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1. Purpose and Scope

This policy sets out the approach used to set, review and administer Service Charges for properties managed by Lewisham Homes. It is designed to provide clarity and transparency as to the approach and methods we use to calculate and apply service charges.

This policy helps us to deliver our corporate plan, which include commitments to focus on embedding a culture of affordability, efficiency and value for money, and to deliver consistent and reliable landlord services.

This policy applies to any building managed by Lewisham Homes which is subject to a service charge. This includes different types of property and different types of tenure and includes fixed and variable charges.

While service charges for tenants are included within scope, the rent setting and rent collection is outside of the scope of this policy. Major works and non-statutory consultation is outside of the scope of this policy.

At the time of writing Lewisham Homes do not manage any Shared Ownership tenure. Arrangements specific to future shared ownership properties is excluded from the scope.

2. Key principles

In defining our Service Charge policy, we can confirm our approach is in line with the following key principles:

- a) Comply with all applicable legislative, regulatory and contractual requirements
- b) Work toward sector best practice and continual improvement
- c) Have a clear, reasonable and consistent approach across our managed stock in the apportionment, calculation and recovery of costs for charged services, so far as contractual obligations permit

- d) Provide cost effective services to sufficiently manage and maintain each scheme
 - e) Build and develop new homes which have appropriate service charges to meet the needs of the development
 - f) Use intelligent design to minimise ongoing charges where practical and reasonable
 - g) Offer choice to residents wherever possible and practical to do so
 - h) Aim to recover 100% of the costs of service charges for the provided services (See also note* below)
 - i) Set estimated charges to reasonably reflect estimated expenditure and aim for the estimates to remain as close to the actuals as possible
 - j) Aim to avoid large changes in the service charge each year
 - k) Provide a range of payment methods and terms
 - l) Provide access or signposting to additional sources of advice and assistance
- **Note:** Lewisham Council's Housing Revenue Account can only contain charges directly related to the management of the Council's housing stock. Therefore, leaseholders must be charged the true cost of maintaining their properties where the provision of their lease allows, to ensure tenants do not subsidise costs due from leaseholders.

3. Legislation and regulation

3.1 Relevant legislation currently includes, but is not limited to, the following:

- Housing Act 1985
- Landlord and Tenant Act 1985, & 1987
- Commercial and Leasehold Reform Act 2002
- Building Safety Bill 2020

3.2 This policy will be reviewed in line with new legislation and regulation.

3.3 The services provided will be clearly identifiable to residents, and set out in the relevant contract (Tenancy or Lease Agreement).

3.4 The method of apportionment, application and collection of the service charge is dependent on the type of the contract (tenancy or lease) and may be fixed or variable. Where there is any disparity between this policy and an individual contract, unless there is an overriding statutory requirement, the terms of the agreement will be given precedence over policy alone.

4. Terms and Definitions

This is not an exhaustive list but it defines what we mean when using these key terms in relation to service charges:

A service charge is the charge payable by a tenant, leaseholder, shared owner or licensee, towards the costs of services, general maintenance or repairs. It covers other charges or costs, including administrative or management costs where the cost is not recovered through a rental charge.

A fixed service charge is where we set the cost of providing services to a property at the beginning of each financial year. The customer pays the service charge throughout the year and at no point will there be additional amounts to pay or refunds due back.

A variable service charge is where we set an estimated charge at the beginning of the financial year, and then 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, and may result in a credit back or an additional amount due from the customer.

Management and administration fees cover our costs associated with managing properties, administering service charge and rent accounts, income collection and providing customer services. (See 6.8 footnote).

Sinking fund or reserve fund is a fund that saves money to pay for future long term maintenance and renewals required to maintained property. It provides a way to spread the cost of expensive repairs. A **depreciation charge** is a contribution to items that are purchased where the costs are depreciated over the useful life of the asset rather than being paid for from a sinking fund. **Note:** While the lease allows for it, Lewisham Homes do not currently operate sinking funds at this time.

Apportionment of costs between customers is in accord with what is set out in the legal agreement(s). Where the agreement does not specify any apportionment method, we will seek to achieve a fair and reasonable apportionment and divide costs between all residents in a block and/or estate. Charges for communal areas will be apportioned across those customers with access to these areas/services, regardless of how much an individual chooses to use them.

5. Changes to services, new services and new developments

- 5.1 Where we build and develop new schemes, we aim to have reasonable and affordable service charges that meet the needs of the scheme. We will prepare an initial estimate of service charges for proposed schemes as early as possible in the design/acquisition process.
- 5.2 We will take the following into consideration when creating service charges for new properties:
 - The cost of service charges, gross and net rents compared to those for similar properties.
 - Whether the services provided are necessary for the enjoyment of the tenancy or lease
 - Whether costs may be avoided or minimise through modified design
 - The eligibility of services provided for Housing Benefit or Universal Credit¹
 - Assessment of lifecycle costs of components to be maintained via the service charge
 - Impact on existing estates service charge where we are developing within. In some cases where estate improvement are planned this may lead to a difference in services and charges for existing residents

¹ We may still provide a service that is ineligible for UC/HB if it can be otherwise justified

- 5.3 We will notify residents of a new service charge in accordance with individual leases, covenants, deed of transfers and tenancy agreements, or at least one month prior to the commencement of the new charge where this is not prescribed.
- 5.4 We will consider requests made by residents for additional services to be provided, or to discontinue a service. We will consult with residents potentially affected by the change prior to making a decision, and provide an explanation of the decision making process.

6. Calculation and timetable

- 6.1 We calculate service charges on an annual basis to recover our costs in providing services to blocks, buildings and estates, and these are charged only for the services and work specific to that block and estate. What we can and cannot charge for, and how the charge is apportioned is set out in general terms of the lease/tenancy. As the Council's managing agent we have a duty to collect these costs. We do not make a profit from service charges.
- 6.2 Each year a review of the actual costs is undertaken as part of the annual budget setting process and recommendations made to the Council in respect of proposed charges. Where possible we aim to keep these charges within the inflation rates (September of the previous year).
- 6.3 Where required by their Tenancy Agreement, tenants will pay service charges for services provided, as listed in the tenancy agreement. For Tenants we operate on a fixed service charge basis which is charged weekly with their rent.
- 6.4 We operate a variable service charge for Leaseholders. They will receive an annual service charge bill at the beginning of each financial year, 1 April, based on the estimated cost of the services for the coming year and will cover the 12 months from 1 April to the following 31 March. When preparing the bills, we look at amounts spent in previous years and the budget for the coming year. Changes to repairs and maintenance charges are modelled on the last 3 years actual costs. Changes in communal heating are more closely linked to the prevailing energy costs.
- 6.5 Each year by 30 September leaseholders will receive a statement setting out the actual costs incurred for each service for the previous financial year, and any adjustment from the estimated charge (see 6.4). The adjustment will be included and shown in the next bill.
- 6.6 After receiving the annual service charge bill, leaseholders are required to make payment in full within 21 days of the invoice date. On request, we can arrange for interest free instalments. Where a leaseholder has failed to pay within 21 days of the invoice date or has not come to an arrangement, this is in breach of the lease and we will take recovery action, which could lead to legal proceedings.
- 6.7 A charge for building insurance is included in the service charges. This insurance covers any shared and exterior areas and the building structure. Under the terms of their lease, Leaseholders must purchase additional insurance for their demised premises.

- 6.8 There is a rent fee to use the ground on which the building stands which is known as ground rent and it is a specific condition of the lease that this is paid. The charge for ground rent is included in the invoice for the service charge and is shown as a separate charge. It can be paid with the service charge.
- 6.9 In addition to the actual cost of the services, we can recover an amount for managing and administering² the services and include overheads. This does not include any costs we pay just to manage rented properties. The management charge may be different for purpose build blocks and for flats in converted houses.
- 6.10 Estimated service charges are not altered as a result of temporary breakdown or failure to provide a service. The difference between estimated and actual costs will be identified in the year end service charge accounts, and any balance treated in line with the approach as outlined above (See 6.5).

7. Queries, complaints and appeals

- 7.1 Where a leaseholder is unable to pay for their service charges, we strongly advise them to contact Home Ownership Services immediately. After discussing the circumstances we will try to identify financial assistance that may be available in order to reach an arrangement to pay.
- 7.2 Where anyone is unhappy with a service or the service charge they are encouraged to contact us as soon as possible after they identify the issue in order to give us an opportunity to look into it, and where necessary put the matter right.
- 7.3 Complaints regarding the application or handling of this policy will be managed in accord with our complaints policy.
- 7.4 Leaseholders can use their right to dispute a service charge through the First-tier Tribunal. The tribunal is an independent organisation that has powers to sort out disputes between leaseholders and their landlords. Both landlords and leaseholders can apply to the FTT for help in dealing with an issue. If a leaseholder is unhappy with any of the charges we ask to be paid under their lease, they can take to the FTT but you have to pay a fee to the tribunal when you apply. We can often sort out disputes without the need to go to the FTT. The tribunal will decide if it is a case on which they have the power to make a decision.

8. Communication and consultation

- 8.1 We will provide information to ensure new tenants and leaseholders are made aware of the services provided and the service standards they can expect. Information will be provided in line with our data protection policy.
- 8.2 Absentee leaseholders must provide Lewisham Homes with up-to-date contact details including a correspondence address, telephone number and emergency contact information.

² In some circumstances Lewisham Homes may be the leaseholder of another landlord and will be passing on these charges plus a fee for our management/administration

- 8.3 Lewisham Homes work with Lewisham Council to keep tenants and leaseholders up to date with changes to the way services are carried out and administered. We will keep residents informed through our website, tenant and leasehold newsletters, as well as through resident consultation groups.
- 8.4 Residents are invited to comment on the proposals which will be fed back to the Mayor as part of the Council's budget setting process. We will consult, where there is an intention to change the service charge regime.
- 8.5 This policy will be made available on Lewisham Homes' website. Additional information relating to service charges can be found in the Leasehold Guide. Relevant information will be given to tenants as part of the letting and sign-up process. Future consultation on changes to policy will be reviewed in line with agreed resident engagement arrangements.
- 8.6 This policy and associated processes will be made available to staff through the Lewisham Homes intranet, as well as relevant training and briefings to ensure effective and consistent application of this policy.

9. Monitoring and controls

- 9.1 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 to residents.
- 9.2 We will monitor to measure the effectiveness, efficiency and economy of services provided and we will keep residents informed about our performance against standards set.
- 9.3 We report key performance information to our Board on a monthly basis in line with our business plan and agreed KPI's. Service charges are reported to Board as part of monthly finance reports.
- 9.4 An external audit on actual costs is carried out on an annual basis by an appointed auditor. Additional internal or external audits may be carried out, as required, to confirm compliance with legislation, as well as checks against good practice, agreed standards and policy. Lewisham Council also have the right to audit these arrangements under the terms of the Management Agreement.
- 9.5 This policy will be reviewed in line with changes to legislation and regulation.

10. Equality, diversity and inclusion

- 10.1 An Equality impact assessment has been conducted as part of the review of this policy. No material changes have been made to the policy which would impact any protected characteristic on this occasion. The assessment did recommend using the opportunity of a future fuller review of service charges to revisit and explore decisions which could potentially benefit residents more widely.

11. Related documents

- **Leasehold Guide**
- **Breach of lease policy**
- For more information about service charges and the rights and obligations of landlords and leaseholders, please see the Leasehold Advisory Service (LEASE) – This is an independent organisation that provides advice and is funded by central Government. It offers free advice on the law affecting residential leasehold properties.

New policy document clearly separating out relevant policy information which was agreed but had been contained in various places including the leasehold guide.	
Date approved: (Month, Year)	Effective date: (Month, Year)
Next review: 3 year program or earlier if required (ie following the SC review project)	
Approved by: ELT - for all Cross Directorate policies, new or reviewed. All policies to Board. <i>Anyone else specific at LBL first?</i>	
Policy owner: Usually the lead Director but could be delegated to Head of Service once approved, including approval for future light touch updates - <i>Rowann or Jon??</i>	

