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Service Charge Policy

Title	Service Charge Policy
Date Created	July 2019
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Approver	Board of Management
Applies to	General Needs Social Tenanted, Leasehold, Shared Ownership, Freehold

This policy applies to all residents with an occupancy agreement (tenancy agreement, lease or freehold transfer) with CDS. It does not apply to properties owned by clients, but clients may choose to adopt this policy as their own.

1 Purpose

- 1.1 The purpose of this policy is to provide a framework for CDS's legal, regulatory and operational administration of residential service charges and to describe our approach to managing them in line with our values.
- 1.2 CDS aims to:
 - Deliver services that are effective and well-managed and meet resident reasonable expectations and needs.
 - Ensure service costs are reasonable, whilst regularly looking to improve value for money.
 - Calculate and administer service charges fairly and transparently.
 - Comply with relevant legal, statutory and regulatory requirements.
 - Recover all reasonably incurred service costs.

2 Definitions

- 2.1 **SERVICE CHARGE:** According to Section (18) 1 of the Landlord and Tenant Act 1985, a service charge includes any costs incurred by a landlord in connection with the supply of services, repairs, maintenance, improvements or insurance or management costs; and the whole or part of which varies or may vary according to the relevant costs. These costs for services are payable by a tenant of a dwelling as part of, or in addition to, the rent. In this context, the term "tenant" refers to a resident with whom CDS has an occupancy agreement.
- 2.2 **FIXED SERVICE CHARGE:** In accordance with the terms of their tenancy agreements, all CDS tenants are charged a fixed service charge, which is an amount charged for services based on an estimated figure set at the beginning of the year. Fixed service charges cannot vary within any given financial year. This means that if the amount charged is less than the actual costs incurred, CDS will have to fund the deficit and if the amount charged is more than the costs incurred, CDS will absorb the surplus.

- 2.3 VARIABLE SERVICE CHARGE: All CDS shared owners, leaseholders and freeholders are subject to a variable service charge, which is where an amount charged for services is allowed to change to cover the actual costs of the services provided. With variable service charges, the cost to provide the year's services are estimated at the beginning of the financial year. A final account is produced after the end of that year, which compares the estimated and actual costs for the services and adjusts the amount owed by the homeowner. This may result in a surplus or deficit, which will be charged or credited to the homeowner's account.
- 2.4 MANAGEMENT FEE: A management fee is a flat fee or percentage of the total annual cost of services that is intended to cover the costs CDS incurs in arranging, managing and administering services and charges.
- 2.5 SINKING FUND: A sinking fund is a pot of money that CDS controls to which eligible residents contribute monthly through their service charge. The value of the sinking fund increases over time to help offset the cost to residents of major or cyclical works, as determined by CDS.

3 Services

3.1 Services Provided

- 3.1.1 Services are generally provided on estates and in blocks of flats. Depending on the type of property and estate, residents may have block charges, estate charges or both.
- 3.1.2 Houses that are not part of an estate and share no communal space may have no service charges, except for insurance and audit fees for homeowners where leases require the landlord to insure properties.
- 3.1.3 Typical service charge categories include, but are not limited to:
- Cleaning of internal communal areas
 - Communal gardening and grounds maintenance
 - Bulk refuse removal
 - Maintenance contracts for lifts, door entry systems or communal aerials
 - Communal lighting
 - Communal internal pest control
 - Health and safety compliance costs
 - Communal repairs and maintenance (*homeowners only*)
 - Property insurance (*homeowners only*)
 - Audit fees (*homeowners only*)
- 3.1.4 All residents who pay a service charge will also be charged a management fee, which generally will not exceed 10% of the total charge for services.

3.2 Health and Safety Compliance Costs

- 3.2.1 Landlords have a legal obligation to carry out a variety of health and safety activities and tests in blocks to ensure safety equipment like smoke alarms and emergency lighting operates correctly and to make sure the block is kept in safe condition. We will recover the costs of these activities as part of the service charges where we are required to carry them out.

3.2.2 Grouped in the service charges as “compliance costs” this includes, as applicable:

- Fire risk assessments
- Fire alarm and other fire equipment testing
- Communal asbestos tests
- Legionella testing where we have communal water tanks
- Emergency lighting tests
- Communal electrics tests
- Lightning protection
- Lift inspections

Compliance charges can also include other eligible safety compliance requirements resulting from changes in law or regulation

3.3 Sinking Funds

3.3.1 CDS maintains sinking funds for some estates where leases allow it.

3.3.2 CDS tenants are never required to contribute to a sinking fund because the cost of repairs is included in the rent.

3.3.3 Once money is paid into the sinking fund, it becomes a communal contribution to eligible works, the benefit of which is apportioned to properties per the apportionment descriptions in the lease or transfer. Residents cannot take their contributions with them when they move and there is no obligation for the money contributed by an individual to match the benefit they ultimately receive.

3.3.4 Sinking funds are intended to help homeowners by reducing the impact of larger works costs. There is no requirement for, nor should there be any assumption that, landlords accurately estimate and collect sinking funds so as to prevent any shortfall for future major works. It is ultimately the homeowners’ responsibility to ensure they are prepared for any property-related costs that may arise.

3.3.5 Sinking funds are generally applied toward major or cyclical works. As the freeholder, CDS will determine when an expense should be paid from the sinking fund and when homeowners will be charged through the annual service charge accounting process.

3.4 Major and Cyclical Works for Homeowners

3.4.1 Major and cyclical works for homeowners are treated the same as service charges, according to the lease. This means costs for these works will be apportioned in the same way as annual service charges.

3.4.2 For clarity and ease of administration, we may issue supplementary invoices for services or works of significant cost that are not included in the service charge estimate and where the sinking fund does not cover the cost.

3.4.3 For major or cyclical works where the sinking fund does not cover the full cost, CDS may offer payment options to ease the burden of cost. These options are offered solely at the discretion of CDS, as they are outside of the terms of the leases.

4 Apportionments and Calculations

- 4.1 Service charges are typically broken down into estate and block charges.
 - 4.1.1 Estate charges are for services that benefit the entire estate or to which all residents of the estate have access even if they do not make use of them.
 - 4.1.2 Block charges are typically for services provided to a block of properties or within the communal areas of a block. However, if a scheme is comprised exclusively of one or more blocks (no houses), all charges may be classified as estate charges because all residents are liable for the costs.

For homeowners

- 4.2 For homeowners, apportionments will follow what is written in the lease/transfer. Where the total apportionment for the estate or block does not add up to 100%, CDS will adjust apportionments proportionately to achieve 100%, or as close as reasonably possible.

For tenants

- 4.3 For tenants, service charges are fixed. The annual service charge is calculated through a combination of estimating the cost of services for the coming year and reviewing the actual expenses from the prior year. When estimating the cost for the coming year, CDS staff review known future costs, like gardening or cleaning contracts and forecast likely upcoming costs based on their knowledge of the estate, like tree pruning, bulk rubbish removal and pest control.
- 4.4 Although the aim is to recover the actual cost of eligible services, CDS may cap annual increases in service charges for tenants for any individual property if the calculation would result in an unreasonable increase from one year to the next. This decision will be made as part of the rent policy each year.
- 4.5 Estate charges are divided equally by the number of properties on the estate.
- 4.6 Block apportionments are calculated by giving each property in the block a value and dividing the value for a single property by the sum of the values of all the properties where studios have a value of one and the value increases by one for each bedroom.
 - 4.6.1 Properties will be determined to be part of a block if the home is included in the fabric of the block. This includes properties with private entrances and maisonettes who do not require access to a communal entrance or corridor.
 - 4.6.2 All properties will be charged for all eligible services, whether or not the residents use the services (e.g. ground floor properties will be charged for lift maintenance contracts and block properties with separate entrances will be charged for door entry systems and compliance costs).

- 4.7 Service charges cover services for common area/communal services. Individual households may also be subject to personal charges in addition to rent and service charge. Personal charges are for services or costs that are specific to that property (e.g. stair lift).

5 Documentation and Notification

- 5.1 New tenants will receive notice of their service charge amount and what the charges cover before they move into their property.
- 5.2 All existing residents will receive notification at least one month before the new service charge takes effect. This will usually be by 1 March with the annual rent change notice, where applicable, unless the occupancy agreement states otherwise.
- 5.3 The annual service charge documentation will include the following information:
- The total periodic charge for services (*this is an estimate for homeowners*).
 - The total combined periodic charge due to CDS for rent, service charge, ground rent and other charges, as applicable.
 - A breakdown of service charge categories and the cost for each.
 - A description of the costliest categories and explanations for the charges.
 - Information about how to pay.
- 5.4 Homeowners will also receive final accounts in accordance with Section 20B of the Landlord and Tenant Act 1985, which usually means they are sent within six months of the end of the end of the financial year. This information pack will include the following documentation:
- An accounting of all invoices received within the service charge period and how this total compares to our estimate. The statement will show whether there is a surplus or deficit to the resident along with how much is owed or will be credited to the account.
 - A certificate stating that the accounts have been reviewed by an external auditor, will show the actual service charge costs for the past year and indicate whether there is a surplus or deficit to the resident along with how much is owed or will be credited to the account.
 - A credit note or payment demand.
 - A sinking fund statement, where applicable.
 - A summary of homeowner rights and obligations related to service charges.

6 Resident Engagement

- 6.1 CDS will consult and inform residents in line with statutory requirements, including carrying out a “Section 20 consultation” for homeowners as prescribed by Section 20 (1) of the Landlord and Tenant Act 1985, as amended, when appropriate. Section 20 limits the contributions residents on variable service charges are required to pay unless the consultation has been carried out appropriately or dispensed by the appropriate tribunal.

- 6.2 For tenanted properties, CDS may increase or add to the services provided on any estate after consulting with the affected tenants. CDS may also remove, reduce or vary services, as appropriate.
- 6.3 Where possible and practical, CDS will aim to consult with residents when choosing contractors to provide services or when determining whether to change the services provided. We will prioritise giving residents a say in which gardeners and cleaners are used, as we recognise these are the services residents about which residents commonly feel the strongest.
- 6.4 Residents can provide feedback on existing services or suggest adding or changing services or contractors at any time by contacting their Housing Officer/Leasehold Advisor or emailing TalkToUs@cds.coop.
- 6.5 Residents are invited to join their Housing Officer/Leasehold Advisor and attend monthly estate inspections to review the quality of gardening, cleaning and other services on site and to provide feedback on services which may feed into contract management discussions. Estate inspection dates are usually listed on a block notice board and on the CDS website. For specific inspection times, residents should contact their Housing Officer and register their interest in attending the inspection.
- 6.6 Residents who feel service charges have been calculated incorrectly or have other concerns related to services on their estate can raise a complaint, which will be handled through the CDS Complaints Process. Leaseholders can also go to the First Tier Tribunal (Property Chamber).

7 Value for Money

- 7.1 CDS endeavours to ensure that all service contracts are cost-effective and represent good value for money.
- 7.2 Housing Officers/Leasehold Advisors carry out monthly estate inspections where gardening or cleaning services are provided by a third party. They score the quality of work and use this information to inform contract performance discussions to ensure work is being carried out, as expected, and contractors are attending per the terms of the agreement.
- 7.3 Although landlords are not obligated to secure the lowest price for services, we routinely review the cost and frequency of services and seek ways to reduce costs for residents. We are always open to ideas from residents on how to achieve increased value for money in service charges.

8 Equality and Diversity

- 8.1 CDS will ensure that this policy is applied fairly and consistently and will not directly or indirectly discriminate against any person or group in line with equality laws and principles.

- 8.2 We will act sensitively toward the diverse needs of individuals and communities and will take positive action or make reasonable adjustments, where appropriate.

9 Monitoring and Compliance

- 9.1 CDS monitors how service charges provide value for money. This information is reported to the Senior Management Team and Board of Management as part of our annual Value for Money report.
- 9.2 Each month as part of the management accounts, the Senior Management Team and Board of Management receive information that shows our performance in recovering the costs incurred in providing services to residents.
- 9.3 Service charge calculations are checked by staff in the finance and housing teams to reduce the risk of errors and reports are provided to managers and senior managers highlighting notable changes in service charge amounts from year-to-year.
- 9.4 The year-end accounts for variable service charges are certified by auditors and the certificate is provided to homeowners with their final accounts.

10 Legislation and Regulation

This policy is informed by the following legislation and regulation:

- Value for Money Standard 2018
- Tenant Involvement and Empowerment Standard 2017
- Landlord and Tenant Act 1985 & 1987
- Regulatory Reform (Fire Safety) Order 2005
- Commonhold and Leasehold Reform Act 2002

11 Associated Policies and Procedures

The following procedures are associated with this policy:

- Estate management procedure

This policy is supported by:

- Rents policy
- Complaints policy
- Health and safety policy

Version control

Date	Amendment	Version control
July 2019	Created following an audit of service charges	v.1