

## **SERVICE CHARGES PAYABLE BY HOME OWNERS**

Your questions answered.

As a home owner, you may be required to contribute to some of the running costs of where you live. The Association of Retirement Housing Managers (ARHM) Code of Practice ([available here](#)) will answer most of the questions which you have about service charges.

In this guide, ARHM answers some of the questions which home owners ask the ARHM's members about service charges.

### **What does the service charge pay for?**

If you previously lived in a self contained house, then if you move into a block of apartments, you will no longer need to organise and find the money to pay for the repair and upkeep of your house such as; repairs, building insurance, gardening, external painting, repairing drives, fencing, footpaths.

The service charge will be different from estate to estate, but some of the things which might be included are:

Building insurance (for fire, flood, storm etc.), maintenance of the shared parts of the building, gardening, lighting or heating the shared rooms, corridors or stairways, on-site manager (employer's costs of salary, tax, national insurance, pension), costs of running an on-site office, reserve fund ( like a savings account) which will pay for the future renewals of furniture, carpets etc., monitoring a call system, laundry window cleaning, managing agent's fee, service contacts for lift, fire detection, call system, emergency lights.

### **How much will my contribution be?**

The amount you contribute along with your neighbours' contribution will be explained in the lease or transfer document. Sometimes it will state a fraction, or a percentage, or sometimes it will say that you should pay a reasonable share. This might mean that you will pay a share of the lift costs, even though you live on the ground floor.

### **How is a service charge set?**

The budget for the service charge is usually set for a 12 month period. It should be set some months before the money is needed for the budget. Your managing agent will start to obtain quotes from contractors, look at the costs to date, then allow for any increases or reductions which need to be made. An ARHM member will then send the draft budget to you and invite you to a meeting to discuss the service standards and costs. The budget will start to be used at the start of the financial year which is stated in your lease.

### **What do you mean by the financial year and where does that come from?**

The financial year is an accounting period, usually of 12 months. It will usually be described in your lease or transfer document. E.g. "The annual period ending March 31st".

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### Must the managing agent hold a meeting to discuss the budget?

This is good practice and all ARHM members should be doing so. If your managing agent is not an ARHM member, then unless the lease requires it, they are under no obligation to meet you before they set the service charge.

### What happens if the budget is wrong?

Your managing agent will use the best information they have available when they set the budget. The service may change after the budget has been set or during the course of the year. From time to time, the actual costs may be different to what was estimated. If the cost of one part of the service is higher than the budget, then that service cost will be shown on a service charge account as over spent. There may be other parts of the service which cost less than was budgeted. In that case, they will show as a surplus. This is all wrapped up in an annual service charge account which the managing agent will determine after the financial year end.

### What happens to the surplus, or over spend?

Any surplus belongs to the home-owners but the lease or transfer document will explain what actually happens to the money. It might be refunded, or offset against future bills. If there is an over spend, then it will need to be paid by the home-owners. The lease or transfer document will explain what actually happens to the money. A secondary invoice might be issued to you, or it might be added to a future invoice. If the lease offers a choice, then you can discuss with your managing agent how this should be treated.

### Must the managing agent hold a meeting to discuss the annual account?

All ARHM members will hold one at least one meeting a year to discuss your service charge. You can also request to see the invoices they have approved.

### My apartment has not been occupied for several months. Must I pay the service charge even though the apartment is empty?

Sometimes a property will become empty for example whilst it is for sale. The lease or transfer will explain how much each home-owner's contribution is. It is not possible to discount just one service charge, since there would not be enough to pay for the cost of the service. E.g. Ten leaseholders each pay one tenth of the cost of the services. They each pay £100 towards the £1,000 cost of servicing the lift. If one leaseholder did not pay, then there would be only £900 to pay the bill. The lease for the other 9 does not permit the landlord to recover the extra £100 from them, so there isn't enough to pay the bill.

### Can the managing agent take commission or keep a rebate when they buy services on behalf of the leaseholders?

This is lawful but not all managing agents take commissions or rebates in this way. Some managing agents use the income from this source to keep their management fees lower.