

# Service Charge Policy

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## 1 Policy Details

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Drafted by	Head of Finance and Rent and Service Charge Management Accountant
Contributors	Operational teams
Responsible Director	Executive Director of Finance

## 2 Policy Statement

The purpose of this policy is to provide a framework for the legal, regulatory and operational management of service charges. This policy sets out the aims, obligations, and requirements of South Liverpool Homes (SLH) in respect of service charges. SLH strives to be clear, consistent, and fair in our approach to:

- Service charge management and administration
- Compliance with relevant legislation, regulation, guidance and best practice

The policy applies to tenants and leaseholders and is supported by a clear procedure for implementation. Collection of charges is managed through our Income Management Policy.

## 3 Policy Aims

The aim of this policy is to ensure that SLH is:

- Clear and transparent in how we set service charges and the information we provide to our tenants and leaseholders
- Provide fair service charges for our rented, shared ownership and leasehold properties
- Demonstrate value for money
- Maximise income to recover the full costs of the services provided

## 4 Service Charge Definition

A service charge is a payment made by a tenant or leaseholder for services received in connection with the occupation of his or her home. The service charge is used by the landlord towards the costs of providing and maintaining services and benefits to them beyond the benefit of enjoying the occupation of their individual home. The charge will be detailed within the tenancy agreement or lease and is not optional.

SLH operates two types of service charges - fixed and variable. Whether a tenant, shared owner or leaseholder is subject to a fixed or variable service charge is contained in the tenancy agreement or lease. Where a tenant's agreement allows us to move from a fixed service charge to a variable service charge, we may do so by giving one month's notice.

There are service charges which are added after the tenancy start; these are often for adaptations. In these instances, an affordability assessment will be carried out with the tenant before any works requiring a service charge are agreed, and a tenancy change notice will also be issued by Neighbourhood Services.

### 4.1 Fixed Service charges

A fixed service is one where the provisions of the tenancy agreement do not require the service charge to be set on review (usually annually) according to actual costs incurred.

If the actual costs of services at the end of the financial year are higher than the estimate used to set the service charge income, SLH cannot recover the deficit from the tenant. If the actual costs of services are lower than the estimate used to set the service charge income, SLH will retain the surplus.

There is no duty to consult with tenants about the services provided but there is a duty to inform them. A breakdown of the fixed service charge will be provided with the annual rent increase letter. Tenants with a fixed service charge do not have statutory rights under Section 18 of the Landlord and Tenant 1985 Act

## **4.2 Variable Service Charges**

Variable service charges are set in accordance with the provisions of the tenancy agreement or lease. Variable service charges allow the landlord to change the service each year (and during the financial year depending on the particular provisions) according to actual costs incurred or estimated.

Section 18 of the Landlord & Tenant Act 1985 defines a variable service charge as 'an amount payable by a tenant of a dwelling as part of or in addition to the rent which is payable, directly or indirectly, for services, repairs, maintenance, improvements or insurance or the landlord's costs of management; and the whole or part of which varies or may vary according to the relevant costs'. This legislation only applies to variable service charges.

## **4.3 Service Charge Accounts**

We will maintain a comprehensive monitoring system to ensure that only costs reasonably incurred as a direct result of providing services are attributed to services and recharged.

Tenants and leaseholders with a variable service charge will receive a budget annually which sets out the expected costs in the next financial period. The service charge levied against the tenant or leaseholder in the next financial year can include both eligible and ineligible aspects. These different aspects will be apportioned and the appropriate amount highlighted as eligible to tenants and leaseholders in their budget. Shortly after the end of an accounting period (and within 6 months) a statement of account will be provided which compares the actual expenditure to the budget for the preceding period. These accounts will identify any surplus or deficit arising from the actual expenditure which will be accounted for in line with the lease. These will be carried forward to the next accounting period.

The normal accounting period is 1 April to 31 March. The exception to this is two leaseholders where the lease provides the accounting period is 1 January to 31 December.

## **5 Service charge costs**

### **5.1 Items Deemed to be Services**

The service charges paid by a tenant or leaseholder will depend on where they live and what services are provided. Sheltered schemes will, by their nature, have more services than general needs accommodation. Services can include but are not limited to:

- Staffing costs
- Communal heating and hot water
- Communal lighting
- Communal cleaning and refuse disposal
- Communal carpets and furnishings

- Communal laundry equipment, white goods, and specialist equipment
- Equipment and installations
- Communal TV aerials
- Door entry systems
- Electrical testing of communal equipment
- Grounds maintenance and tree pruning
- Communal grounds and car parking
- Communal water rates
- Personal gas and water
- Management costs
- Audit fees
- Passenger or individual lift

## **5.2 Items not deemed to be services**

Excluded items can include but are not limited to:

- Repair, maintenance and insurance of a dwelling structure, including fixture and fittings within the dwelling as specified in section 11 of the Landlord and Tenant Act 1985, are not chargeable to tenants as they are paid for as part of their occupational rent. They are chargeable to leaseholders subject to the terms of their lease.

## **5.3 Management Charges**

SLH will apply a management charge which is a percentage of the total costs of the services for the relevant period. This is to cover the costs of management of the block and the service and maintenance contracts. The percentage of the management charge will depend on the terms of the tenancy agreement or lease but in most cases will be 10%-15%.

## **5.4 Administration Charges**

Where the lease or tenancy agreement provides for it, SLH may charge an administration charge. This will be for such things as (but not limited to) dealing with queries in relation to accounts, providing copy documentation dealing with assignments and queries from solicitors.

## **5.5 Capital Replacement**

To ease the financial burden of major works required to a building, the payment will be built up over a period of time. There are two ways SLH will recover costs for capital replacement items.

1. For tenants the cost of capital items such as lifts, door entry systems, alarm systems etc. will be depreciated over their anticipated lifecycle to cover the costs of installing them. This is in addition to service contracts and maintenance costs.
2. For leaseholders the costs will be deducted from the sinking or reserve fund balance. Where the sinking or reserve fund does not cover the cost of the replacement the shortfall will be invoiced to the leaseholders.

## 6 Sinking and Reserve Funds

All of our leases contain a clause to allow us to collect contributions towards a sinking or reserve fund. These funds are then used to pay towards the costs of major items of repair such as replacement roofs or replacement service items such as a lift, door entry system or fire alarm system. This ensures leaseholders will not receive large invoices when such works or capital replacements are carried out. It also means that SLH have the money in hand and can do the work as soon as possible.

Sinking or reserve funds are held in a designated bank account in trust in compliance with Section 42 of the Landlord & Tenant Act 1987. Stock Condition Surveys provided by the Asset Management team are used to estimate the amount of money SLH will need to spend on major works or capital replacement in the long term. This information is used to help us estimate the amount of money we will need to collect into the sinking or reserve fund. Stock condition surveys will be reviewed periodically to keep pace with changes in component life cycles, costs and obsolescence. The presence of a sinking or reserve fund does not, however, negate the requirement to carry out a full Section 20 consultation where the costs per unit require this. SLH will continue to maintain accurate sinking funds held in trust for our leaseholders.

## 7 New Developments

Service charges for new properties will be set during the development phase by identifying:

- Definitive services to be provided and recharged
- The apportionment required (eg. per unit, bedroom size, floor area), if stated in the lease or tenancy agreement

This will enable an initial estimate of costs for the provision of communal services to be prepared. The estimated costs will be based on a combination of initial quotations for the provision of services and comparable costs from similar developments.

Accounting period should be 1 April to 31 March to align with other leaseholders and tenants.

For affordable rented properties, it is imperative that service charge costs are submitted by the Developments Team when acquiring a RICS valuation.

## 8 Secure Tenancies

Secure tenancies are subject to the Fair Rent Rules and the Rent Act 1977. Their rent including service charges can only be set every 2 years by the Valuation Office Agency. SLH need to apply for a registered rent when we want to increase the rent and service charges above the current registered rent. We cannot apply for a new registered rent until 1 year and 9 months has elapsed since the previous registration. SLH cannot charge more than the registered rent, but we can charge less. If the rent and service charges are below the registered rent SLH will review them annually in line with the assured tenants until a new rent needs to be applied for.

## 9 Consultation

SLH will carry out consultations in relation to service charges in the following instances:

- Where we wish to carry out works which will cost more than £250 per customer or enter into long term agreements which will cost £100 or more per year per customer. This is in compliance with Section 20 of the Landlord & Tenant Act 1985 as amended by the Commonhold & Leasehold Reform Act 2002.
- When we wish to provide additional services or remove or modify services.
- When we wish to move from fixed to variable or variable to fixed service charges.

Section 20 consultation is a formal consultation requiring specific information to be provided to customers in a standard format and giving them the opportunity to comment on the proposals. They can also nominate a contractor (unless the contract is of a high enough value to require advertisement in the Journal of the European Union (OJEU)).

If a formal Section 20 consultation is not required, SLH will still consult in relation to any work being carried out. This will include the provision of information on the changes being made, the reasons for the changes and the financial impact.

## 10 Customer Standards & Performance Monitoring

### 10.1 Customer Care

SLH will respond to any customer queries, concerns, or complaints, or other feedback about this policy within our service standards, general best practice, and the law.

### 10.2 Performance Monitoring

The Director of Finance is responsible for monitoring performance against this policy, the supporting procedure, relevant customer feedback, and general service charges management and administration.

### 10.3 Right to Appeal

SLH aim to satisfy customer expectations by consulting with them and by providing tenants and leaseholders with timely, accurate and relevant information on service charges.

SLH will attempt to resolve dissatisfaction through its Customer Feedback Policy.

Those charged a variable service charge have the right to appeal to the First Tier Tribunal of the Valuation Office Agency. Secure tenants can appeal to the Rent Assessment Committee. Those with a fixed service charge are not governed by S18 of the Landlord & Tenant Act and do not have any rights under it therefore are limited to SLH's Customer Feedback Policy.

## 11 Policy Review Considerations

### 11.1 Equality Impact Assessment

An Equality Impact Assessment was completed in developing this policy and the outcomes have been included within this document.

## 11.2 Customer Influence

SLH will continue to work with its established tenants' group in relation to service charges, ensuring their views are taken into account and particularly how changes are communicated to tenants and leaseholders.

## 11.3 Value for Money assessment

SLH is regulated by the Regulator of Social Housing Value for Money Code of Practice and Value for Money Standard. It is our policy to ensure best value for money providing the most advantageous combination of cost, quality, efficiency and effectiveness to meet customer needs.

## 12 Relevant Legislation

SLH will comply with current legislation and will operate this policy within the current statutory framework, this includes:

- Landlord & Tenant Act 1985 and 1987
- Commonhold & Leasehold Reform Act 2002
- Housing Act 1985, 1986 and 1988
- Service Charges (Consultation Requirements) (England) Regulations 2003 and 2004
- Service Charges (Summary of Rights and Obligations and Transitional Provision) (England) Regulations 2007
- Leasehold Reform, Housing & Urban Development Act 1993
- Rent Act 1977
- Landlord and Tenant Act 1954
- Housing (Service Charge Loans) Regulations 1992
- Housing Benefit Regulations 2006

## 13 Associated Policies

- Rent Policy
- Right to Buy and Right to Acquire Policy
- Tenancy Management Policy
- Asset Management Policy
- Repairs and Maintenance Policy
- Compliance Policy
- Chargeable Repairs Policy
- Allocations & Tenure Policy
- Procurement Policy
- Home Ownership Policy
- Equality and Diversity
- Customer Feedback Policy
- Income Management Policy
- Every Penny Counts Strategy
- Adaptations Policy