



### **Service charge policy 2018-19**

Reference	COR02
Purpose	This policy details Colne's service charge setting parameters for 2018-19
Owner	Head of Customer Services
Related documents	Rent setting policy Complaints policy
Approved by	Board
Date approved	8 <sup>th</sup> November 2017
Review frequency	Annually
Last review	November 2016
Next review	November 2018
Version	Final
Author	Amy St Ledger

## Contents

	<b>Page no</b>
1 Principles	3
2 Objectives	3
3 Calculation and setting of Service Charges	4
4 Appeals in relation to service charges	6
5 Affordability	6
6 Legislative and regulatory framework	7
7 Training	7
8 Monitoring and reporting	7
9 Review date	7
10 Date of policy	7

## 1. Principles:

Service charges can be defined as “A payment made by a tenant, leaseholder or freeholder towards the cost of providing and maintaining services and benefits provided for them beyond the benefits of enjoying the occupation of their own home”.

An integral part of Colne’s provision of housing is the delivery of services to communal areas and the maintenance of those areas. Many of Colne’s developments have communal facilities which require regular maintenance, repair and renewal.

Colne operates a fixed service charge regime for its rented properties, whereby charges are reviewed and adjusted annually but operating deficits and surpluses are not carried forward to the following financial year. However, leasehold service charges are operated on a variable basis, with deficits being recoverable from leaseholders and surpluses either being carried forward to the following year or refunded to leaseholders, depending on the terms of the lease.

The aim of this policy is to ensure that our service charge policy is clear and transparent for our customers, sets out the position of service charges in relation to both our rented and leasehold properties and ensures that Colne are strongly positioned to recover the full costs of the services provided.

### Context and background

2.1 The Welfare Reform and Work Act 2016 – introduced the Social Rent Reduction published in March 2016; which requires registered providers of social housing in England to reduce Rents by 1%. **The 1% decrease also applies to Service Charges on Affordable Rent Tenancies where a service charge is applied.** The 1% reduction is regulatory requirement for 4 years from 2015/16 to 2019/20.

This Service charge policy is reviewed annually in line with our Rent Setting policy.

## 2. Objectives

Our key objectives in this policy are to:

- Ensure compliance with statutory, regulatory and contractual obligations in setting service charges, including in accordance with the terms of the tenancy agreement or lease. Where this is silent or there is uncertainty, to rely on legal advice and the current advice issued by statutory bodies.
- Ensure that our services charges are set at a level which covers the costs of providing the services, including a reasonable amount in respect of the administration of the charge(s)(currently set at 15% of the total of the service charge)
- Provide our tenants and leaseholders with clear information about service charges including which elements are eligible for housing benefit (and universal credit moving forward) and what service standards they can expect

- Regularly review expenditure against service charge budgets and adjust charges annually in response to any significant budget variances
- Ensure charges are apportioned in accordance with the terms of the lease or tenancy agreement, or where the apportionment method is not defined, apportionment charges are equally distributed amongst the residents who benefit from the services for which a charge is being levied.
- Procure services in a cost effective way, which delivers value for money and where the market is tested regularly to ensure value for money is still being achieved.

We consult our residents about the services they receive and base the scope of services and standards to be achieved around residents' preferences.

- Strong contractual management of our contractors providing the service to ensure that the service tenants and leaseholders are paying for is being delivered, to the specification and quality expected
- Develop homes where the design takes into account ongoing maintenance and service charge implications and which seeks to keep these costs at a reasonable and affordable level.
- Ensure costs remain affordable across all tenures whilst ensuring recovery of the costs incurred for services provided.

### **3. Calculation and Setting of service charges**

#### **a. New Developments**

Colne currently procures development through a jointly owned development company. Part of the services delivered is the production of detailed information on communal parts and facilities which will require ongoing maintenance and/or renewal, or which will incur a charge such as communal lighting, electricity and water supplies.

Charges will be estimated based on the expenditure incurred on similar existing schemes, or on service estimates provided by contractors.

Increasingly with developments acquired through s106 agreements, a management company is being appointed by the Developer to deliver the services across the whole development. These are set by the management company. In addition there may be additional costs we incur for providing services to our properties specifically which are added to the Management Company costs. The management company will be subject to the same legislation around setting service charges and open to challenge through the First tier Tribunal where residents or Colne (where Colne is a head leaseholder) feel the costs are excessive for the services being received.

#### **b. Review of existing developments**

Expenditure will be recorded on a scheme by scheme basis, and in sufficient detail to allow significant areas of expenditure to be monitored throughout the financial year.

Service charge budgets will be set during the third quarter of the financial year. Significant budgetary variances in the current year will be investigated, and if found to be likely to continue into the future, service charge budgets and charges for the following year will be amended accordingly. Colne will endeavour to keep any increases within inflation but significant increases in direct costs such as utility prices or contract prices may necessitate larger increases. Residents will be made aware of the reasons for such increases.

### **c. Leasehold service charges**

These charges will be set, apportioned and reviewed in accordance with the lease, legislative requirements and good practice. Deficits will be recovered and, where the lease dictates, service charge budget surpluses will be refunded to leaseholders. Provisions for future maintenance (or a sinking fund if the lease allows for this) will be informed by stock condition and planned maintenance data, which will be reviewed in partnership with leaseholders on an annual basis.

### **d. Freeholders**

Where service charges relate to freehold properties on mixed tenure estates (houses which have been sold under the right to buy or the right to acquire) Colne required freeholders will be required to have an ongoing commitment to pay these charges as part of their conveyance/transfer to ensure that Colne continues to have the opportunity to recover all costs incurred in providing services to those that benefit, regardless of tenure. A rent charge will be placed on the title to protect any covenant to pay estate/service charges if there is a transfer on to a successor freeholder these households will be invoiced no less than quarterly and in line with our current processes for our leaseholders

### **e. Management charges**

Colne aims to recover the costs of administering and accounting for service charges. These costs will be estimated annually as part of the review of service charge income and expenditure, and adjusted if there is a significant variance.

### **f. Consultation**

Colne will ensure that it complies with the statutory and legislative requirements around formal consultation on any proposed changes to service charges with both our leaseholders and tenants.

The key legislative process is the issuing of notices in accordance with section 20 of the Landlord and Tenant Act 1985 (as amended by the Common hold & Leasehold Reform Act 2002). This is a three stage consultation procedure which needs to be followed where the contribution from any one lessee to major works exceeds £250, or in the case of a qualifying long-term agreement, where the contribution from any one lessee exceeds £100 in any one financial year.

Consultation must take place with all lessees and with any Recognised Tenants' (or Residents') Association.

In the event that the consultation procedure is not followed correctly Colne will be open to challenge by its residents at the First Tier Tribunal with the potential for the Tribunal to cap recovery of the costs of works/services at £250 for major works and £100 for long term agreements.

#### **4. Appeals in relation to service charges**

Any resident receiving a service charge who feels their costs have not been set in accordance with this policy can appeal using the Complaints policy. This applies equally where residents feel that the service has not been provided in accordance with the required specification.

Leaseholders and residents are also entitled to take their case to the First Tier Tribunal for determination if they feel costs are unfair or excessive.

#### **5. Affordability**

Colne wants to ensure that service charges are affordable, whilst ensuring that costs are recovered. Each year when service charge costs are reviewed due consideration is given to previous expenditure and requirements for the future year.

Colne is committed to carrying out consultation with residents where Colne are considering the introduction of a new service, or change to a current service to ensure that residents are influencing the service they are receiving and understand the costs involved.

Service charge costs eligible for housing benefit are those in relation to provision of services for communal areas and where they are paid as a condition of the tenancy e.g. cleaning, grounds maintenance etc. These costs will generally continue to form part of the housing cost allowance under Universal Credit.

Colne recognises that affordability is a complex issue and dependent upon incomes, rents, household composition, geography and benefits, as well as how we define it. More working households are dependent upon housing-related benefits to pay their housing costs. Rents and house prices have risen faster than incomes, and welfare reforms have removed and/or reduced benefits for certain groups.

Colne takes a proactive approach in supporting our new and existing residents to ensure that they can afford to rent or buy our property and sustain costs in the long term. Our pre-tenancy work involves reviewing income to ensure residents are maximising their income, advice on budgeting and referral through to our Welfare Officer for our more vulnerable residents where additional support is identified.

## **6. Legislative and regulatory framework**

This policy complies with the following:

- Leasehold Reform, Housing and Urban Development Act 1993
- Homes and Communities Agency Regulatory Framework for Social Housing in England
- Association of Retirement Housing Managers Code of Practice on Private Sheltered Housing
  
- Landlord and Tenant Act 1985 and 1987
- Commonhold and Leasehold Reform Act 2002

## **7. Training**

We will carry out induction and refresher training to all staff involved in the service charge process to make sure they are aware of our policy. All managers will receive specific training to provide the skills and knowledge to comply with the policy

## **8. Monitoring and reporting**

8.1 The operation of this policy will be reviewed as follows:

- Through the monthly production of management accounts identifying service charge expenditure and income by scheme and by activity
- Monthly review of leaseholder service charge accounts
- Quarterly reports to the Board reporting resident satisfaction with grounds maintenance, -cleaning services and service charge income and expenditure (as part of management account reports)

## **9. Review date**

This policy will be reviewed on an annual basis

## **10. Date of policy**

November 2017