionalisation of property management services.

Addressing the Backlog (Recommendations 14-19): Enable owners' associations to access credit collectively; engage with Scottish/UK Investment Banks; work with credit unions and Lendology; explore equity-release schemes; expedite property-linked finance introduction; ensure grant funding availability as backstop.

These recommendations form a comprehensive programme for transforming tenement maintenance in Scotland. Their implementation will require coordinated action across government, the financial sector, the property industry, and local authorities, supported by sustained political commitment and adequate resourcing. The alternative—continuing with the current failing system—will see Scotland's tenement stock deteriorate further, flat owners unable to afford necessary maintenance, and the net zero transition leaving hundreds of thousands of households behind.

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1. Introduction

Managing common repairs and maintenance of tenements and flatted buildings in Scotland is complex and challenging. The absence of a culture of pro-active management and maintenance, alongside complex (often unworkable) titles, has contributed to a lack of maintenance, resulting in a significant proportion of properties now being in critical disrepair.

On top of this, over the next 20 years, the vast majority of Scotland's homes, including flats, will need to switch from fossil fuel heating such as gas boilers, to clean, zero emissions heating such as heat pumps or heat networks.

Without action to help flat owners understand the condition of their buildings, to simplify decision making, and to address the cost of works, people living in flats will be left behind in the transition to clean heat, and the condition of Scotland's tenements will continue to deteriorate.

The Scottish Parliament's Tenement Maintenance Working Group identified three key and interconnected recommendations to in its report of 2019¹:

- Tenement buildings should be subject five yearly building inspections;
- Compulsory owners' associations should be established for every tenement building; and
- Owners should be required to contribute to a building reserve fund.

While the Scottish Government has made progress on compulsory owners' associations, the other two recommendations have not progressed.

Previous research commissioned by the Scottish Government² and reporting in 2023, was intended to enable the Scottish Government to take forward the building reserve fund workstream and to determine the level of monetary commitment required by tenants and landlords.

This new research report does not repeat that previous research project, instead focusing on how building reserve funds could potentially operate in Scotland to support more effective management and maintenance of common works and enable flat owners to fully participate in the transition to energy efficient homes with clean heating.

Specifically, this report:

- Examines international approaches to building reserve funds, drawing lessons from Germany, the Netherlands, Ireland, and Spain;
- Explores the practicalities of how building reserve funds should be established, managed, and maintained, including consideration of protections required to ensure funds are used appropriately and that vulnerable owners are not disadvantaged;
- Considers the interactions between building reserve funds, owners' associations, and building inspections as an integrated system;

¹ [Working Group on Maintenance of Tenement Scheme Property – Final Recommendations Report](#), RICS, May 2019

² [Provision of Building Reserve Funds \(BRF\) for Tenement Dwellings, Diffley Partnership, February 2023](#)

- Assesses different policy options for implementation, including the scope of any legislation, minimum contribution requirements, and timescales for phased introduction;
- Addresses the challenge of Scotland's maintenance backlog and how this interacts with forward-looking reserve funds;
- Makes recommendations on actions required by government to enable progress to be made.

This research has been commissioned by Under One Roof, with funding from the MCS Foundation.

The intended audience for this report includes policy makers in the Scottish Government and Scottish Parliament, housing professionals, property factors, owner representatives, and other stakeholders involved in the management, maintenance, and retrofit of Scotland's flatted properties.

2. Background

Domestic heating accounts for around 13% of Scotland's total greenhouse gas emissions, and the Scottish Parliament has committed to Scotland reaching net zero by 2045. This will involve almost all homes in Scotland switching from fossil fuel heating to zero emissions systems such as heat pumps or heat networks. Most homes will also require energy efficiency improvements to reduce the amount of energy needed to heat the homes, reducing pressure on the grid, and reducing the cost of heating homes.

There are over 900,000 flats in Scotland³, and decarbonising these will be particularly challenging. Without changes to tenement law, there is a risk that flat owners will be left behind, unable to arrange and pay for the required works.

However, before we even consider how to pay for these energy efficiency and decarbonisation works, there remain significant challenges in terms of flat owners simply maintaining their properties. The Scottish House Condition Survey has found disrepair to critical elements, central to weather-tightness, structural stability and preventing deterioration of the property, stood at 45% in 2023 across all house types⁴.

In spite of changes in tenement law over the past 25 years, through the Title Conditions (Scotland) Act 2003, Tenements (Scotland) Act, Housing (Scotland) Act 2006, Housing (Scotland) Act 2014, as well as the Property Factors (Scotland) Act 2011, the challenges around decision-making and paying for common repairs have not been addressed.

There remain significant policy and legislative gaps that are directly impacting on the condition and safety of Scotland's tenements and flats.

The Scottish Parliament's Tenement Maintenance Working Group identified three key and interconnected recommendations:

- Tenement buildings should be subject five yearly building inspections that would be available to existing or prospective owners and tenants, neighbours, and policy makers;
- Compulsory owners' associations should be established for every tenement building to provide leadership and enable effective decision-making, along with an ability for groups of owners to enter into contracts; and

³ [Scottish House Condition Survey, Scottish Government, 2023](#)

⁴ [Scottish House Condition Survey: 2023 Key Findings](#), Scottish Government

- Owners should be required to contribute to a building reserve fund, with minimum payments based on statutory guidelines and an assessment of repair risk.

The Scottish Law Commission (SLC) was asked by the Scottish Government to review the law of the tenement in Scotland and make recommendations on establishing compulsory owners' associations. This work is currently underway⁵ and a report is expected to be submitted to the Scottish Government in early 2026.

While the SLC report will consider building inspections and building reserve funds to an extent, it is not expected to include substantive content on either of these recommendations.

While progress on compulsory owners' associations is welcome, a step change in the maintenance of flats will not be achieved unless two other major hurdles are addressed:

- The lack of awareness and understanding of the condition of buildings; and
- The lack of capacity of flat owners to pay for substantive works.

If, as is anticipated, tenement law is to be changed to allow for the establishment of compulsory owners' associations in the second half of the 2020s, there is an opportunity (or perhaps a necessity) also to consider the how the framework enables the establishment of building reserve funds.

3. Methodology

This research builds on a number of previous research projects, therefore the first stage was to conduct a literature review to minimise the risk of duplication, and to identify gaps in information.

This project then sought to fill gaps where possible, through further desk-based research. This included identification of UK and international approaches to building reserve funds. In particular, the research considered models in France, Germany, Ireland, the Netherlands and Spain, considering how legislation has evolved over time, property management culture, and relevant banking/financial services in those countries.

Discussions were held with a range of stakeholders involved in the management and maintenance of flats to consider the key features of building reserve funds and to explore operational aspects of building reserve funds.

A selection of outline models was then developed, with these being tested with stakeholders to understand the strengths and weaknesses of different approaches, and their applicability to the Scottish housing context.

These models included:

1. A light-touch approach, where legislation requires owners to contribute to building reserve funds, but with a minimal role for government in terms of specifying contributions or how funds should be used;
2. A more prescriptive approach, whereby legislation requires owners to contribute to building reserve funds, and specifies the mechanism for determining contributions and how funds can be used;
3. A prescriptive approach with government-backed deposit scheme.

⁵ [Discussion Paper on Tenement law: compulsory owners' associations](#), Scottish Law Commission, April 2024

These models formed the basis of stakeholder interviews, with recommendations on the key principles of building reserve funds being informed by these discussions, as well as learning from UK and European experiences.

Analysis of current banking and financial products was carried out to establish availability of suitable products. Gaps were identified and subsequent discussions with banking and financial industry stakeholders held to consider potential options, barriers, and opportunities.

Finally, an analysis of policy options was carried out, considering applicability to the Scottish context.

The following definitions have been used in this report:

Maintenance Account	A maintenance account is used to hold money for specific upcoming repairs. The Tenements (Scotland) Act 2004 sets out the rules for setting up and managing maintenance accounts. They must: <ul style="list-style-type: none"> - Be held in a bank account or building society - Be interest-bearing accounts - Require at least two owner signatures or the property manager’s authorisation for making payments
Float	A float is a small advance payment, usually kept in the maintenance account or by a property manager/factor. It is used to ensure that money is available to deal with minor repairs quickly, without having to take time to contact each owner.
Building Reserve Fund	A fund that builds up over time, contributed to by all owners, and is used to fund planned renewal, major repairs and improvements.
Sinking Fund	Another name for building reserve fund

4. Learning from European and UK Experiences

Approximately 47.5% of the European Union’s population live in apartments⁶ – higher than in Scotland, where 32.4% of households live in flats⁷.

Countries across Europe have, over the years, been developing policy approaches that are aimed at supporting effective management and maintenance of apartment buildings, as well as paving the way for increased retrofit activity to upgrade energy efficiency and switch away from fossil fuel heating.

The EU Energy Efficiency Directive (EED)⁸ requires that member states remove regulatory and non-regulatory barriers to energy efficiency, including around decision-making where multiple owners are involved. Specifically, the Directive requires members states to “simplify administrative procedures, including national rules and measures regulating decision-making processes in multi-ownership properties, and the possibility to turn to third-party financing solutions.”

⁶ [Housing in Europe – 2023 edition - Interactive publications - Eurostat](#)

⁷ [Scotland’s Census 2022 - Housing | Scotland's Census](#)

⁸ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023L1791>

There are opportunities to learn from these experiences – in particular from those states which have amended legislation in recent years in light of their own experiences and lessons learned.

There are examples within the UK that can be drawn upon when considering potential building reserve fund models. These are also explored in this section.

Overview of European experiences

The table below summarises the key features of building reserve funds across the five European countries considered in this research. Flat owners in all of these countries are legally required to contribute to building reserve funds. Features common amongst all five are:

- Contributing to building reserve funds is mandatory
- Deposits remain with the fund on sale of property
- Separate bank accounts required for building reserve funds
- There are established systems of collective ownership/governance and professional management is common practice.
- All have challenges with underfunding of building reserve funds.

	Spain	Germany	Netherlands	Ireland	France
Legal Framework	Horizontal Property Law (Ley de Propiedad Horizontal 49/60)	Condominium Act (WEG)	Civil Code - VvE provisions (Improvement of VvE Act 2018)	Multi-Unit Developments Act 2011 (MUD Act)	Law ALUR 2014 (Loi ALUR)
Governance body	Community of Owners (Comunidad de Propietarios)	Owners' Association (WEG - Wohnungseigentumsgemeinschaft)	Owners' Association (VvE - Vereniging van Eigenaren)	Owners' Management Company (OMC)	Syndicat des Copropriétaires
Minimum contribution	Minimum 10% of last ordinary annual budget	No statutory minimum - "reasonable amount" based on various methodologies	Minimum 0.5% of rebuilding value annually OR based on Multi-Year Maintenance Plan (MJOP)	€200 per unit per annum (guideline minimum)	Minimum 5% of annual budget
Calculation methodology	Fixed percentage of budget; amount set by owners' meeting	Various methodologies available (square meterage, property value, building age); decided by community	Either 0.5% of rebuilding value OR amount determined from MJOP	Guideline of €200/unit but OMC can set higher based on BIF report	Minimum 5% of budget; can be increased by majority vote
Fund purpose	Conservation, repair, rehabilitation works, accessibility	Major repairs/renovations to common property, modernisation,	Emergency repairs, general maintenance, major works	Refurbishment, improvement, non-recurring maintenance,	Works in Multi-Year Plan, emergency works, energy

	Spain	Germany	Netherlands	Ireland	France
	works, building insurance	insulation, roof/heating/window replacement	identified in MJOP	future capital expenditure	efficiency, safety works
Link to building maintenance survey/plan	None specified in law	None specified in law	Multi-Year Maintenance Plan (MJOP) required OR 0.5% minimum applies	Building Investment Fund (BIF) report recommended every 5 years (but 86% of MUDs lack one)	Multi-Year Work Plan (Plan Pluriannuel de Travaux - PPT) required for buildings 15+ years from 2023
Enforcement	Mandatory contribution; non-payment can lead to legal action and property lien	Mandatory through WEG law; enforced via property management	Banks increasingly require active VvE with reserves for mortgage approval; legal enforcement possible through courts	Service charge debt recoverable as simple contract debt through courts	No specific sanctions for non-establishment but syndic mandate can be cancelled for non-compliance within 3 months

Sources: Based on Spanish Horizontal Property Law, German WEG legislation, Dutch VvE regulations (2018 reforms), Irish MUD Act 2011, French ALUR Law 2014, and associated research reports including SCSi (Ireland) studies on sinking funds.

Spain

Spanish apartment ownership is governed by Ley de Propiedad Horizontal⁹, originally enacted in 1960, but significantly amended in 1999 and 2013.

When purchasing an apartment or property within a multi-unit development in Spain, owners automatically become members of a Community of Owners (Comunidad de Propietarios), a legally constituted entity that manages common areas and shared expenses.

Owners are required to contribute to a reserve fund (Fondo de Reserva) in accordance with their participation quota (cuota de participación) – this is determined when the community of owners is established and reflects titles.¹⁰

The reserve fund is owned by the community of owners, and the initial requirement was that it was required to contain an amount no less than 2.5% of the “community’s ordinary budget”. However, this was later increased to no less than 10%.¹¹

Reforms in 1999 improved debt collection processes with a fast-track judicial process, limited voting rights for non-paying owners and strengthened the role of community president. If an apartment is

⁹ Ley de Propiedad Horizontal, Government of Spain, 1999

¹⁰ <https://www.spainlawyer.com/legal-guide/the-community-of-property-owners-in-spain/>

¹¹ <https://www.hoffmann-realestate.com/en/blog/horizontal-property-law>

sold, the new owner may be held liable for community debts from the last three years, unless the situation was previously clarified.¹²

As well as contributing towards maintenance and repair work, the reserve fund may be used to fund building insurance costs or to employ a contractor to maintain the property.

Further amendments to the Horizontal Property Law in 2022 to encourage energy efficiency and renewable energy related works. Voting thresholds were reduced to a simple majority for such works.

The 2022 reforms allowed communities of owners to access credit to fund renovations to communal areas, and the costs became allowable general expenses.

Spanish banks offer specific loan products for communities for owners, such as UCI's "REHABITA Loan", which is aimed at energy efficiency upgrades.¹³

These products are designed to work alongside grant funding which can also be accessed by communities of owners.

Germany

Around 62.7% of Germany's population live in apartments¹⁴. Under the German Law on Condominium Ownership and Permanent Residence Rights (Wohnungseigentumsgesetz or WEG¹⁵), apartment owners automatically become members of an owners' association at the point of purchase. As part of this they are entitled to "proper administration", and Section 19 of that legislation, states that "proper administration" specifically includes:

- The proper maintenance of the common property
- Appropriate insurance of the common property at replacement value
- The accumulation of an appropriate maintenance reserve

The maintenance reserve is owned by the owners' association, not the individual owner, therefore the contributions are not recoverable on the sale of the property.

The law does not specify contribution levels beyond "the accumulation of an appropriate maintenance reserve", with appropriateness being dependent on age, condition and amenities (eg lift and other common parts).

Owners' associations determine the level of contributions annually, as part of budget preparation - generally undertaken by the property management company. Contributions are then generally included in monthly fees paid to the property management company.

There is a variety of methodologies for calculating contribution levels:

- **Percentage of building value:** approximately 0.8-1.5% of the construction or replacement value per year
- **Age-based contributions** based on guidance for reserves for social housing¹⁶
 - o Younger than 22 years - €7.10 per square metre per year

¹² [Ibid](#)

¹³ <https://uci.es/en/rehabilitation-of-buildings/community-loan-simulator/>

¹⁴ [Housing in Europe – 2023 edition - Interactive publications - Eurostat](#)

¹⁵ [Law on Condominium Ownership and Permanent Residence Rights](#), Bundesministerium der Justiz und für Verbraucherschutz

¹⁶ https://www.gesetze-im-internet.de/bvo_2/BJNR017190957.html

- Between 22 and 32 years - €9.00 per square metre per year
- Older than 32 years - €11.50 per square metre per year
- **Peters' formula** – based on an assumed 80-year lifespan and requiring maintenance costs equal to 1.5 times the construction cost (excluding land and development costs). 65-70% of this would relate to common property.¹⁷
- **Hauff's formula** - based on current market value and assumes 25% of the purchase price is allocated to jointly owned property, which will require repairs every 50 years.

Case law in Germany has resulted in contributions being increased on the grounds that they are not appropriate for proper management, with the court determining that a reserve at “the amount that a prudent and forward-looking owner would set aside is appropriate”.

To illustrate, the case AG Neustadt a. Rübenberge, AZ: 20 C 687/114 found in favour of an owner who challenged a decision by the owners' association not to increase contributions from €2.50 to €7.10 per square metre per year.

The court determined that a maintenance reserve contribution of €2.50 per square metre is unreasonable and that the amount in the reserve (€2,200) was insufficient to fulfil its purpose. The court ruled that contributions to the maintenance reserve should be increased to €7.10 per square metre per year.¹⁸

Reviewing literature relating to the German system suggests that prospective buyers will consider the level of the reserve when considering a purchase. A reserve that is too low could be indicative of a backlog of renovations, while an adequate and continuously funded reserve is indicative of a well-managed and responsible community of owners.

It is also highlighted that lenders will often consider reserves when assessing financing, with the level of reserves influencing creditworthiness.¹⁹

While there are some banking products designed for German WEG's, the market is limited, with those banks that do offer suitable accounts, typically offering low or zero interest rates.

Some tailor-made accounts exist, for example TEN31 Bank offers an account specifically for owners' associations and reserves, however these are targeted at property managers rather than the associations themselves.

With the TEN31 Bank products, a general manager account is available, with a separate reserve account also available. Deposits of up to €100,000 are protected and there are no account management fees. There are also loan products available.²⁰

Digital platforms such as Matera offer integrated WEG banking accounts with separate accounts for reserves and operational funds.²¹

The Matera online portal allows all owners to view and track income and expenditure.

¹⁷ <https://www.vr.de/privatkunden/themenwelten/wohnen-immobilien/bauen-kaufen/instandhaltungsruecklage.html#faq-5c2064a921-item-a22a08e7e4>

¹⁸ https://www.haufe.de/immobilien/verwaltung/instandhaltungsruecklage-welche-hoehe-ist-angemessen_258_304254.html

¹⁹ <https://www.rudowski-hausverwaltung.de/immobilienwissen-blog/instandhaltungsruecklage-in-der-weg/>

²⁰ <https://ten31.com/produkte/>

²¹ <https://matera.eu/de/artikel/ruecklagenkonto-weg>

Netherlands – Vereniging van Eigenaren

Approximately 18.7% of the Netherlands population lives in apartments²². At the point of purchase, apartment owners automatically become members of a homeowners' association (Vereniging van Eigenaren or (VvE)).

In 2008 it became mandatory for VvEs to establish a reserve fund. Owner contributions and the value of the reserve fund were not specified in law, however, with research indicating that 51% of VvEs had insufficient reserves to carry out maintenance. This resulted in the law being amended in 2018 through the Improvement of the Functioning of Owners' Associations Act.

This requires a reserve fund of at least 0.5% of the building's reconstruction value or, where the VvE believed that this would result in an excessive reserve fund, contributions can be based on a multi-year maintenance plan (MJOP), if one has been established.

The 2018 legislation also made it easier for VvEs to take out loans by removing joint and several liability for the debt. The new legislation also allows the debt to be transferred on sale to a new owner.

Compliance with the requirements is not monitored or enforced by government, however the legislation enables individual owners to legally enforce the minimum contribution.²³

Research²⁴ carried out in 2021 identified that 97% of VvEs larger than eight apartments have a reserve fund, with 84% of VvEs reserves being based on a MJOP. The research found that 24% of VvE managers reported difficulties opening bank accounts, with a significant number also identifying the deposit guarantee cap of €100,000 per VvE as a barrier.

The research found that banks are increasingly adding fees and other costs to the bank accounts, with a suggestion that the number of banks offering these accounts may be contracting.

Ireland

While only around 10.2% of the population lives in flats²⁵, lessons can be learned from Ireland's experience following the introduction of legislation in 2011 requiring the establishment of sinking funds.

The Multi-Unit Developments Act 2011²⁶ requires that a sinking fund is developed for all Multi-Unit Developments (MUDs). Owners' Management Companies (OMCs) are required to hold sinking funds in a separate bank account, however the level of contribution is not specified, although the Act includes a guide of €200 per unit per year "or such other amount as may be agreed by a meeting of the members".

The Act gives Ministers powers to make regulation prescribing:

- a) A class or classes of expenditure may be incurred by a sinking fund
- b) The procedures to be following in setting contributions to the sinking fund

²² [Housing in Europe – 2023 edition - Interactive publications - Eurostat](#)

²³ <https://m2advocaten.nl/en/ginio-en-2/legislative-improvement-of-functions-of-the-owners-association-vve-effective-1-january-2018/>

²⁴ Companen, Onderzoek reserveren en presteren (Research on Reserving and Performance), 2021 (commissioned by VvE Belang (Dutch homeowners' association interest group)).

²⁵ [Housing in Europe – 2023 edition - Interactive publications - Eurostat](#)

²⁶ [Multi-Unit Developments Act 2011](#), Law Reform Commission, Updated to 28 May 2019

- c) Matters to be taken into account in the setting of such contributions
- d) The arrangements for levying and payment of such contributions, and
- e) The thresholds of expenditure (by reference to amounts of expenditure or by reference to the proportion of sinking fund) which necessitate approval of the members of the owners' management company.

A report by the Society of Chartered Surveyors of Ireland (SCSI)²⁷ in 2024 found that 88% of MUDs do not have adequate sinking funds in place, with 9% having no sinking fund at all. The report found that the average sinking fund contribution is between €200-300 per apartment per year, compared to an estimated contribution requirement of €2,000 per year.

The main challenges identified were:

- Lack of owner awareness or misunderstanding of purpose of sinking funds, with many owners viewing them as for occasional, one-off repairs rather than an essential part of long-term viability.
- Owner resistance to paying higher service charges and preference for paying “as and when” costs arise.
- Missing Building Investment Fund Reports, which are used to quantify costs and inform contribution levels.

The SCSI report recommended that:

- The guide figure of €200 set out in the 2011 Act should be removed.
- The Minister should stipulate that a Building Investment Fund report must be prepared by the Owners' Management Company (OMC) every five years and that AGMs should take account of such reports in deciding on sinking fund annual contributions.
- The legislation should be updated to include a mechanism to enforce the collection of sinking fund contributions and their protection from inappropriate use.

One of the key lessons from the Irish experience is that the lack of inspection reports (BIF Reports) is believed to be one of the main reasons for inadequate sinking funds. Without robust information on how much money is likely to be needed, it is difficult to make the case for money to be set aside for future maintenance and replacement costs.

France

In France, 33.6% of homeowners live in apartments²⁸. The legislative framework governing the management of co-ownership buildings was established in Law 65-557 in 1965, establishing the status of co-ownership buildings and owners' associations (syndicat des copropriétaires) with legal personality.²⁹

This legislation was modified in 2014, introducing mandatory registration for co-ownership buildings, mandatory dedicated bank accounts, and a mandatory requirement to establish reserve funds (fonds de travaux) for any building with over 10 units.³⁰ This replaced a previously optional contingency fund.

²⁷ [Real Cost of Apartment Block Maintenance: examination of sinking funds](#), SCSI, October 2024

²⁸ [Housing in Europe – 2023 edition - Interactive publications - Eurostat](#)

²⁹ https://www.legifrance.gouv.fr/loda/article_lc/LEGIARTI000043977289

³⁰ <https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000028772256>

Contributions to the reserve fund remain with the building and are not recoverable at sale. They must be held separately from the provisional budget which covers day-to-day management costs, maintenance contracts, and small repairs/maintenance works.

As of 2025, under the Climate and Resilience Law 2021, most buildings are also required to have a multi-year maintenance plan (Plan Plurianuel de Travaux or PPT) setting out a schedule of major works over a 10-year period, including energy efficiency improvements³¹.

The reserve fund is used to finance:

- The preparation of the PPT;
- Completion of works identified in the PPT, adopted by the annual general meeting of the owners;
- Urgent works as determined by the property manager; and
- Works necessary to safeguard the building, protect health and safety of occupants, and achieve energy savings, not provided for in the PPT.

Use of the reserve fund is prescribed in law; they must not be used for routine maintenance, and release of funds must be agreed by the co-owners.³²

As establishing the fund is mandatory, the co-owners are not required to vote on its establishment. Co-owners are required to vote on:

- The opening of a specific bank account to hold contributions to the fund; and
- The annual amount of contributions. This is agreed each year.

The minimum contribution varies depending on whether or not there is a PPT in place.

The fund contribution amount is set by the owners' association at an annual meeting, however it must be no less than 5% of the forecast budget for delivering the PPT. Once a PPT has been adopted by the owners' association, the annual contribution can be reduced to no less than 2.5% of the estimated costs of works.

The owners' association can agree to suspend contributions in two cases:

- When the amount of contributions to the fund exceeds the amount of the provisional budget; or
- When the amount of the funds exceeds the amount of work provided for in the adopted PPT by 50%

The reserve funds must be held in a separate interest-bearing account in the name of the syndicat des copropriétaires. The bank account can be opened in a banking institution chosen by the property manager or by the general meeting of co-owners.

³¹ https://www.legifrance.gouv.fr/jorf/article_jo/JORFARTI000043957111

³² <https://www.service-public.gouv.fr/particuliers/vosdroits/F34026>

A number of French banks offer tax free, interest-bearing Livret A accounts, which is a standardised, government regulated product with interest rates set by the state twice a year. There is a ceiling of €76,000 for blocks with fewer than 100 units and minimum balance of €10.³³³⁴

Lessons from international experience

While all five countries reviewed have mandatory building reserve funds for flatted properties, there are some variations in terms of approach.

Key Observations:

- There is likely to be a tendency for owners to set contribution levels below what would be required to deliver an adequate building reserve fund.
- Experience suggests that it is beneficial to have clear guidance on appropriate contribution amounts. Where this has been lacking, a number of countries have amended law to clarify or introduce minimum contributions.
- Contribution levels range from Germany's flexible "reasonable amount" to Spain's prescriptive 10% of budget.
- Enforcement tends to be property manager or owner-led, with limited role for state monitoring and enforcement.
- In some countries, contributions are linked to long term plans - Netherlands, France, and Ireland through mandatory multi-year maintenance plans, while Germany and Spain rely more on annual assessment.
- Building reserve funds can act as a selling point, being indicative of a well-managed and maintained building.
- Lack of understanding of the purpose of the building reserve funds, along with a lack of building condition information can reduce owners' willingness to contribute to the funds.
- It is the norm that contributions remain with the fund on the sale of a property.
- Most countries have established property management industries that manage works and the funds.
- Building reserve funds are held separately from accounts for ongoing management, eg stair cleaning and lighting. Accounts are generally interest-bearing, with interest earned belonging to the block/building.
- While some banks do provide tailored products, may use mainstream banking products. The lack of suitable banking products has been reported as a challenge in some countries.
- In spite of limited banking options, there remain high compliance rates in the Netherlands.
- There has been significant legislative reform in recent years in a number of countries, seeking to overcome barriers to energy efficiency and renewable heating/cooling investment in apartment buildings.

³³ <https://www.palatine.fr/professionnels-reglementes-immobilier/banque-coproprietes/epargne-copropriete/>

³⁴ <https://www.generali.fr/actu/ouverture-livret-copropriete/>

- Property-linked finance, where the debt is passed on to subsequent owners, has been introduced in some countries.
- In some countries owners' associations can access credit, with the debt resting with the association rather than individual owners. This can sit alongside grant funding which can also be accessed by the owners' association.

UK approaches

Hacking and Paterson

Hacking and Paterson operates across Scotland, providing a range of factoring services to meet different needs (and different titles).

In one Hacking and Paterson model that is particularly relevant to this research, titles contain a clause that states that “the superiors shall establish and maintain a Major Maintenance Fund specifically for funding any extraordinary or non-recurring items of repair, maintenance, renewal, or replacement to the property or building or the common parts...”.

The titles stipulate that, on the sale of the property, the selling owner will be required to pay a contribution to the Major Maintenance Fund based on length of ownership – for each complete year of owners, the selling owner is required to pay 0.5% of the price paid towards the Major Maintenance Fund.

McCarthy Stone

McCarthy Stone is one of the UK's foremost providers of retirement housing, building homes for sale, rent and shared ownership.

For some properties, McCarthy & Stone has created titles³⁵ which specify that, on selling a property, a fee of 1% of the sale price must be paid to the factor, to be used to provide a contingency fund for costs and anticipated costs of major items of capital expenditure, including repainting or renovation of the exterior, replacement of the lift, repair of the roof, and generally for meeting costs and expenditure incurred less frequently than once a year.

The contingency fund is held by the factor in trust for the owners.

England – leasehold/commonhold

The UK Government published the Commonhold White Paper in March 2025³⁶, setting out proposals to reform commonhold, with a view to it replacing leasehold homeownership for flats in England and Wales. The proposals are targeted at new build properties.

One of the key elements of the proposed reforms is that reserve funds will be mandatory for all commonholds.

Key features of the reserve fund proposals are:

- All commonholds must establish at least one reserve fund.
- Commonholds may establish several reserve funds for different purposes (eg general costs, specific items like lift repairs).

³⁵ Title Sheet REN98684, ScotLIS

³⁶ [UK Government Dept for Housing, Communities and Local Government, Commonhold White Paper: proposed new commonhold model for homeownership in England and Wales, March 2025](#)

- The legislation will not mandate specific contribution amounts – unit owners will collectively decide how much to pay.
- Commonhold associations may commission reserve studies (inspections) to inform adequate funding levels.
- For persistent non-payment, under certain circumstances, commonhold associations could apply to the court for an expedited order to sell a unit.

5. Principles of Building Reserve Funds

This section considers and assesses the key principles for structuring building reserve funds in Scotland. In particular, it considers:

- Should building reserve funds be mandatory or voluntary?
- Should there be minimum contribution requirements?
- How should contribution levels be determined?
- How should the use of building reserve funds be determined?
- How should contribution to building reserve funds be enforced?

Mandatory or voluntary?

Option 1: Voluntary approach with incentives - Owners' associations are encouraged but not required to establish building reserve funds, with incentives such as tax benefits for contributions, preferential mortgage rates for properties with active funds, and grant funding to support establishment.

Option 2: Mandatory requirement - Legislation requires all owners' associations to establish and contribute to building reserve funds.

Option	Pros	Cons
Option 1 - Voluntary approach with incentives	<ul style="list-style-type: none"> • Less politically contentious. • Respects owner autonomy. • Allows market to develop organically. 	<ul style="list-style-type: none"> • European evidence suggests can lead to non-participation. • Creates inequality between well-managed and poorly managed buildings. • Fails to address maintenance crisis comprehensively. • Does not support Scotland's climate obligations effectively. • Leaves vulnerable owners in buildings without funds at greater risk.
Option 2 - Mandatory requirement for all flat owners	<ul style="list-style-type: none"> • Creates level playing field across Scotland. • Addresses maintenance crisis systematically. • Supports climate objectives more effectively. • Provides certainty for owners, lenders and insurers. 	<ul style="list-style-type: none"> • May be politically contentious. • Requires robust implementation framework. • Needs careful phasing to avoid market disruption.

Stakeholder engagement supports a mandatory approach, with a strongly held belief that without a legislation driver, minimal progress will be made.

Minimum contribution requirements:

Building on a mandatory requirement to participate in building reserve funds, three options have been identified in relation to determining contributions.

Option 1: Mandatory participation, no prescribed minimum contributions - Legislation would require all flat owners to contribute to the building reserve fund with owners’ associations determining contribution levels based on their building’s needs.

Option 2: Mandatory participation, with minimum contributions guidance (non-statutory) - Legislation would require contributions, with the Scottish Government issuing guidance on recommended minimums (e.g., based on property type, age, value). Owners’ associations can choose to follow guidance or to set own levels and guidance would be reviewed and updated periodically.

Option 3 - Mandatory participation, with statutory minimum contributions - Legislation would specify minimum contribution levels or formulae for calculating contributions (based on: property value %, building age, property type, survey findings). Owners’ associations would be able to agree to exceed minimum contributions but not go below. A regular review mechanism would need to be built into legislation.

Option	Pros	Cons
<p>Option 1 - Mandatory participation, no prescribed minimums</p>	<ul style="list-style-type: none"> • Maximum flexibility. • Less prescriptive – respects local decision making. • Simpler legislation. 	<ul style="list-style-type: none"> • European evidence shows this leads to inadequate contributions. • Risk of "race to the bottom" as associations set low levels to avoid conflict. • Creates inequality - some buildings well-funded, others chronically underfunded. • May require later legislative intervention (as Europe shows), creating uncertainty. • Doesn't address affordability concerns in transparent way.
<p>Option 2- Mandatory participation with minimum contribution guidance (non-statutory)</p>	<ul style="list-style-type: none"> • Provides a clear benchmark without being rigid. • Can be updated more easily than legislation as evidence emerges • Gives associations clear starting point. • Helps normalize appropriate contribution levels. • Flexibility for buildings with special circumstances. 	<ul style="list-style-type: none"> • Guidance without teeth may be ignored. • Risk of creating two-tier system (those who follow guidance v those who don't). • Potential confusion about whether guidance is mandatory. • May still lead to inadequate funding in some buildings.

Option	Pros	Cons
Option 3 - Mandatory participation with statutory minimum contribution	<ul style="list-style-type: none"> • Learns from European experience – addresses problem upfront. • Creates level playing field. • Provides certainty for owners, lenders and market. • Ensures adequate funding from outset. • Easier to enforce and monitor compliance. 	<ul style="list-style-type: none"> • Less flexibility for associations with unique circumstances. • Requires more complex legislation. • Risk of setting minimum standards too high (unaffordable) or too low (inadequate). • Harder to amend if formula needs adjustment. • May be politically unpopular.

European experience suggests that requiring contributions without specifying minimums can lead to underfunding. In the Netherlands, a reserve fund obligation existed from 2008, but without a specified minimum amount. Research subsequently showed that 51% of VvEs had insufficient reserves. In response, the Netherlands amended its legislation in 2018 to require a minimum annual reservation of 0.5% of the rebuilding value (or an amount based on a Multi-Year Maintenance Plan).

Germany's approach of requiring a 'reasonable amount' without statutory minimums has provided flexibility but created variation in fund adequacy across buildings.

Ireland's guideline of €200 per unit per annum has similarly proven insufficient, with research showing 78% of developments have reserves funded below 25% of long-term requirements.

However, given the low starting point in Scotland, and the extent of culture change required, a phased approach may be preferable.

Determining contribution levels

While some of the examples considered during this research did not specify minimum contribution levels, experience from several countries suggests that setting a minimum contribution may be advantageous. Irrespective of whether legislation specifies a minimum contribution level, guidance will be required to assist flat owners and owners' associations to determine 'reasonable' contributions.

Based on desktop analysis of international and UK examples, along with discussions with stakeholders, a selection of methodologies for determining contribution levels has been identified.

Approach 1: Construction costs – An example is Germany's Peter's formula, where contributions are determined based on a formula which assumes 1.5 times the construction costs will be needed over an 80-year period, with 70% relating to common property. Contributions are determined using the formula:

$$\text{Construction costs per m}^2 \times 1.5 \div 80 \times 0.7 \times \text{area in m}^2$$

Approach 2: Property valuation - This approach could be based on market valuation, sale/purchase price. An example is Germany's Hauff's formula - based on current market value and assumes 25% of the purchase price is allocated to jointly owned property, which will require repairs every 50 years.

Approach 3: Building reconstruction value – In Germany, a reconstruction-based approach requires contributions at approximately 0.8-1.5% of the construction or replacement value per year. In the Netherlands, where a multi-year maintenance plan is not in place, contributions must be at least 0.5% of the building's reconstruction value per year.

Approach 4: Property valuation plus length of ownership - Contributions consider both property value and how long an owner has owned the flat, potentially reducing contributions for longer-term owners.

Approach 5: Age-based– Contributions vary based on the age of the building, with older buildings requiring higher contributions.

Approach 6: Survey-based - Contributions are based on professional assessment of the building's current condition and projected maintenance needs.

Approach 7: Points-based – For example, a fixed base amount per flat plus additional component based on size, value or other factors.

Each of these approaches has been considered in terms of affordability to the flat owner, simplicity for implementation, enforcement and market impact.

Approach	Pros	Cons
Approach 1 - Construction costs	<ul style="list-style-type: none"> • Building based – dovetails with titles/TMS. • Predictable: formula-based calculation provides certainty. Relatively straightforward ongoing administration once established. • Objective, formula-based calculation minimises disputes. • Scales with flat size, which, to a limited extent, correlates with ability to pay. • First time/lower income buyers benefit from predictability. 	<ul style="list-style-type: none"> • Requires construction costs and floor area measurements. • Could result in affordability challenge for pre-1919 building owners due to high (re)construction costs. • No adjustment for actual building condition. • Initial disputes likely over agreeing construction costs baseline. • Contributions may be too low for buildings with deferred maintenance. • Does not recognise/reward good maintenance. • Older owners in large flats may struggle with size-based contributions. • Difficult to implement in Scottish context.
Approach 2 - Property valuation	<ul style="list-style-type: none"> • Reflects both the size and quality/desirability. • Relatively easy to introduce as no additional survey required. • Transparent as home report valuations/sale prices publicly available. • Likely to be perceived as equitable. • Some correlation with ability to pay. 	<ul style="list-style-type: none"> • Flat based – risk of conflict with titles/TMS • Unpredictable. • No correlation to building condition. • Individual owner penalised for any investment that increases value. • Risk of disincentivising investment in energy efficiency/clean heating measures. • Administrative burden to update valuations. • Owners within a block may have different flat valuations and may disagree.

Approach	Pros	Cons
		<ul style="list-style-type: none"> • Penalises owners with more desirable flats (eg better views/direct garden access) when repair costs may be equal. • Affordability risk for low-income households eg older people, Right-to-Buy purchases, shared equity. • Potentially complex to set up requiring regular valuations. • Highly subjective with high risk of disputes. • Risk of market distortion. • May create penalty in regeneration areas.
Approach 3 - Building re- construction value	<ul style="list-style-type: none"> • Building based – dovetails with titles/TMS. • Requires agreement on re-construction valuation – a potential driver for common buildings insurance. • Predictable and stable over time. • Reconstruction value changes slowly. • Once value agreed, minimal scope for dispute. • Transparent for purchasers. 	<ul style="list-style-type: none"> • Lack of block insurance a major barrier. • Requires agreement on re-construction valuation. • Would require building valuation survey. • Incentive to suppress re-construction valuation creating risk of underinsured buildings. • Difficult to implement in current Scottish context with limited block insurance.
Approach 4 - Property valuation plus length of ownership	<ul style="list-style-type: none"> • Rewards long-term residents and community stability. • Recognises long-term owners may have already paid for past repairs. • Could ease burden on older owners who may be asset rich but cash poor. 	<ul style="list-style-type: none"> • Flat based – risk of conflict with titles/TMS • Penalises first time buyers and those who may have lower disposable income. • Creates inequity with perception that new buyers are subsidising existing owners. • Discourages property turnover. • Complex and potentially legally problematic. • Potentially locks owners into property.
Approach 5 – Age-based approach	<ul style="list-style-type: none"> • Building based – dovetails with titles/TMS. • Relatively simple to implement and enforce. • Recognises that older buildings typically need more maintenance. • Predictable and objective. 	<ul style="list-style-type: none"> • Does not reflect quality of building materials, maintenance or condition of building. • Well-maintained older buildings will overpay and neglected newer buildings will underpay. • Owners in older flats will pay more regardless of size/value. • May impact on valuations of older properties.

Approach	Pros	Cons
Approach 6 - Survey-based approach	<ul style="list-style-type: none"> • Building based – dovetails with titles/TMS. • Most robust and fair approach, ensuring contributions reflect condition of building. • Evidence based and defensible. • Identifies specific issues requiring funding. • Can create realistic funding targets and spread costs over time. • Professional report should reduce disputes. • Can enable planned approach which considers affordability and efficiencies. • Purchasers get clear picture of costs of ownership. • Long term impact on market positive as valuations will increasingly reflect quality/condition. 	<ul style="list-style-type: none"> • Places additional upfront costs on owners. • Surveys need periodic updating. • Surveys likely to reveal repairs that could cause affordability issues. • Owners may dispute survey findings. • Need for consistency in professional standards/methodology. • Likely impact valuations of properties – protections needed to ensure owners not locked-in to ownership.
Approach 7 - Points based – fixed base with variable component	<ul style="list-style-type: none"> • Building based – dovetails with titles/TMS. • Potentially fair as recognises equal ownership plus additional characteristics. 	<ul style="list-style-type: none"> • Requires decisions on weightings of different elements. • Complex and subjective, potentially leading to disputes.

A survey-based approach is the optimum solution, ensuring contributions are based on actual costs and reflect the condition of the building.

This approach accounts for the actual condition of the building, provides a detailed maintenance plan and can be appropriately tailored to the Scottish context.

Concerns have been expressed that a survey-based approach could have a significant impact on valuations, potentially resulting in negative-equity for some owners.

There is a risk that lenders could refuse to lend on properties with surveys showing major works, and reduce loan-to-value ratios for higher maintenance buildings. These higher risks may be reflected in higher interest rates, potentially depressing the housing market.

These are real risks that must be acknowledged, but also balanced against the longer-term benefits of property valuations better reflecting condition and the true costs of ownership.

Throughout this research stakeholders were supportive of moving towards a survey-based approach. A phased approach with protections for low-income households would mitigate many of these risks and, if implemented with caution and appropriate protections, the benefits will be improved clarity for purchasers, awareness of the whole costs of ownership, and reduced risk for lenders and insurers.

While the objective should be that contributions are informed by the actual condition of the property, it is recognised that it will take time to introduce and roll out five yearly buildings inspections.

There may be a case for an interim approach whereby, in the absence of a five yearly building inspection or other suitable survey, the means for determining contributions should be a decision for the owners' association.

An alternative could be contributions based on rebuild valuation, as is used in the Netherlands, however for this to be workable in Scotland, there would need to be a greater awareness of block rebuild valuations. This adds to the already strong case for making block insurance a mandatory requirement for owners' associations.

Determining use of building reserve funds

The SLA proposals for compulsory owners' associations is likely to include default rules for how an owners' association budget should be set and this is likely to include a requirement to budget for any work necessary under Section 8 (Duty to Maintain) of the Tenement (Scotland) Act 2004.

It is likely that this duty will be expanded to include elements relating to health and safety and the impact on other buildings.

Currently, the definition of maintenance "includes repairs and replacement, the installation of insulation, cleaning, painting and other routine works, gardening, the day to day running of a tenement and the reinstatement of a part (but not most) of the tenement building, but does not include demolition, alteration or improvement unless reasonably incidental to the maintenance."

The SLC discussion paper stated that early consultation had identified that the definition of maintenance could be expanded to include certain works that would currently be categorised as improvements.

Under current legislation owners have no obligation to improve the energy efficiency of their building, however new legislation is likely to be introduced from 2026 onwards that will be intended to simplify development of heat networks and potentially to encourage the adoption of other clean heat solutions such as heat pumps.

When determining how building reserve funds can be used, consideration needs to be given to future requirements and how the installation of energy efficiency and clean heating measures can be supported. This should include:

- energy efficiency improvements
- heating system decarbonisation
- renewable energy installations
- climate adaptation measures

Enforcement

The Scottish Law Commission³⁷ is considering a new mechanism for enforcement of payment of financial obligations through a tenement-specific land attachment, whereby the owners' association could recover costs from a non-paying owner through a security over the flat, with unpaid contributions being recovered from sale proceeds.

³⁷ Scottish Law Commission, [Discussion Paper on Tenement law: compulsory owners' associations](#), April 2024

The outcome of the SLCs work will be critical in determining the most appropriate enforcement route for building reserve funds.

Irrespective of this, the introduction of mandatory owners’ associations with a requirement to establish and contribute a reasonable amount to a building reserve fund should, in part, be ‘enforced’ through the house buying and selling process.

The Home Report could be amended to identify whether a reserve fund was in place and the value of that fund. The value of that fund would then drive the valuation and offer price – for many, this should be sufficient to drive compliance.

However, there will be a need for further enforcement mechanisms to ensure compliance.

There is limited capacity within local authorities to take on any potential enforcement duties in relation to building reserve funds, therefore alternative enforcement mechanisms should be considered.

Options include:

- **Option 1: Buildings Insurance Requirement** – this would make adequate reserve fund contributions a requirement for buildings insurance for tenements. This option would likely require engagement with the Financial Conduct Authority in relation to the insurance regulatory framework.
- **Option 2: Mortgage Requirement** – this would make reserve fund arrangements a condition of mortgage lending for tenement properties.
- **Option 3: Point-of-Sale Registration** – Reserve fund status and contributions would be disclosed at the point of sale, potentially with arrears having to be cleared before registration of title transfer.
- **Option 4: Simple Court Procedure** – this would require neighbours or those with an interest in the building to raise court proceedings as means of enforcement. The Scottish Law Commission is considering whether tenement disputes should be heard by the First-tier Tribunal (Housing and Property Chamber) rather than the Sheriff Court, potentially providing a cheaper, quicker and less formal route.
- **Option 5: Local authority enforcement** – local authorities could be given powers to require building reserve funds where buildings are at risk of disrepair, potentially linking to existing missing shares schemes and enforcement notices.

Option	Pros	Cons
Option 1 - Requirement for buildings insurance	<ul style="list-style-type: none"> • Market-driven enforcement mechanism – insurers potentially have commercial incentive to ensure building maintenance. • No new public sector enforcement infrastructure required. • Annual renewals create regular checkpoints. • Could potentially align with any future mandatory buildings insurance for tenements. 	<ul style="list-style-type: none"> • Some buildings could be uninsurable, leaving owners exposed. • May disproportionately impact lower income owners. • Risk of insurers withdrawing from tenement market. • Insurance sector likely to be reluctant – likely to argue this would be a regulatory role going beyond their role in providing products and services.

Option	Pros	Cons
Option 2 – Requirement for accessing mortgage	<ul style="list-style-type: none"> • Strong incentive at point-of-sale as most purchases require mortgage finance. • Could dovetail with Home Report system. • Market-driven enforcement mechanism - aligns with lender interest in protecting security. • Could potentially be implemented through industry guidance without the need for legislation. 	<ul style="list-style-type: none"> • Only affects purchasers with mortgages. • Does not impact on existing owners. • Risk of creating unmortgageable properties – potentially trapping owners. • Enforcement depends on lender cooperation and lenders would be reluctant to make their products unattractive.
Option 3 – Point of sale registration	<ul style="list-style-type: none"> • Creates buyer pressure on seller to maintain contributions. • Dovetails with existing Home Report system. • Ensures new owners are aware of reserve fund position. 	<ul style="list-style-type: none"> • Only operates at point-of-sale and does not compel contributions from non-selling owners. • Could impede property transactions and impact on housing market – potentially restricting supply of lower cost flats.
Option 4 – Enforcement through simple court procedure/First-tier Tribunal	<ul style="list-style-type: none"> • Empowers owners to take direct action rather than relying on third party. • Creates neighbour accountability and social pressure. • Simplified procedure could reduce cost barriers. • Tribunal route could be less formal and less intimidating than Sheriff Court. • Consistent with Scottish Law Commission proposals for tribunal jurisdiction. 	<ul style="list-style-type: none"> • Places burden on individual owners. • Risk of damaging neighbour relations. • May not be practical for small sums. • Requires willing and able neighbours to bring proceedings. • Court/tribunal capacity limitations.
Option 5 – Local authority enforcement	<ul style="list-style-type: none"> • Leverages existing local authority expertise and powers. • Public body accountability. • Local approach could be targeted at buildings most at risk. 	<ul style="list-style-type: none"> • Significant resource implications for local authorities. • Skills/resources variable across local authorities. • Risk of inconsistent application.

European experience suggests that enforcement tends to be by property manager or owner-led, with a limited role for state monitoring and enforcement. A proportionate approach for Scotland may be one that is based on the owners' association manager enforcing any obligation, including an obligation to contribute an agreed amount to a building reserve fund.

Enforcement would be through the First-tier Tribunal/Sheriff Court.

Safeguards and release thresholds

It is assumed that all bank account deposits would be covered by the Financial Services Compensation Scheme (FSCS) which currently protects deposits up to £85,000 per depositor (this was increased to £120,000 from 1st December 2025). Clarification is needed on how these limits would apply to owners' association accounts.

The following features should be incorporated into regulations to ensure sufficient safeguards and protections for individual owners and owners' associations:

- Any member of the owners' association should have the ability to challenge owner's association decisions through the First-tier Tribunal.
- There should be a right for contributions to the building reserve fund to be paused where the amount is likely to exceed projected works costs. This should only be allowable where there is a valid five-year maintenance inspection.
- Legislation should specify what the fund can and cannot be used for.
- The building reserve fund should be held in a separate account from the maintenance account.
- Accounts should be presented at the owners' association annual meeting.
- Owners' associations must agree withdrawals, either at a special meeting or via another decision-making mechanism that has been adopted by the owners' association (eg Novoville Shared Repairs or similar).
- Any owner can request to view the accounts.

Recommended key features of building reserve funds

- Building reserve funds should be linked to the tenement as a whole rather than individual flats.
- Contributions remain with the fund when an owner sells.
- Owners should start contributing to the fund from the point of purchase, with setting up direct debit being incorporated into house buying process where appropriate.
- Contributions must be "appropriate" – these should be informed by likely costs based on survey.
- Owners' associations should have the ability to choose whether to 'self-manage' and open a building reserve fund account in the name of the owners' association, to appoint a property manager to hold their reserve, or to deposit it with a Scottish Government backed scheme.
- Owners' associations should have the ability to choose where to deposit their reserve, based on their own preferences, including collective risk appetite.
- The owners' association should agree any expenditure from the building reserve fund on a simple majority basis.
- Legislation should specify what the building reserve funds can and cannot be spent on – this should be broad in definition to include energy efficiency, clean heating and accessibility works, but exclude ongoing costs such as lighting, stair cleaning, grounds maintenance/ gardening.
- Individual owners should have the right to challenge the decision of an owners' association regarding the level of contributions and where the building reserve fund is held.

Recommendations on the principles of building reserve funds

Recommendation 1 - Participation in building reserve funds should be a mandatory requirement for all flat owners and incorporated into forthcoming owners' association legislation as a mandatory duty.

Recommendation 2 – Owners’ associations should be required to carry out five yearly maintenance inspections, in accordance with an agreed methodology.

Recommendation 3 – Owners’ associations should be required to obtain block buildings insurance.

Recommendation 4 - The owners’ association should, at its annual meeting, determine a total annual amount to be contributed to the building reserve fund. The total annual contribution should be “reasonable” and informed by a five yearly maintenance inspection report.

Where a maintenance report does not exist, the owners’ association should agree an alternative mechanism to determine contributions, until such time as a five yearly maintenance report is in place.

The total contribution should be apportioned in accordance with titles and/or the Tenement Management Scheme.

Recommendation 5 – The Scottish Government should prepare non-statutory guidance setting out options for determining building reserve fund contributions, with advantages and disadvantages.

Recommendation 6 – Owners’ association legislation should provide powers for Ministers to review effectiveness and introduce statutory minimum contributions through secondary legislation if deemed necessary.

Recommendation 7 – Legislation should specify what building reserve funds can and cannot be used for. Legislation should prohibit using the fund for day-to-day expenditure (including contracts for staircleaning, grounds maintenance etc), and should explicitly include:

- Works required to comply with the duty to maintain (including any amendments)
- Works identified in any long-term maintenance plan that has been adopted by the owners’ association
- Works identified in any retrofit plan that has been adopted by the owners’ association

Recommendation 8 – Enforcement should be based on a right for individual owners and/or the property manager to take action against a defaulting owner. Tenement disputes, including those relating to reserve fund contributions, should be heard by the First-tier Tribunal, with simplified procedures and tenement-specific land attachment as a backstop.

Recommendation 9 - The Scottish Home Report requirements should be enhanced, including disclosure of fund details and any outstanding contribution liabilities.

6. Managing and Holding Building Reserve Funds

Assuming there is a legal requirement for owners’ associations to establish a building reserve fund, and once contributions have been determined, whether by regulation or by decisions taken by the owners’ association, there will be a need for appropriate accounts in which to deposit funds.

This section identifies current market capacity to support building reserve funds, considers opportunities for creating new products and identifies barriers that need to be addressed to increase the availability of products.

It also considers the potential for introducing a national or local government backed scheme and makes recommendations.

Banking infrastructure issues

The successful roll out of building reserve funds in Scotland will require appropriate banking and financial infrastructure. Owners' associations will need accessible, cost-effective accounts that can hold reserves securely, generate reasonable returns, provide transparency to members, and support effective governance. Currently, Scotland lacks products specifically designed for this purpose.

Where owners' associations exist today, they typically use generic community, charity, or club and society accounts designed for voluntary organisations, not groups of property owners.

These products are unsuitable for the specific needs of owners' associations and there are fewer options still that would be appropriate for building reserve funds.

In contrast, some European countries with established building reserve fund systems have tailor-made accounts, for example in the Netherlands, major banks offer VvEs specific accounts with separate provisions for operational costs and interest-bearing reserve fund accounts. They can include online platforms enabling transparency and integration with property management software.

The Scottish Law Commission's Discussion Paper proposes that owners' associations should have legal personality, allowing them to:

- Enter into contracts in their own name;
- Hold bank accounts as an entity;
- Sue and be sued;
- Own property collectively;
- Continue to exist despite changes in membership.

These changes would address a number of the barriers facing groups of owners when trying to establish bank accounts.

Any requirement in legislation for owners' associations to establish building reserve funds would immediately create a potential market, encouraging the development of new tailored products for owners' associations.

This requirement would create a potential market of over half a million property owners in Scotland alone. Future moves to reform and expand commonhold in England would create a potentially significant market of flat owners across the UK.

Engagement with banking industry representatives suggests that a mandate for building reserve funds would be broadly welcomed by the industry, as a means of reducing risk and safeguarding against future significant and unexpected expenditure.

Essential product features and potential models

An appropriate building reserve fund account should include the following key features:

- Competitive interest rates as reserves may be held for years;
- No or low fees;
- Provide instant access for at least part of the fund to address emergencies;
- Payment flexibility – ability to receive and track regular contributions from multiple owners;
- Owner portal enabling all owner association members to view transactions;
- Potential for integration with property management software;
- Sufficient protections for individual contributors and for the fund as a whole;
- Ability to borrow as an association, with liability resting with the association.

Both traditional banks and e-money institutions have potential roles. Traditional banks can offer interest-bearing accounts with Financial Services Compensation Scheme protection up to £120,000, essential for long-term reserves. They have established infrastructure and regulatory expertise, but some may lack the modern interfaces and transparency features associations are likely to need.

E-money institutions (EMIs) offer more advanced digital platforms, potentially providing greater transparency and low fees. EMIs are authorised and regulated by the Financial Conduct Authority (FCA) under a lighter touch regulatory framework than traditional banks.

Unlike banks, EMIs do not lend money. They are required to hold deposited money separately from all other funds which cannot be used for any other purpose.

Where bank deposits are protected by the Financial Services Compensation Scheme (FSCS), e-money deposits are not protected in the same way. E-money service providers must instead “safeguard” customer funds. Safeguarded funds must be held in specially designated client accounts at banks, the Bank of England, or invested securely (as approved by the FCA).

While the FSCS protects bank deposits up to a maximum value of £120,000, or £240,000 for a joint account, EMI regulatory requirements are designed to protect the full deposited amount.³⁸

Novoville collaborates with Modulr (an EMI) on its Shared Repairs App to allow owners in a virtual tenement to open a Modulr payment account, specifically designed to manage repairs and maintenance.

The app enables owners to deposit funds and pay contractors for works. Currently the Novoville/Modulr service applies to single jobs, however, the same technology could be developed to support building reserve funds. These would be more complex than the existing Novoville Shared Repairs app model, with a need to be able to track more deposits and withdrawals, however, engagement with Novoville suggests that these challenges could be addressed.

Hybrid banking-as-a-service models, combining these more advanced digital platforms with traditional banking infrastructure may offer a potential solution to the issue with EMIs being unable to provide interest-bearing accounts. This approach could potentially enable the provision of more tailored services for owners’ associations, but with traditional banking products.

In the longer term, there may be scope for specialist providers – potentially a credit union, mutual organisation, or social enterprise focused specifically on community property maintenance – though this would require substantial development time and investment.

Germany’s TEN31 Bank provides a useful example – the bank was founded in 2015, with its origins in a large property management company³⁹. It provides tailored services and products for owners’ associations, including interest-bearing accounts and enhanced protections. This demonstrates that, with sufficient scale and certainty of demand, the market can provide appropriate solutions.

Barriers to market progress

A number of barriers must be addressed to enable the market to develop appropriate products and services:

³⁸ <https://www.modulrfinance.com/uk-safeguarding-information>

³⁹ <https://thebanks.eu/banks/18601>

- Lack of a clear demand for new products – the market will not create products without clear signals that the demand will exist.
- Owners’ associations must have status of corporate body to enable them to open accounts.
- Some banks expressed concern about “onboarding” a number of owners and the complexities of managing accounts. Clarity is needed on the role of technology in overcoming some of these challenges.
- Uncertainty about whether owners’ associations are taxable entities – clarification will be needed on the treatment of any interest earned on building reserve funds.

Financial inclusion and government-backed services

Not all associations will be able to access mainstream commercial products and there is a risk of financial exclusion for owners with less financial capacity.

There may be a need for government intervention to ensure access for all to suitable banking accounts. This could include Scottish Government or local authority backing for a backstop arrangement – for example working with credit unions or establishing a service similar to a tenancy deposit scheme.

Two options considered in this research are:

- A national deposit scheme, modelled on tenancy deposit schemes
- Scottish Government or local authority partnerships with credit unions

National deposit scheme

There are two strong arguments for a government-backed, centralised deposit scheme being part of the mix:

1. It presents an opportunity to use deposited funds to support or incentivise flat owners to carry out works through low interest loans or grants.
2. Some households and owners’ associations may struggle to access traditional banking products so some sort of safety net is needed.

The potential benefits of pooling building reserve fund deposits are significant, with opportunities to generate significant economies of scale and access to institutional investment returns that would be unavailable to individual owners’ associations.

A national scheme could potentially provide low-interest loans to owners’ associations for major works, using pooled deposits as capital. This would be of particular benefit to low-income owners and owners’ associations that lenders may view as higher risk.

Safe Deposits Scotland was considered as a potential model. Under this scheme, tenancy deposits for the private rented sector are paid into a centralised fund, with costs of managing the scheme being made by interest accrued on the deposits.

Any surplus is transferred to a charitable trust and used to support good causes, such as education programmes and small grants.

It should be noted that the driver for establishing the tenancy deposit scheme was the need to protect rent deposits where there was a high risk of dispute and the scheme includes a dispute resolution mechanism.

The starting point for building reserve fund is quite different. Assuming owners' association legislation addresses decision making and use of funds, scope for dispute between owners should be minimal.

The risks associated with such a scheme are substantial and the proposal requires careful consideration. Some of the biggest risks are:

- The costs associated with establishing a new government-backed scheme would be such that, unless use of the scheme was mandatory, the value of any surplus generated could be fairly small.
- Concentration of deposits in a single scheme means that failure through poor investment decisions, fraud, or mismanagement could be catastrophic.
- Tenancy deposit schemes protect small sums for relatively short periods. Building reserve funds would be significantly larger sums, being held potentially for decades.
- Liquidity management could be complex – the scheme would need to ensure funds are always available to be drawn down as required, while either investing for returns or providing low interest loans.

It is recommended that participation in any government backed scheme is voluntary, to enable owners with a higher risk appetite to choose to invest their fund as they see fit. If any form of national scheme is pursued it should be limited in scope, targeting market gaps rather than seeking to displace commercial products. Prescribing participation in a government-backed scheme (which would likely offer lower returns than some market investment options) could lead to a significant backlash.

Scottish Government or local authority partnerships with high street banks/credit unions

A lower risk approach to tackling financial exclusion would be government partnerships with high street banking institutions, including credit unions, to ensure affordable banking products for all.

This option could involve local authorities or the Scottish Government subsidising the scheme set up and any account fees to ensure access for those who are unable to access mainstream accounts.

Blended approach

To enable the smooth roll out of building reserve funds, a range of bespoke banking and financial products will be required.

The introduction of compulsory owners' associations with legal personality would address many barriers to accessing banking services, however, it should be noted that this lack of options is an issue across a number of European countries, with central banks/tailored deposit guarantee schemes established in some countries to address this gap.

Offering consumers a choice of products may be desirable, allowing for the market to respond to demand by developing a range of products but with a safety net or backstop position for those unable to exercise choice.

Flexibility is needed as products may be required that meet the needs of owners' associations with a higher risk appetite – some owners may wish to have a degree of control over their fund and have the ability to invest the reserve (although consideration needs to be given to risk to property maintenance of higher risk investment).

Others may not have the capacity or risk appetite to invest and may wish to access a more secure product.

While a national deposit scheme may be an attractive option in terms of providing capital to support low-interest loans, the risks associated with establishing such a scheme means that this option should be approached with extreme caution.

Supporting the growth of professional property management

One of the major differences between the European countries considered in this research and the Scottish context is the lack of professional property management (particularly outwith Glasgow).

As owners' associations are introduced, there will be a significant growth in demand for property management services to ensure obligations are met and to coordinate subsequent works.

The Scottish Government should consider how to support the growth of professional property management services, and how to build consumer confidence in these services. This could include the introduction of a mandatory property management qualification.

Recommendations on managing and holding building reserve funds

Recommendation 10 - The Scottish Government should support and enable the creation of a blended approach to managing and holding building reserve funds, with the market providing a range of products.

Recommendation 11 - The Scottish Government and local authorities should ensure backstop products available for those unable to access high street products.

Recommendation 12 - The Scottish Government should establish a Tenement Maintenance Finance Short Life Working Group involving, banking and finance industry representatives, to develop options for building reserve funds, and opportunities for loan products to support tenement owners to carry out works.

Recommendation 13 - The Scottish Government should consider how to support the growth of professional property management services, including the introduction of a mandatory property management qualification.

7. Managing the Transition – addressing the backlog

One of the challenges in implementing building reserve funds is the current condition of Scotland's tenement housing stock, and the significant backlog of repairs. For many buildings, it will take many years, if not decades, to get to a position where a building reserve fund exists that can be used for future works.

Accelerating the building up of funds

There are options for creating workable building reserve funds more rapidly and/or ensuring that the reserve is built up over time and not diminished by the need to address backlog repairs.

One approach for accelerating reserve fund accumulation is requiring contributions when properties change hands. Some retirement properties specify that a portion of the selling proceeds from each sale must be contributed to the reserve fund. This contribution is frequently expressed as a percentage of the purchase price or the appreciation since the sale.

This transaction-based approach could take a number of forms:

- **Point-of-sale (seller contribution)** - A requirement for the seller to contribute to the building reserve fund on the sale of property. Examples for determining the contribution include:
 - For each year of ownership, the selling owner is required to pay a percentage (eg 0.5%) of the price they paid to purchase the property).
 - Sale price (the selling owner is required to pay a percentage (eg 1%) of the sale price must be paid to building reserve fund)

In the interests of fairness, the seller's contribution should be reduced by the value of any works carried out while they owned the property (up to eg 10 years).

- **Point of purchase (buyer contribution)** - A requirement for the purchaser to contribute to the building reserve fund at point of purchase. This could be based on known costs as identified in a maintenance survey/plan, or another factor such as a percentage of the valuation/purchase price or age of property.

An alternative to the transaction-based approach is the potential ring-fencing of reserves. The building reserve fund could be ring-fenced for an agreed period (eg 10 years) to enable the fund to build up. Any works required during this period would be met by owners from their own resources.

The Scottish Government could kickstart building reserve funds by providing an initial kickstart grant, payable when the fund reaches an agreed level, however this approach is unlikely given resource pressures.

Funding the backlog works

The starting point for funding the backlog of works should be an assumption that owners will pay for works.

With the right legislative environment, ie compulsory owners' associations with an ability to access credit, there is potential for market-led financing mechanisms to support tenement owners in addressing the backlog of repairs.

Increasingly, green mortgage products are emerging in the market and engagement with finance industry representatives indicates that, with the right legislative infrastructure, lenders would be likely to consider increasing the range of products available to support major repairs.

International examples demonstrate how specialist financial products can be developed where Spain's UCI offers financing that enables communities of owners to carry out renovations. Key features of the UCI model include:

- Loans are granted to the community of owners rather than individuals. The loan agreement requires a simple majority of owners to approve, removing the barrier of unanimity.
- The loan funding can be integrated into grant funding.
- The UCI scheme is backed by the European Investment Bank.

While many owners will have the financial capacity to fund the works, either through savings or existing financing mechanisms, additional mechanisms and products will be required to ensure addressing the backlog of works is affordable to all.

There are a number of existing, emerging and potential mechanisms to support these owners:

[Credit unions and community interest companies](#)

Credit unions are not-for-profit financial providers, set up to serve particular communities – they provide services to customers who are unable to access mainstream products, whilst still lending responsibly and only to those who can afford repayments.

Credit unions could potentially play a valuable role in supporting flat owners to fund repairs, particularly through the development of new financial products tailored specifically for owners' associations.

While several Scottish credit unions already offer home improvement loans and green loans to individual members, there is scope to explore how they might extend their services to meet the financing needs of owners' associations.

This would likely require proactive engagement from the Scottish Government and/or local authorities. Credit unions operate within regulatory frameworks and common bond requirements that may need to be adapted to accommodate lending to owners' associations rather than solely to individual members.

Government or local authority involvement could take various forms, such as providing loan guarantees to reduce risk for credit unions, providing seed funding to support the development and piloting of new products, or working with the sector to address any regulatory barriers.

Another model which could play a role in supporting owners' associations is Lendology⁴⁰ - a Community Interest Company (CIC) that works with local authorities in the South of England to provide a range of loan products with lower interest rates.

Lendology work in partnership with local councils to lend to eligible homeowners. They offer a range of financial products, including home improvement loans and renewable energy loans. Loans are secured through a title restriction on the property and Lendology can structure loans so that no repayment is required until the sale of the property.

Each local council has its own policy, funds are limited and loans are targeted at homeowners who may find it challenging to access credit elsewhere.

The local authorities support the CICs operating costs and underwrite debt, allowing lower interest rates to be offered.

There may be value in exploring how Lendology and Scottish credit unions could work alongside one another to provide complementary financial solutions for flat owners.

Credit unions are well-established community-based lenders with strong local roots and existing relationships with members across Scotland, while Lendology brings specialist expertise in council-backed lending for housing improvements and a track record in managing loan schemes on behalf of local authorities.

A collaborative approach could see credit unions continuing to offer personal loans to individual flat owners for smaller-scale repairs, while Lendology-style council-backed schemes could potentially be developed to support financing of larger owners' association projects.

Scottish Government or local authority backed equity loans

⁴⁰ <https://www.lendology.org.uk/>

Eligible homeowners would take out an equity loan to fund repairs and energy efficiency improvements, repaying the loan when the property is sold or ownership transferred. The amount to be repaid is linked to the value of the house at the time the loan is repaid.

This approach addresses the fundamental barrier many tenement owners face, which is equity in the property but limited income to service monthly loan repayments.

The Scottish Government has previously piloted equity loans of up to £40,000 to homeowners on low incomes to help them make essential repairs prior to undertaking energy efficiency works⁴¹.

From 2005, the City of Edinburgh Council (CEC) piloted a Scheme of Assistance approach that enabled homeowners to access “Property Appreciation Loans” or “Houseproud Equity Release Loans” through their Homeworks service⁴². These products were targeted at households participating in council led mixed tenure projects, older households and people with disabilities.

The Homeworks service was funded through Private Sector Housing Grant (PSHG) – a ring-fenced fund provided to all Scottish local authorities. The CEC pilot ended following the removal of the PSHG ring-fencing in 2007.

Property-linked finance

Property-linked finance (PLF)⁴³ is an emerging financing mechanism that could support tackling the backlog of repairs and address issues of fairness and affordability.

Although not currently operational in Scotland (or the UK), Transition Finance Scotland is currently leading work to develop and pilot PLF in Scotland.

PLF is most commonly referred to in relation to funding retrofit projects and is seen as a key mechanism to fund the transition to clean heating. However, there is also potential for it to be a mechanism for addressing tenement repair and maintenance.

The key feature of PLF is that the debt attaches to the property rather than the individual owner, transferring to subsequent owners if the property is sold. This has significant advantages for tenement repairs:

- Spreads cost over the building's lifespan rather than loading it onto current owners;
- Removes individual affordability as a barrier to necessary works;
- Ensures that those who benefit from improvements contribute to their cost.

For Scotland's tenements, PLF could be particularly valuable for major structural works like roof replacement, where costs are substantial and benefits accrue over decades.

Government grants and loans

Direct government grants and/or loans may be required for buildings with inadequate reserves and significant backlogs.

⁴¹ <https://www.gov.scot/news/loans-to-help-make-warmer-homes/>

⁴²

<https://democracy.edinburgh.gov.uk/Data/Resource%20Management%20and%20Audit%20Scrutiny%20Panel/20051006/Agenda/homeworks-development-of-a-scheme-of-assistance-for-homeowners.pdf>

⁴³ <https://www.greenfinanceinstitute.com/products-solutions/property-linked-finance/>

This could build on local authorities' schemes of assistance, for example Glasgow's Scheme of Assistance⁴⁴ includes potential grant support for homeowners who agree to take part in repairs on a voluntary basis in strategic priority areas. Owner occupiers may be eligible for grant assistance of 50% of approved costs over £5,000.

Under Glasgow's scheme, private landlords may also be eligible to apply for grant assistance in certain circumstances – eg landlords who own and rent out one property only may be considered on the same basis as owner occupiers. In exceptional circumstances, professional landlords may be eligible for grant assistance, where their co-operation is essential to enable major tenement repair works to be carried out.

Missing share scheme allows tenement owners to apply for funding from participating local authorities where an owner is unable or unwilling to pay their share of repairs and also provides a potential model for supporting owners with the costs of backlog works.

In Wales, eligible homeowners can apply for Home Improvement Loans of up to £35,000 to carry out essential repairs. The loans are managed by local authorities who determine eligibility criteria and apply an administration fee of up to 15%.⁴⁵

Addressing Scotland's backlog of tenement disrepair will require significant investment from homeowners, which must be facilitated and enabled by government action.

An appropriate legal framework is critical to creating demand that will drive the creation of market-led solutions. Compulsory owners' association must have legal personality and be capable of entering into loan agreements.

A mix of financing mechanisms will be needed to suit different circumstances, and while it is right that homeowners should fund these works, in some cases this will not be possible. In these cases, grant support will be required.

Recommendations on addressing the backlog

Recommendation 14 - The Scottish Government must introduce legislation that creates owners' associations that can access credit to invest in repairs and improvements. The debt should rest with the owners' association rather than the individual flat owners.

Recommendation 15 – The Scottish Government should consider what role the Scottish Investment Bank (or UK Investment Bank) could potentially play in supporting financing of works.

Recommendation 16 – The Scottish Government should engage with Lendology and Scotland's credit unions to establish what role they can play in supporting individual flat owners and owners' associations to fund backlog works.

Recommendation 17 - The Scottish Government should work with local authorities to consider how equity-release schemes could be introduced, either nationally or at a local authority level.

Recommendation 18 -The Scottish Government should consider how it can expedite the introduction of property-linked finance in Scotland, ensuring funding the backlog of repairs is within scope, as well as clean heat and energy efficiency measures.

⁴⁴ <https://www.glasgow.gov.uk/grantsforpropertyrepairs>

⁴⁵ <https://www.gov.wales/apply-home-improvement-loan>

Recommendation 19 – The Scottish Government should ensure grant funding is available as a backstop for those households who are unable to access any alternative means of financing essential repairs.

8. A Phased and Supported Introduction

The introduction of building reserve funds will be a significant change and the approach to rolling out new requirements will need to carefully consider fairness and affordability, as well as practicalities around implementation.

Their introduction should be considered part of a long-term programme to improve and modernise flat ownership.

That means that building reserve funds should be introduced as part of a wider package of policy measures aimed at changing culture and attitudes towards flat ownership in Scotland. It will require action from a wide range of stakeholders as well as government.

The following conditions are required for the most successful rollout of building reserve funds:

- The Scottish Government should introduce legislation establishing Compulsory Owners' Associations in 2026, following recommendations from the Scottish Law Commission.
- Owners' associations should be required by legislation to hold a building reserve fund.
- Owners' associations should be required to carry out five yearly maintenance inspections.
- Owners' associations should be required to obtain block buildings insurance.
- Owners' associations should have legal personality to simplify and enable opening bank accounts, entering into contracts and accessing credit (and potentially grant funding).
- Owners' associations must have the ability to pursue non-paying owners through a simplified court procedure (eg First Tier Tribunal), including the potential sanction of placing a land attachment on the property.
- A robust communications plan is needed to ensure current and future flat owners are aware of forthcoming changes, well in advance of implementation.
- Market certainty is needed to encourage the banking industry to develop tailored products.
- The property management industry should be supported to grow and professionalise, so owners' associations have appropriate options for managing their building reserve funds.

While the technical and legislative frameworks are essential, equally important is changing attitudes to flat ownership and raising awareness of the whole cost of ownership. Introducing legislation without addressing these issues risks undermining implementation and provoking a backlash.

A phased approach to implementation, with careful sequencing, is therefore essential. Earlier phases should focus on building awareness and enabling voluntary adoption, allowing successful examples to be showcased and provide learning opportunities in advance of building reserve funds becoming mandatory.

Central to this approach will be engagement with the house buying and selling industry. Solicitors, estate agents, surveyors and mortgage lenders guide people through property transactions and can have a significant impact on buyer and seller expectations.

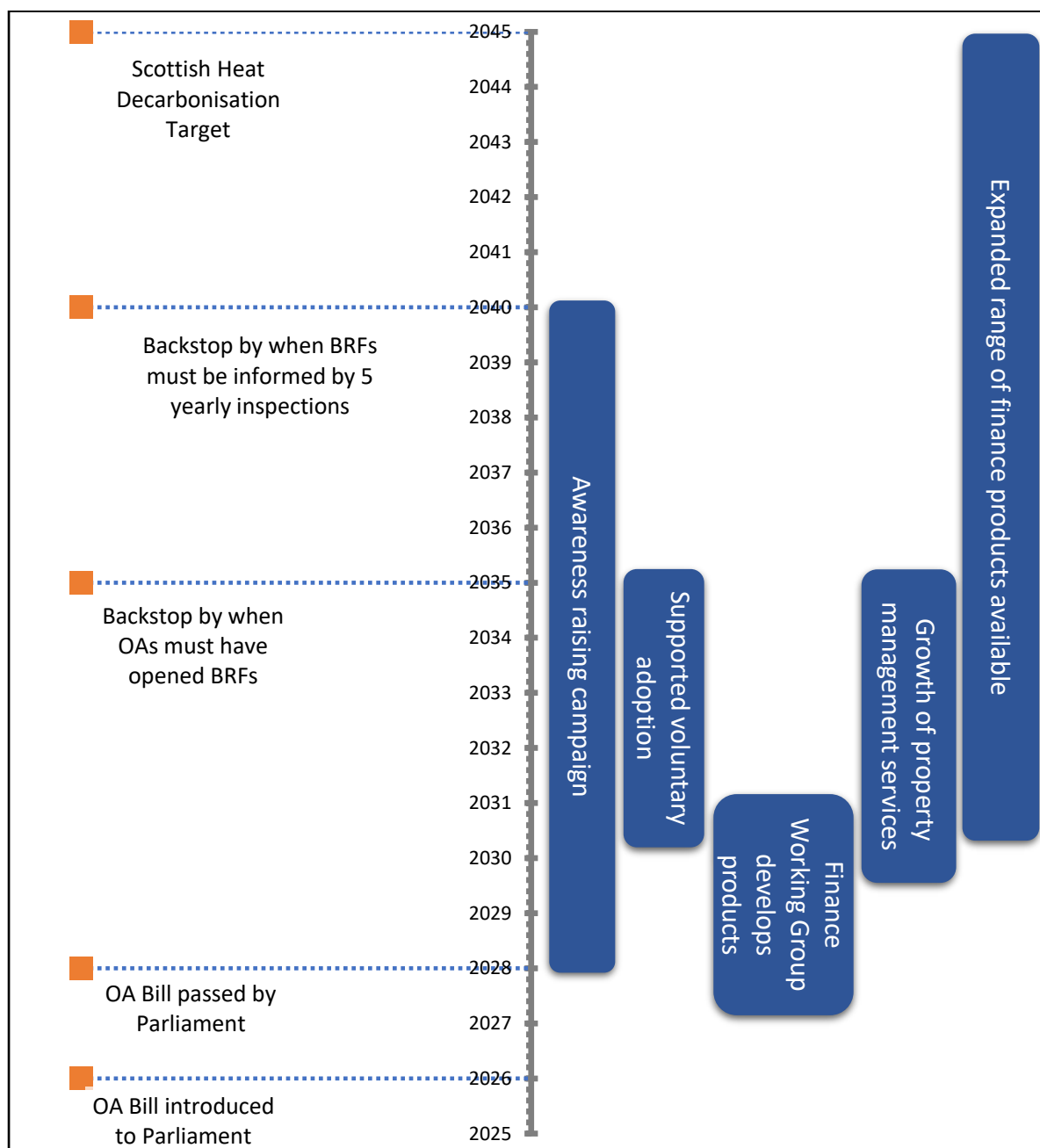
The Home Report could be revised to include reference to owners' associations, five yearly inspections, and building reserve funds, well in advance of the introduction of mandatory requirements.

The solicitors' property centres and online property portals – often being the place where buyers first encounter information about properties - could be encouraged to promote the concept of building reserve funds, by making reserve fund information a standard part of property listings.

Below is an indicative and cautious timeline, based on assumptions regarding the introduction and implementation of an owners' associations Bill.

The timeline includes key milestones such as the introduction of owners' association legislation, a backstop date for when owners' associations should have established building reserve funds, and the date by which these should be informed by five yearly inspections.

The timeline includes activities that must run in advance of or alongside these milestones, such as awareness raising, growth of property management services, and the establishment of finance products. The timeline also includes a period of supported voluntary adoption in advance of mandatory duties coming into effect.



9. Alternate Scenario - Enabling Building Reserve Funds

The optimal scenario for improving the quality of Scotland's tenements and ensuring effective long-term maintenance is based on a clear legislative framework which:

- Creates compulsory owners' associations for all tenement buildings
- Establishes these owners' associations as legal entities with the ability to open bank accounts and access credit
- Requires that owners' associations open and contribute to a building reserve fund
- Requires that contributions to that fund are determined on the basis of a good understanding of the condition of the building.

In the event that the legislation required to create this optimum scenario is not forthcoming, an alternative approach could partially address the issue of lack of financial capacity and preparedness for major repairs and maintenance of tenements.

Expanding professional property management

The expansion of professional property management, incorporating building reserve fund management as standard, offers a practical pathway to normalising building reserve funds without requiring immediate legislative change.

Scotland's Property Factors (Scotland) Act 2011 already provides a regulatory framework with mandatory registration, a Code of Conduct, and dispute resolution mechanisms. Professional property managers and factors could take the lead in establishing reserve funds as a standard service offering. The Code already requires property factors to disclose any arrangements for reserve or sinking funds in their Written Statement of Services and mandates that such funds be held in separate, interest-bearing accounts with proper accounting procedures.

Building on this foundation, industry bodies such as the Royal Institution of Chartered Surveyors (RICS) and the Property Institute could develop best practice guidance and training programmes that position reserve funds as a core part of the property management service.

The Scottish Government could accelerate this transition through issuing guidance recommending reserve funds as best practice for property factors and conducting a public awareness campaign highlighting the professional property management services available.

However, this approach has significant limitations including:

- It would have minimal impact in those areas with little established factoring/property management presence.
- It does not require that contributions remain with the building, reducing scope to build up funds over time.

Further actions to enable the roll out of building reserve funds

The Scottish Government could:

- Introduce fiscal incentives for buildings that establish funds (eg council tax or Land and Buildings Transaction Tax rebates).
- Create a small grants programme targeted at flat owners in high-risk areas, eg areas of multiple deprivation.

- Public awareness campaign: Work with existing property stakeholders to promote building reserve funds, highlighting the cost of emergency repairs versus planned maintenance.

Local authorities could:

- Incorporate building reserve funds requirements into existing licensing schemes (eg Housing in Multiple Occupation, short-term lets).
- Require new flatted developments to establish building reserve funds as a planning condition.

Banks/financial institutions could:

- Develop products that could operate as low cost, automated accounts for building reserve fund management.
- Develop “tenement friendly” mortgages with preferential rates for flats in buildings with established reserve funds.
- Link establishment of building reserve funds to green mortgage, as good maintenance fundamental to achieving energy efficiency improvements.

Housebuying/conveyancing industry could:

- Embed building reserve fund advice into the conveyancing process.
- Promote reserve funds as a selling point, creating market demand.

While these actions would support the growth of building reserve funds, without a mandatory requirement, it is likely that they would have limited impact.

10. Conclusions and Recommendations

The current ad hoc, inconsistent and unplanned approach to managing and maintaining Scotland's tenements is not fit for purpose. Without intervention, the significant backlog of repairs will continue to worsen, property conditions will deteriorate further, and flat owners will be unable to participate in the transition to clean, zero-emissions heating required to meet Scotland's net zero commitments by 2045.

This research has demonstrated that building reserve funds, when implemented as part of an integrated system alongside compulsory owners' associations and regular building inspections, could provide a sustainable solution to the long-standing challenges of tenement maintenance and management in Scotland.

Learning from European experience

The experiences of Germany, the Netherlands, Ireland, Spain, and France provide valuable lessons for Scotland. All five countries have mandatory building reserve fund systems, recognising that voluntary approaches are insufficient to ensure adequate long-term maintenance of flatted properties. Key lessons include:

- Clear guidance on contribution levels is essential to prevent systematic underfunding
- Building reserve funds work most effectively when linked to long-term maintenance planning and regular building inspections
- Contributions should remain with the property on sale, ensuring continuity of funding
- Professional property management and appropriate banking infrastructure are critical enablers
- Legislative frameworks require regular review and amendment as experience develops

The European experience indicates that owners are likely to underfund building reserve funds without clear legal specification of contributions. This suggests that the most effective approach would be to introduce mandatory minimum contributions at the outset, however consideration must be given to the Scottish context.

While several European countries have, in recent years, strengthened regulations regarding the minimum contributions, given the starting point in Scotland, and the extent of the culture change required, a more prudent and phased approach might be appropriate.

A comprehensive solution

Building reserve funds cannot operate in isolation. They must form part of an integrated approach that includes:

1. Compulsory owners' associations with legal personality, enabling them to open bank accounts, enter into contracts, and access credit collectively
2. Five-yearly building inspections providing robust information on building condition and projected maintenance costs
3. Mandatory building reserve funds with contributions informed by inspection reports
4. Appropriate banking and financial infrastructure offering tailored products for owners' associations

5. Accessible financing mechanisms to address the backlog of repairs, including market-led solutions, credit union products, equity loans, and property-inked finance
6. Enforcement mechanisms that are proportionate and effective, and
7. Enhanced Home Report requirements ensuring transparency about building reserve funds and maintenance obligations

The optimal scenario requires the Scottish Government to introduce legislation in 2026 establishing compulsory owners' associations, with mandatory building reserve funds as a core duty. This legislation should:

- Require owners' associations to carry out five-yearly maintenance inspections;
- Mandate that contributions to building reserve funds are "reasonable" and informed by inspection findings;
- Specify what building reserve funds can and cannot be used for, explicitly including energy efficiency and clean heating works;
- Enable owners' associations to access credit, with debt resting with the association rather than individual owners;
- Provide clear enforcement mechanisms through simplified tribunal procedures.

Implementation must be carefully phased, with a robust communications campaign building awareness well in advance of mandatory requirements. Early phases should enable voluntary adoption, allowing successful examples to emerge and provide learning opportunities before universal rollout.

The banking and finance industry must be given sufficient market certainty to develop tailored products, supported by a Tenement Maintenance Finance Short Life Working Group bringing together government, industry representatives, and stakeholders to develop appropriate solutions.

Addressing affordability and fairness

The significant backlog of repairs presents a real challenge. While the primary responsibility for funding repairs rests with property owners, government intervention will be necessary to ensure fairness and prevent some households being left behind. This requires:

- A legislative framework that enables owners' associations to access credit;
- Engagement with credit unions and community lenders to develop appropriate products;
- Exploration of equity-release schemes for asset-rich but income-poor households;
- Expedited introduction of property-linked finance to enable costs to be spread; and
- Grant funding as a backstop for vulnerable households unable to access alternative financing.

Recommendations

This research strongly recommends that the Scottish Government moves forward with legislation establishing mandatory building reserve funds as part of an integrated package of tenement maintenance reforms.

This should be introduced as part of requirements creating compulsory owners' associations, with implementation carefully phased and supported by comprehensive communications, appropriate banking infrastructure, and accessible financing mechanisms to address the backlog of repairs.

Building reserve funds represent not just a financial mechanism, but a fundamental shift in how Scotland approaches flat ownership—moving from reactive to proactive, planned maintenance. This cultural change will take time, but it is essential for the long-term sustainability of Scotland's tenements and the wellbeing of the people who live in them.

With the right legislative framework, adequate support mechanisms, and sustained commitment from government and stakeholders, building reserve funds can become a cornerstone of effective tenement management in Scotland, ensuring these important buildings are maintained for current and future generations.

Recommendation 1 - Participation in building reserve funds should be a mandatory requirement for all flat owners and incorporated into forthcoming owners' association legislation as a mandatory duty.

Recommendation 2 – Owners' associations should be required to carry out five yearly maintenance inspections, in accordance with an agreed methodology.

Recommendation 3 – Owners' associations should be required to obtain block buildings insurance.

Recommendation 4 - The owners' association should, at its annual meeting, determine a total annual amount to be contributed to the building reserve fund. The total annual contribution should be “reasonable” and informed by a five yearly maintenance inspection report.

Where a maintenance report does not exist, the owners' association should agree an alternative mechanism to determine contributions, until such time as a five yearly maintenance report is in place.

The total contribution should be apportioned in accordance with titles and/or the Tenement Management Scheme.

Recommendation 5 – The Scottish Government should prepare non-statutory guidance setting out options for determining building reserve fund contributions, with advantages and disadvantages.

Recommendation 6 – Owners' association Legislation should provide powers for Ministers to review effectiveness and introduce statutory minimum contributions through secondary legislation if deemed necessary.

Recommendation 7 – Legislation should specify what building reserve funds can and cannot be used for. Legislation should prohibit using the fund for day-to-day expenditure (including contracts for staircleaning, grounds maintenance etc), and should explicitly include:

- Works required to comply with the duty to maintain (including any amendments);
- Works identified in any long-term maintenance plan that has been adopted by the owners' association;
- Works identified in any retrofit plan that has been adopted by the owners' association.

Recommendation 8 – Enforcement should be based on a right for individual owners and/or the property manager to take action against a defaulting owner. Tenement disputes, including those relating to reserve fund contributions, should be heard by the First-tier Tribunal, with simplified procedures and tenement-specific land attachment as a backstop.

Recommendation 9 - The Scottish Home Report requirements should be enhanced, including disclosure of fund details and any outstanding contribution liabilities.

Recommendation 10 - The Scottish Government should support and enable the creation of a blended approach to managing and holding building reserve funds, with the market providing a range of products.

Recommendation 11 - The Scottish Government and local authorities should ensure backstop products available for those unable to access high street products.

Recommendation 12 - The Scottish Government should establish a Tenement Maintenance Finance Short Life Working Group involving, banking and finance industry representatives, to develop options for building reserve funds, and opportunities for loan products to support tenement owners to carry out works.

Recommendation 13 - The Scottish Government should consider how to support the growth of professional property management services, including the introduction of a mandatory property management qualification.

Recommendation 14 - The Scottish Government must introduce legislation that creates owners' associations that can access credit to invest in repairs and improvements. The debt should rest with the owners' association rather than the individual flat owners.

Recommendation 15 – The Scottish Government should consider what role the Scottish Investment Bank (or UK Investment Bank) could potentially play in supporting financing of works.

Recommendation 16 – The Scottish Government should engage with Lendology and Scotland's credit unions to establish what role they can play in supporting individual flat owners and owners' associations to fund backlog works.

Recommendation 17 - The Scottish Government should work with local authorities to consider how equity-release schemes could be introduced, either nationally or at a local authority level.

Recommendation 18 -The Scottish Government should consider how it can expedite the introduction of property-linked finance in Scotland, ensuring funding the backlog of repairs is within scope, as well as clean heat and energy efficiency measures.

Recommendation 19 – The Scottish Government should ensure grant funding is available as a backstop for those households who are unable to access any alternative means of financing essential repairs.

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Appendix – Stakeholder Engagement

With thanks to the following for their input into this research:

Alastair Mumford	MCS Foundation
Alastair Ross	Association of British Insurers
Annie Flint	Under One Roof
Aythan Lewes	EALA Impacts
Bob Innes	WS Property Management
Carol Bradburn	Safe Deposits Scotland
Caroline Elgar	Scottish Association of Landlords
Cassandra Dove	SFHA
Catherine Wales	MCS Foundation
Chris Morgan	John Gilbert Architects
David Doran	Hacking and Paterson/Property Managers Institute
David Gibbon	GLM Architects
David Reid	Property Managers Association
Debra Campbell	SHARE
Georgie Sheridan	Nationwide
Ian Cairns	Strathclyde University
Ian Fergusson	Shephard Chartered Surveyors
Jackie Timmons	City of Edinburgh Council
Jennifer Harris	Safe Deposits Scotland
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Michelle Robinson	Snugg
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Sarah Burns	City of Edinburgh Council

