

# Service charge policy

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## Why we have this policy

This policy explains our service charge arrangements for residents.

We want to be open and honest about the types of services we charge for, the way we calculate charges so that they're fair, how we charge for services, how we allocate costs across multiple properties and what information we give to residents.

This policy doesn't cover the following.

- Service charges where we act as managing agent for another housing association as these will be set in line with the policies of the owning association.
- Charges for a garage where this is rented under a separate licence or agreement.

# What is a service charge?

A service charge is an amount that a resident needs to pay as part of, or as well as, their rent. It covers the cost for services, maintenance and our costs for managing homes. In the case of leaseholders, it also covers communal repairs, improvements and insurance.

## Definition of a service.

A service is something delivered to a resident, property, block, scheme or estate as part of the overall housing package. For example, a grounds maintenance service or the cleaning of communal areas.

## Definition of a scheme.

A scheme is what we call a group of properties on an estate and or street. It can be made up of:

- houses sharing an area of grass
- a block of flats and some houses sharing an area of grass

A scheme is how we identify the homes that benefit from a particular service or asset and so need to share the costs of maintaining that asset or carrying out that service.

## Consulting residents

We'll consult residents about new services or changes to services. Sometimes the legislation means we'll need to consult all affected residents. On other occasions, we'll do this by involving a representative group of residents rather than everyone who's affected.

# Types of service charge

Each resident's tenancy agreement or lease agreement defines how we'll recover and share out service charges. A service charge can be known as a 'variable' one or a 'fixed' one.

Most residents have fixed service charges.

All new residents in social rented homes will be charged fixed service charges.

## **Fixed:**

We review fixed service charges every year so they're as accurate as possible and then they don't change until the next review.

If, at the end of the financial year, the actual cost of delivering the service was higher than the fixed charge, residents won't have to pay more. But they also won't get any money back if the actual cost is lower than the fixed charge.

## **Variable:**

With a variable service charge, residents pay based on an estimated cost. At the end of the financial year we compare the actual cost of delivering the service against this estimate.

If the actual cost is lower, we'll refund any difference. If it's higher, we'll charge extra.

For tenants, we carry forward any difference to the next year's estimate and add it on or take it off from those charges.

For leaseholders and shared owners, we refund or charge the difference six months after the end of their financial year.

# What we charge and how we calculate it

We apply service charges in line with the terms of each tenancy or lease agreement. We follow legislation and good practice when we calculate service charges.

## We will:

- review all service charges every year
- use the latest available information when we estimate service charges, including taking account of inflation or changes in the price or rates in any contracts
- record costs for each scheme/block and review these to check they're value for money and accurate
- divide costs in a consistent, clear and simple way between the properties which receive that service

Where a service is only for a particular group of homes or residents, we'll share the cost between those homes or residents.

Where this isn't the case, we'll share the cost between all the properties or residents in the scheme.

## Lease agreements

Lease agreements give a detailed description of what services we can charge for, including who's responsible for structural costs.

We recharge the costs of services to all leaseholders and shared owners where applicable.

### Three pieces of legislation make up the legal framework for how services for leaseholders and shared owners are set and the costs collected:

- The Landlord and Tenant Act 1985
- The Commonhold and Leasehold Reform Act 2002
- The Homes and Community Agency (HCA) Service Standards

# Paying for charges

## Statements

If residents pay a service charge, we'll send them an annual service charge statement.

For residents with variable service charges, we'll also calculate the actual costs and send them a statement within six months of the end of the financial year.

We'll investigate queries about service charge statements on an individual basis.

We'll also arrange a scheme meeting to discuss service charges in more detail if the majority of residents at a scheme ask us to.

## Review

If a resident feels we haven't kept to our Service Charge Policy, they can ask us to review our decision.

A manager will carry out this review and we'll only do this once per case.

# Getting our charges right

## **The cost of charges for new homes**

We'll make sure our service charge estimates for new developments are clear and accurate. Residents will have information on all the expected costs of their new home before they sign their tenancy or lease agreement.

We've developed a standard way of calculating service charges for new homes to make sure that services are set up and charged consistently.

## **Limiting increases**

We want our charges to remain affordable, but we recognise that sometimes the cost of a service can increase significantly for some reason beyond our control.

Any such increases are reviewed annually by the Executive Board.

## **Disregarding minor costs**

We won't charge residents for minor services where the cost of the administration involved in calculating and applying the charge would be higher than the cost of the service.

# Service charge headings

## Service charge items

The National Housing Federation's (NHF) 'Service charges: a guide for housing associations' is recognised as the best guidance on what activities and items we can charge for.

The guidance is legally robust as it's based on the principles or rules set by the courts during previous similar legal cases (case law).

The guide includes a standard list of chargeable items and this gives us a consistent framework for how we calculate and charge for services.

Our 15% management fee is also considered a reasonable level by the NHF guidelines and following previous cases where fees have been set through the courts.

The management fee we charge leaseholders is based on what's set out in their lease.

**For more information on all our service charge headings, please refer to our website:**

- [www.my.sovereign.org.uk](http://www.my.sovereign.org.uk)



# Maintaining communal equipment

In our rented houses and flats which have their own boilers, the cost of maintaining and servicing these comes from the overall rent we collect - rather than as a separate service charge.

So that we charge tenants fairly, wherever they live, we'll also maintain and service shared boilers in the same way - where they provide the heating for individual households.

## What this means

- We'll cover the cost of maintaining and servicing any equipment providing heating for individual homes (whether this is via an individual boiler or a communal one).
- If equipment's used to heat communal areas, we'll recover these costs via service charges.

We may also apply the same principle of fairness to how we charge for other services.

# Other costs

## Audit and insurance

Lease agreements specify where we need to audit accounts and provide insurance cover for a scheme. In these cases, we'll charge the leaseholders accordingly.

For rented tenancies, we see buildings insurance as our responsibility so this is covered by the rent. Audits aren't required.

### **Please note:**

All residents are responsible for arranging their own contents insurance.

## Management companies

If management companies are contracted, they deliver services to all residents at a scheme, whether they're renting, shared owners or leaseholders. This can be for services such as grounds maintenance, cleaning, maintaining lifts and looking after communal areas.

We manage the quality and cost of these services and charge the cost back to residents.

# Sinking funds and depreciation

## We'll charge for 'assets' in our homes by either:

- spreading the cost of the asset over its useful life (depreciation), or
- building up a fund (called a sinking fund) which is used to pay for replacing the asset at the end of its useful life.

We'll charge shared owners and leaseholders for sinking funds in line with the terms of their lease agreements.

We won't charge social rent residents for depreciation or a sinking fund as this is normally covered in the rent, apart from in exceptional cases where an asset is directly linked to a service.

We will charge residents in housing for older people, or supported tenants who have access to shared communal facilities, a depreciation charge for assets such as communal laundry rooms.

### What's an asset?

Assets are items (rather than services) that we make a charge for servicing and maintaining. They include things like lifts, roofs, flooring, communal windows, communal boilers, internal and external decoration, brickwork, fascias and soffits.

# Our commitment to residents and employees

We'll be transparent about our responsibilities around equality.

We'll treat everyone fairly and respectfully, regardless of their:

- age
- gender
- marital status
- sexual orientation
- disability
- religion
- race
- nationality
- ethnicity or national origin.

We'll make sure our services and workplaces are as inclusive and accessible as possible.

We'll take seriously any concerns that we've not acted in a fair way, dealing with them as quickly as we can.