

ARHM GUIDANCE FOR LEASEHOLDERS

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](#)) aims to answer most of the questions you may have about service charges.

In this guidance, ARHM answers some of the questions which home owners regularly ask our members about service charges.

What does the service charge pay for?

Service charges differ depending on the building you live in and the wider development /estate. Your lease will explain what the services are and how the charges should be calculated.

Examples of items provided and charged for in service charges include:-

- Buildings Insurance – cover for fire, flood, storm etc
- Maintenance of the external structure, and the shared parts of the building
- Gardening and Grounds Maintenance
- Lighting and heating of shared areas including communal rooms, corridors and stairways
- The servicing and repair of lifts
- The dedicated Scheme Manager, sometimes also known as the Estate Manager, Court Manager or House Manager
- Costs of running an on-site office
- Reserve Funds or Sinking Funds – a savings account for future renewals and major works
- On-call emergency monitoring services
- Provision of a communal laundry
- Window Cleaning
- Servicing of Fire detection systems, fire equipment, and emergency lighting
- Regular Fire Risk Assessments of the building and any works associated with the outcomes
- Management Fee – the cost of managing all of the services

This list is not exhaustive. Your Landlord or Managing Agent will be able to tell you which services you are paying for.

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. You will usually pay a share of all of the costs of the services

in your building; this can include the servicing and repairing of lifts even for residents living on the ground floor.

How is a service charge set?

A service charge budget is usually set a few months before the start of the year. Your landlord or managing agent will start to obtain quotes from contractors, look at the costs over previous years, and allow for any inflation or changes that they know about. They will anticipate what maintenance or repairs works might be needed in the year ahead, factoring in the age and condition of the building and plant. They will then set an estimate or budget which will be your service charge for the year ahead. They will invite you to a meeting to discuss the services, the standards of these services and estimated costs for the year ahead. The new service charge will start to be used at the start of the financial year which is stated in your lease.

What is a Sinking Fund?

Some leases require the landlord or managing agent to set up a fund for future major works where the cost in one year is likely to be high. The Sinking Fund, also known as Reserve Fund or Capital Fund can be built up by annual contributions through the service charges so that when larger items of works such as renewal are required, there are funds available to pay toward these works. Sinking Funds often also include for cyclical works such communal redecoration.

Some leases require that the Sinking Fund or Reserve Fund is built up, not by annual contributions through the Service Charge, but by the payment of a sum on re-sale of the property linked to the property value and length of occupancy.

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 likely be described in your lease or transfer document. For example. "The annual period ending March 31st".

Should the managing agent hold a meeting to discuss the service charge budget?

This is good practice and all ARHM members should be doing this. 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 estimated service charge for the year.

What happens after the end of the financial year?

Your managing agent will use the best information they have available when they set the budget, but final costs for the year are very likely to be different from those estimated. It is difficult to predict exactly what repairs will be needed throughout the course of the year and services may change after the budget has been set. If the cost of one part of the service is higher than the amount budgeted, 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. This is all wrapped up in an annual service charge account which the managing agent will compile for you after the financial year end which will show the total costs for the year in relation to the amount collected (the service charge budget).

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 overspend resulting in a deficit for the year, 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.

Should 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 make a request to see how the charges have been calculated and you can ask to see any supporting documents such as the invoices they have paid.

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 be empty for example whilst it is for sale. The lease or transfer explains how much each home-owner's contribution is, and this is regardless of whether the property is occupied or not. It is not possible to discount just one service charge, and the full amount is due at all times.

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. They must inform you if this is the case. Some managing agents use the income from this source to keep their management fees lower.

Do I have the right to be consulted about large items of expenditure?

You have the rights under legislation to be formally consulted before your landlord or managing agent enters into a contract for works that will result in costs of more than £250 per service charge payer in any one year.

You also have the right to be consulted before your landlord or managing agent enters into a long term (in excess of 12 months) contract to provide services that will result in costs of more than £100 per service charge payer for any one year.

Statutory schedules lay out the consultation process and timelines that must be followed; these depend on the scale of the works and any previous consultation that may have been carried out.

Landlords and managing agents who are members of ARHM are required to consult to a greater degree than is laid out in statute to aid understanding and involvement of all parties.

What if I don't pay the service charges?

If you don't pay your charges due and debt builds up, then your landlord or managing agent will take action to recover this debt. They will try to speak with you at first to check why the debt has occurred. They will offer you help and signpost you to where you can get further advice if you need it.

If your debt continues to increase, and you don't come to an agreement on how you will repay the debt, your landlord may take action in the Courts to seek to recover the debt owed. This could result in repossession of your home. Repossession (forfeiture) will only be taken as a very last resort when all other actions have failed to result in payment.

Do I have the right to challenge Service Charges?

A leaseholder (or landlord) can apply to a First-tier tribunal and ask them to make a determination about whether a service charge is payable, including whether costs incurred for services, repairs, maintenance, improvements, insurance or management have been reasonably incurred or whether services or works are of a reasonable standard.

You should speak with your landlord or managing agent before using a formal process such as an application to a tribunal. You may be able to come to an agreement without the need to take such action.

Where can I get further advice about service charges?

The Leasehold Advisory Service offer free independent advice to leaseholders which includes service charge advice.

Citizens Advice and Age UK may also be able to assist.

DISCLAIMER:

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