

# Analysis and Reflection on the Operation Status of Residential Special Maintenance Funds

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**Abstract.** Residential special maintenance funds are large in volume and play an important role in safeguarding people's livelihood. In recent years, many problems have been exposed in the operation of maintenance funds: in management, the funds are unpaid, no value-added power, easy to be misappropriated, and insufficient supervision; in use, the funds are inefficiently utilized, and the application for use is cumbersome, and so on. Compared with developed regions at home and abroad, most of the domestic maintenance fund system changes have not touched the root of information asymmetry. Therefore, this paper tries to summarize the current major domestic problems and domestic and international experiences, in order to prepare for the introduction of insurance mechanism and other mature mechanisms into the residential special maintenance fund management system.

**Keywords:** residential special maintenance funds; operation status quo problems; domestic and international experience.

## 1. Introduction

Residential special maintenance fund refers to the fund specially used for the maintenance, renewal and transformation of residential common parts and facilities after the expiration of the warranty period, which is a huge amount of funds and plays an important role in guaranteeing people's livelihood. However, the current maintenance fund management and regulatory system has not created an effective mechanism to solve the problem of information asymmetry and free-riding, with the increase in the age of residential neighborhoods, residential special maintenance funds in the operation of some of the problems highlighted. On the one hand, the funds are in arrears or difficult to renew the payment, there is no self-value-added preservation of power, and easy to be misappropriated, departmental supervision is not in place; and in the use of the funds were inefficiently used, while applying for the use of funds for the cumbersome procedures.

Therefore, the systematic combing of domestic problems and domestic and foreign effective experience, for the reform of the residential special maintenance fund system has an important role to learn from.

## 2. Residential special maintenance funds operation status

Since the introduction of the Measures for the Administration of Residential Common Parts and Facilities Maintenance Funds in 1998, the management system of residential special maintenance funds has been continuously optimized, but at the same time, there are also some problems that have always existed, which are summarized as follows: in the management, the funds are unpaid, there is no value-added motivation, easy to be misappropriated, and insufficient supervision; in the use of the funds, the funds are inefficient, and the use of applications is cumbersome and cumbersome, and so on.

The initial funding of residential special maintenance funds comes from the owner, but it is difficult to renew the funds. Huang Meihua (2018) put forward the two major problems of "developers' non-payment of residential maintenance funds" and "homeowners' difficulty in renewing their contributions" with regard to the source of funds[1]. Developers will try to delay the payment

for cost considerations, and when the need to use the funds, the developer should pay part of the payment may become and owners to pay together, damaging the legitimate rights and interests of the owners, and due to the non-exclusivity and non-competition of public affairs, often make the owners to produce a "free-rider" mentality, resulting in the plight of collective action.

Maintenance funds belong to the owners of self-payment for their own use, the relevant departments do not promote the maintenance of maintenance funds value-added incentives, so a long period of maintenance expenditure will require owners to renew the payment. According to Wu Aiju and Zeng Wenli (2017) survey, the utilization rate of residential special maintenance funds in some areas is low, the use of maintenance funds is less than 1% of the total amount of collected funds, and 99% of the housing "old age money" is idle, and it is not possible to avoid the problem of renewing the subsequent payment through the value-added funds[2].

At the same time, Huang Shaoyong (2019) found that residential special maintenance funds can only be used after the property warranty reaches the deadline, if there is serious inflation during this period, the funds will depreciate significantly[3]. At the same time, there is a lack of openness and transparency in the income, expenditure and balance of the funds, and the owners' association does not have an independent legal personality to set up a fund account to manage the funds, which Zhang Fengyi (2012) argues is because the owners are the owners but have lost the right to control and manage the funds, resulting in the funds have no incentive to self-preservation of value[4].

In the use of funds, Xu Shengyu (2020) and other analysis based on the perspective of information economics concluded that due to information asymmetry, it is more likely to cause the loss of maintenance funds and the inefficient use of maintenance funds, and the community common parts, shared facilities and equipment maintenance is a typical multilevel principal-agent problem, which exacerbates the degree of information asymmetry[5]. Zou Jingyuan(2017) summarized three types of problems that often occur in the use of maintenance funds: 1. short-term project quotations have blindness, and the cost is inflated. 2. the calculation of project quantities is falsified and inflated. 3. the cost of material prices is inflated. As a result long-term funds are being over-utilized and renewals are difficult to avoid[6].

In addition to this, the risk of misappropriation of funds and regulatory failure is always present. Policies in some areas allow residential developers to collect and pay residential special maintenance funds on behalf of the developer, Wang Yan (2013) believes that this move increases the risk of funds being illegally misappropriated [7]. And Wu Yan (2015) also points out that real estate developers can also be illegally intercepted by charging maintenance funds bundled with the purchase price of the house, resulting in a gap between the maintenance funds and the actual deposits in the bank, but often when the funds are seriously insufficient before they are scrutinized[8].

All of the above problems partly stem from the lack of supervision, but until 2008, "residential special maintenance funds management approach" of the release of the residential special maintenance funds management system marked the formal establishment of the regulatory system development time is relatively short, many areas of regulatory authority and responsibility is still unclear and insufficient regulatory efforts[9]. And accounting system has not been updated in a timely manner, Huang Yingchun (2011) in the accounting practice found that there is no standardized treatment of residential special maintenance funds guidelines, supervision is also difficult to be detailed[10].

At the same time for the application of funds on the vote, still use double "two-thirds" voting system, the need for building occupancy area and the number of voters to meet the two-thirds can be passed, the procedure is cumbersome. Wu Jianping (2015) proposes to change to "reverse 1/3" and other methods to improve efficiency[11]. At the same time, Zhang Zhiyu (2013) believes that under the traditional application system, owners will appear to "hesitate to use" maintenance funds, the phenomenon of lagging decision-making[12]. Moreover, the application and supervision system for the use of residential special maintenance funds is cumbersome and single, which cannot meet the repair needs in emergency situations in a timely manner. Wang Lele (2015) has pointed out that the "Measures" does not have a unified specification of the "general situation" and "emergency situation",

resulting in the application of "emergency situation". Procedures are too cumbersome, making the use of procedures too cumbersome to "emergency"[13].

### **3. Domestic and foreign residential special maintenance funds use management experience summary**

#### **3.1. Summary of domestic policy recommendations**

In terms of capital appreciation and preservation, Li Yehuan (2020) proposes a combination of demand deposits and time deposits to increase the value-added income of residential special maintenance funds[14]. Regarding the cumbersome application process of funds, Wang Yali (2015) proposed the establishment of a specific management system for categorized use, simplification of the use procedure of special maintenance funds, and refinement and establishment of a pre-payment system based on the degree of urgency[15].

In addition, Jiangsu Taizhou had hoped to introduce an insurance mechanism to solve the above problems, creating a housing maintenance "medical insurance" model, but Luo Jian (2014) proposed that the most significant feature of the operation of the medical insurance fund is the rapid growth of the cost, not enough to cover the expenses, which is the follow-up system needs to be focused on the consideration of the place[16].

#### **3.2. Mature Mechanisms to Draw on**

From the point of view of different systems at home and abroad, the United States through the employment of managers to simplify the application and use of procedures, through the fund company to transfer the information asymmetry, and by the fund company through the cooperation of banks and other institutions to promote value-added preservation of funds [17]. Singapore, on the other hand, mainly strengthened the independence of each subject, the property company is only responsible for bidding tasks [18]. Hong Kong, China has set up an insurance system to strengthen supervision and capital preservation through the introduction of insurance companies, and property owners can directly apply for compensation from insurance companies [19].

### **4. Summary and Outlook**

From a comprehensive point of view, the above problems are most feasible to be circumvented through the insurance mechanism in the proposed programs, and the management of maintenance and funds of common parts is designed as an insurance product, modeled on the introduction of a third party in foreign countries, and the insurance company can be utilized in addition to the regulation to promote the value-added preservation of funds. If you follow the "checklist" your paper will conform to the requirements of the publisher and facilitate a problem-free publication process.

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