



Service Charge Policy

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Introduction

1. Purpose

1.1 The key objectives of this policy are: -

- To ensure that the services we provide are reasonably required and provide value for money to customers.
- To set service charges/estate rentcharges at a level that ensures they remain affordable with minimal year-on-year fluctuations whilst ensuring that Connexus continues to meet its statutory and contractual obligations to customers.
- Subject to the requirements of individual occupancy agreements, to adopt a consistent approach to the calculation, apportionment and recovery of service charges/estate rentcharges from all homes within the scope of this policy.
- To ensure that service costs and charges meet necessary legal and regulatory requirements.
- To offer a range of alternative methods of payment so that the collection of service charges/estate rentcharges is flexible, economical and effective for both customers and Connexus.
- To work in partnership with customers in determining what services are provided, the standards they are provided to, and where possible how they are provided (subject to express terms of occupancy agreements);
- To regularly assess the quality, effectiveness and cost of the services provided.
- To keep customers informed about our performance against the agreed standards.
- To ensure that service charges/estate rentcharges recoup all reasonable costs incurred in the provision of services acknowledging this may not be possible where there is a fixed service charge.

1.2 Scope: The policy applies to the whole of the Group. This means Connexus Homes Limited, (ultimate parent) and all of its subsidiaries; in particular the policy applies to all tenancies and leases of properties owned and directly managed by Connexus where the occupancy agreement specifies a requirement for payment of a fixed or variable service charge and where Connexus provides services to freehold properties where the freeholder is obliged to pay an estate rentcharge. This includes general needs and independent living schemes; supported housing, shared ownership and leasehold/ freehold homes. Commercial properties are not covered by this policy.

2. Problem to Solve

- 2.1 This policy explains how Connexus will approach setting and reviewing service charges, estate rentcharges and administration charges for its homes and details how these charges will be communicated to our customers.
- 2.2 The overall aim of this policy is to ensure that: -
- Services are provided for the general enjoyment and benefit of all customers who have access to the service in a particular location either because the majority of tenants want them, or we have a responsibility, as a landlord, to provide them. The costs of providing these services are recovered through service charges and/or estate rentcharges.
 - The range of services provided depends upon the nature of each particular property and the terms of their particular occupancy agreement. Customers will only be charged for services they receive and which they are obliged to provide under their occupancy agreement.
 - Service charges and estate rentcharges will be reviewed annually with the aim of recovering actual costs plus an amount for management, acknowledging this may not be possible where there is a fixed service charge. The service charge will remain unchanged for a year unless, following consultation with tenants, the level of service provided alters or a new service is introduced and the occupancy agreement permits this.
 - Service charges and estate rentcharges will be applied to the property, not the occupier. If a tenancy is ended or the leasehold or freehold transfer is transferred during the financial year, there will not be any reimbursement of service charges or estate rentcharge for the previous year or any request made for the customer moving out to pay any underpayments.
- 2.3 The calculation and collection of service charges is largely dictated by legislation:
- Landlord and Tenant Act 1985 Sections 18 to 30
 - Landlord and Tenant Act 1987 Section 42 and 47 to 48
 - Housing Acts 1988, 1996 and 2004
 - Commonhold and Leasehold Reform Act 2002
 - The Service Charges (Consultation Requirements) (England) Regulations 2003
 - The Service Charges (Summary of Rights and Obligations and Transitional Provision) (England) Regulations 2007
 - Social Landlords Mandatory Reduction of Service Charges (England) Directions 2014
- 2.4 The legislation states that all variable service charges should be reasonable. This means:
- The service charge cost should be reasonable
 - The quality of service should be reasonable
 - The collection of the service charge should be reasonable.

- 2.5 Connexus will apply this legislative principle of reasonableness to both fixed and variable service charges.
- 2.6 We will always comply with the above Acts as well as any supplementary legislation, formal directives and guidance issued by government departments such as the Ministry for Housing, Communities and Local Government and the RSH. In addition we will note the outcome of significant case law for future policy guidance and develop services which follow best practice.
- 2.7 **Customers** are tenants, leaseholders, freeholders or licensees.
- 2.8 A **service charge** is the charge payable by a customer who is a licensee, tenant or leaseholder towards the costs of services, general maintenance repairs or sinking funds. It also covers other charges or costs, including any management costs where the cost is not recovered through a rental charge. The level of service charge aims to recover all reasonable costs incurred in delivering the service from start to finish.
- 2.9 An **estate rentcharge** is the charge payable by a freeholder customer towards the costs of services, general maintenance repairs or sinking funds provided by Connexus under the terms of the freehold transfer. It also covers other charges or costs, including any management costs. The level of service charge aims to recover all reasonable costs incurred in delivering the service from start to finish.
- 2.10 Where an estate rentcharge is payable by a freeholder, the freehold transfer document will set out the obligations of the freeholder to contribute towards charges, and subsequent owners will enter into a deed of covenant agreeing to continue making the contribution.
- 2.11 **Service Charge Items** - There is no definitive list of items that can be service chargeable but Appendix 1 provides guidance from the National Housing Federation which lists those services commonly included in service charges. For freehold customers, the services are likely to be those delivered in communal areas.
- 2.12 A **fixed service charge** is where we set the cost of providing services to a property at the start of each financial year and the occupancy agreement imposes a limit on how much the service charge will be (i.e. not necessarily actual costs incurred). The customer pays the service charge throughout the year and at no point will there be additional amounts to pay or refunds due back to the customer.
- 2.13 A **variable service charge** is defined in section 18 of the Landlord and Tenant Act 1985.
- In practice it is where we set an estimated charge at the start of the financial year and produce a final account once the year is complete. The final account compares our actual costs in delivering services to a property against the estimate that we set. This may result in a credit back or an additional amount due from the customer.
 - 'Tenant' as set out in the legislation does not apply to licensees and freeholders, so the rights and obligations set out in the Landlord and Tenant Act 1985 do not apply to licensees or freeholders even where the licence

agreement or freehold sets out a variable service charge/estate rentcharge mechanism.

- 2.14 **Management fees** cover costs associated with managing services paid for by service charges, administering service charge, income collection and dealing with customers` queries regarding service charges or estate rentcharges. These are charged in accordance with legal transfers, leases and tenancy agreements. The value of the management fee is currently 10 - 15% of the cost of the services provided. Historically 10% has been used for stock owned in Herefordshire and 15% for all other stock. This fee reflects actual cost to Connexus for managing services and associated service charges, and is reviewed every 3 years.
- 2.15 A **sinking fund** is a fund that saves money to pay for future long-term maintenance and renewals required to maintain the property, such as repairs to the roof or a lift. It provides a way to spread the cost of expensive repairs and component replacements: it helps avoid a large, unexpected bill for residents. In this policy 'sinking fund' also includes reserve funds set up for building reserves for more frequent services (e.g. regulator decoration). Most leaseholders and some tenants are required to contribute towards a sinking fund as a term of their lease or tenancy agreement.
- 2.16 **Components** may include communal lifts, door entry systems, CCTV systems, electronic access gates, fire detection and smoke dispersal systems, TV aerials, floor coverings, furniture and white goods.
- 2.17 **Apportioning costs** determines how service charges and estate rent charges are applied and to whom. In sharing costs between customers, we will seek to follow apportionment as set out in the legal agreement. Where the agreement does not specify any apportionment, we will seek to achieve a fair and reasonable apportionment, sharing costs between all residents in a block and/or estate who benefit from the service or facility.
- 2.18 **Administration charges** are defined in Paragraph 1 of Schedule 11 of the Commonhold and Leasehold Reform Act 2002 and will be applied to leaseholders when granting approvals, providing information or documents or in connection with a breach of the lease.

3. Method/s

Setting Service Charges

- 3.1 The type of service charge is determined by the provisions of the occupancy agreement.
- 3.2 The anticipated costs of maintaining and, if necessary, repairing the service charge item will be calculated for each financial year.
- 3.3 These costs will be apportioned on an equitable basis, dividing the costs for the service by the number of properties in a communal block or across an estate or scheme. Beneficiaries can be tenants, leaseholders, shared owners and / or private owner occupiers.

- 3.4 From 5th April 2021 all new tenancies will be let with Variable Service Charge covenants inserted into tenancy agreements.
- 3.5 The type of service charge is determined by the provisions of the occupancy agreement.
- 3.6 Connexus will ensure that the specification and design requirements for new build homes place an emphasis on 'designing out' unnecessary chargeable services.
- 3.7 Services paid for by customers through service charges and estate rentcharges will be procured in compliance with the Connexus Procurement Policy.

Changes to services provided

- 3.8 We will ask customers for their views on any change, addition or removal of a service or where standards of service are being set or changed. Where a new service is to be introduced or where it is proposed to significantly alter an existing level of service or design out unwanted features or services Connexus will consult with those affected.
- 3.9 Where a change is proposed, any relevant clauses in the occupancy will be adhered to.
- 3.10 Connexus will meet the requirements of Section 20 of the Landlord and Tenant Act 1985 by ensuring variable service charge payers are formally consulted about qualifying works and qualifying long term agreements. This is detailed in a separate Service Charge and Sinking Fund Policy and Procedure, and Connexus Procurement Guidelines

Complaints and Right of Appeal

- 3.11 Customers are encouraged to raise a complaint through Connexus Formal Complaints Policy if they are dissatisfied with the service or how their query has been dealt with.
- 3.12 All variable service charge requests have to be accompanied by a summary of rights and obligations, the wording of which is contained within Statutory Instrument 2007 (No 1257) (as amended). The summary explains that in the amount or reasonableness of the service charge and liability to pay can be considered by First-tier Tribunal (Property Chamber).
- 3.13 Residents who pay a fixed service charge that is increased as part of a Section 13 rent increase under the Housing Act 1988 have the right to refer the total amount set by Connexus to the First-tier Tribunal (Property Chamber).

4. Measurement

- 4.1 Key outcomes of the policy are to:
 - Ensure customers know what services they will receive and pay for at the commencement of their occupancy agreement and each year;

- Provide customers with information about service charges on a timely basis and. enable with comply with variable service charge paying customers rights to inspect supporting information such as accounts, invoices, contracts and procurement documentation;
- Ensure customers are consulted about services and associated costs;
- Ensure high levels of recovery of eligible service costs for services delivered;
- Maximise the collection of the service charges due from customers;
- Achieve consistently high levels of customer satisfaction with the services provided by Connexus; and that customer issues of dissatisfaction are dealt with expeditiously and fairly through Connexus Customer Complaints Policy;
- Ensure that service charge reconciliations and budgets are completed in an accurate and timely manner; and
- Ensure the management and variation to services is effectively introduced and fully compliant with all legal (both legislative and contractual) and regulatory requirements.

4.2 The Head of Communities will maintain responsibility of the delivery of this policy and associated procedure/s

4.3 Where a service is being delivered that is being paid for by a service charge, the Head of Service for that area maintains responsibility for the delivery of this, including the quality, frequency and associated administration to ensure costings/invoices are accurate and reflect the service agreed/delivered.

4.4 The Head of Finance maintains responsibility to ensure that accurate financial information relating to service charge budgets and spend is recorded on the relevant systems and is used in the production of customer statements

Appendix 1 – National Housing Federation list of services commonly included in service charges.

Appendix 2 – Equality Impact Assessment Form.

National Housing Federation List of items deemed to be services

Heating and hot water

- Fuel (gas, oil, electricity, coal, coke etc.)
- Repairs/maintenance contracts - boilers, heat exchangers, hot water tanks, communal radiators and pipes
- Insurance of boilers, oil storage tanks, etc.
- Electricity for pumps etc.
- Administration/supervision allowance and profit
- Depreciation of plant
- Fees of energy saving consultants, if appropriate

Common parts and communal services

- Cleaner's wages, including holiday relief
- Cleaning materials
- Electricity for lighting, power of vacuum cleaners and polishers etc.
- Replacement Lamps
- Window cleaning of common parts
- Refuse sacks provision, hire of refuse containers
- Communal Radio, TV aerial maintenance and communal TV licence fee
- TV relay rental and satellite relay
- Fire/smoke detection alarms maintenance
- Smoke dispersal equipment maintenance
- Firefighting equipment maintenance
- Door entry telephone rental/maintenance
- Pesticides and pest control contracts
- Communal telephone rental
- Maintenance of common parts, grounds and car parks
- External lighting and security lighting
- Gardeners wages/contractor's charge
- Repair/maintenance of garden tools and equipment
- Plants, shrubs and tree maintenance - annual provision (if appropriate)
- Employers liability and third party insurances
- Administration/supervision allowance and profit
- Maintenance and depreciation of door entry telephone/firefighting/detection equipment, warden and other call systems, radio & TV aerials, vacuum cleaners, lawn mowers etc.
- Ventilation and air conditioning equipment maintenance
- Maintenance of water softening and purification systems
- Plant & equipment testing required by statute

Porters, wardens, caretakers

- Salaries/wages/honoraria, excluding a percentage for the landlord's management function
- Employer's pension contribution
- Employer's NI contribution
- Council tax, water and sewerage rates on porter's/warden's accommodation
- Uniforms/overalls allowance
- Gas and electricity allowances on porter's/warden's accommodation

- Decoration allowance on porter's/warden's accommodation
- Administration/supervision allowance and profit
- Notional rental value of rent free accommodation
- Depreciation of office furniture

Passenger and goods lift

- Electricity and power
- Repairs/maintenance contract
- Insurance
- Administration/supervision and profit
- Depreciation of plant

Special facilities

- Electricity for lighting, cooking etc. in communal rooms, laundry and kitchens
- Decoration of communal rooms, laundry rooms etc.
- Cleaning and repair of communal furniture, carpets etc.
- Insurance of furniture
- Administration/supervision allowance and profit
- Depreciation and maintenance of fridges, water heaters, cookers in communal kitchens, laundry equipment, communal room furniture and carpets
- Maintenance and depreciation of burglar alarms and security lighting
- Maintenance and depreciation of cookers, refrigerators and washing machines within the dwelling if repair and maintained by the landlord
- Special facilities for the disabled in communal areas

Unfortunately this list whilst comprehensive is not definitive but gives very good guidance as to what can be a service.

The test to help decide is:

- Is the item for the benefit of all tenants
- Is it within one dwelling
- Is it reasonable to charge all tenants
- Is it included in the list of services provided within the tenancy agreement