

Service Charge Policy

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1. Our policy statement

- 1.1. This policy sets out Sage Homes approach to service charges. It explains the legal and policy background and describes how service charges are set and apportioned between properties and customers.
- 1.2. A service charge is an amount charged by a landlord, to a leaseholder or tenant relating to the upkeep and maintenance of communal areas in a block and/or estate, in line with the terms of the lease or tenancy agreement. A service charge is separate from individual rent or mortgage payments and enables Sage Homes to recover the costs of managing. This includes, but is not limited to following:
 - Internal or External Cleaning (of communal areas)
 - Gardening & Ground Maintenance
 - Communal Utilities (Landlord's Supply Electricity, Water, or gas)
 - Health and Safety (Fire Risk Assessments, Legionella Testing etc.)
 - Communal Repairs & Maintenance of M&E items such as Lifts, Fire Safety Systems, CCTV Systems, Water Pumps, Door Entry Systems etc.
 - Building Insurance
 - Management, Administration, Audit & accountancy charges/fees

2. Aim of this policy

- 2.1. The aims of this policy are to make sure:
 - Sage Homes takes a reasonable approach to service charges.
 - Sage Homes meets its legal obligations.
 - The delivery of high-quality services that meet the needs and expectations of customers.
 - Service charges are affordable and represent value for money.
 - Sage Homes recovers as close as possible the full costs of any services provided, including administrative costs.

3. Commitment

- 3.1. Sage Homes will follow all legislation, regulatory standards and best practice and deliver services and collect service charges in a fair, honest, and transparent manner so that customers pay only for the actual services that are delivered plus Sage Homes reasonable costs of collecting and administering them.
- 3.2. We will make sure that all information relating to service charges is set out in a simple and understandable way and that customers, as part of the annual service charge setting process, are given the opportunity to provide feedback on the services they receive and the charges that are applied. We will take these views on board wherever possible.

- 3.3. We will also carry out consultation to vary a service charge, or to levy a new charge, giving the appropriate notice. We will always take account of comments, but where legal or safety considerations are paramount, we reserve the right to override comments received. For major works we will carry out consultations, as required under section 20 of the Landlord and Tenant Act 1985 (as amended by the Commonhold & Leasehold Reform Act 2002¹), commonly referred to as section 20 consultations.

4. The scope of this policy

- 4.1. This policy applies to all customers and properties owned by Sage Homes where service charges are to be charged. Sage Homes has different tenures within its portfolio of properties and what is included within the service charges will vary between tenure.
- 4.2. However, the overall policy approach to setting, and communicating about service charges will be consistent across all of our homes, and costs will be apportioned in the same way between homes of different tenures to make sure our customers are treated fairly and in line with legislation.
- 4.3. We have different procedures in place for service charges for each tenure to make sure our customers receive a high-quality tailored service.
- 4.4. In summary, this Service Charge Policy applies to different tenures as follows:
- 4.4.1. **Social rent properties:** Items for which a service charges may apply will be detailed in the tenancy agreement and will be fixed, based upon the actual costs of providing the service. Social rent tenants will not have to pay for repairs and maintenance to their home, but will pay a service charge for other items, such as the maintenance of communal areas and caretaking costs.
- 4.4.2. **Shared ownership properties:** Before purchasing their property, leaseholders and shareholders will be provided with an estimated variable service charge. Shared owners and leaseholders will pay through the service charge their share, for all reasonable costs related to the management of communal areas and the estate. This will be reconciled against actual spend no later than 18 months after the start date of the charge.
- 4.4.3. **Affordable rent:** The cost of providing services is included in the rent charged. The total rent, including service charges, will be no more than 80% of local market rents or above the LHA cap levels.
- 4.4.4. **London Living Rent:** The cost of providing services is included in the total rent charged. The total rent will be set by a formula that will vary borough by borough and set by the Mayor of London².
- 4.4.5. **London Affordable Rent:** The cost of providing services is exclusive of the rent charged³. It is otherwise the same as the service charge for Social rented properties.

¹ Commonhold & Leasehold Reform Act 2002 Section 151

² Homes for Londoners: Affordable Homes Program 2016-23 Funding guidance page 8-10

³ Homes for Londoners: Affordable Homes Program 2016-23 Funding guidance page 8

5. Definitions

- 5.1. **Fixed Service Charge** – Where the cost of providing services is estimated ahead of the financial year **01 APRIL 20XX to 31 MARCH 20XY** and once set, they won't be adjusted or changed, regardless of any overspend or underspend.
In some extreme cases where the service charge estimate is not a fair reflection of the service(s) provided, e.g., being charged for Lift Maintenance but there is no Lift in the building, a refund will be issued relating directly to the element of service charge in question.
- 5.2. **Variable Service Charge** – Where the cost of providing services is estimated ahead of the financial year **01 APRIL 20XX to 31 MARCH 20XY** then adjusted [reconciled] once the actual costs have been incurred – this will be done no later than 6 months after the end of the financial year and the customers will be informed. This adjustment or 'balancing charge' will be debit or credit, based on whether there has been an overspend or underspend, respectively.

Example A

<i>Flat 3, Pimlico House:</i>	Amount (£)	
2017-18 Estimated Service Charge	1,200.00	
2017-18 Actual Service Charge	1,285.00	
Year End Adjustment / Balancing Charge	(85.00)	DEBIT

Example B

<i>Flat 1, Victoria Place:</i>	Amount (£)	
2017-18 Estimated Service Charge	1,200.00	
2017-18 Actual Service Charge	1,170.00	
Year End Adjustment / Balancing Charge	30.00	CREDIT

- 5.3. **Ground Rent:** regular payments made by a holder of a leasehold property to the freeholder or a superior leaseholder, as required under a lease.
- 5.4. **Management Company:** A company set up to manage a group of properties and estate.

6. Tenancies and Leases

- 6.1. The starting point for Sage Homes applying service charges will always be whether the lease or tenancy agreement provides for it. We will use a template lease for all our properties to make sure we take a consistent approach to all our properties. Where the lease is to be varied, we will be mindful of the service charge provisions contained within it.

7. Setting and Collecting Service Charges

- 7.1. Service charges for Shared Owners will be variable, set each year based on an estimate of future costs. Sage Homes will work to forecast service charge costs as accurately as possible, considering contracts in place, historic costs, and specialist advice.
- 7.2. Service charges for Social Rented properties will be fixed, set each year based on an estimate of future costs. Sage Homes will work to forecast service charge costs as accurately as possible, considering contracts in place, historic costs, and specialist advice.
- 7.3. For new build developments we will provide these estimates as soon as possible to those purchasing a home or moving into our rental properties so they are able to budget, and so this cost can be included in any affordability assessment.
- 7.4. Where the apportionment of service charges is set by an Estate Management Company we will apportion in line with their approach. However, where it is for Sage Homes to set the service charge, service charges will usually be apportioned based on the most fair and reasonable method for the properties in a particular block or on an estate.
- 7.5. At the end of the year, we will undertake a reconciliation of the service charge estimate, and actual costs incurred for variable service charges. Any surplus will be refunded to the customers at the end of the year, and any deficit will be charged to their service charge account. Any deficit under £150 will be charged as part of their next direct debit payment. For deficits over £150 the customers will be contacted to agree payment.
- 7.6. Both the ground rent and the service charge will be split into equal instalments and collected monthly with the rent.
- 7.7. Where a customer does not pay their service charge, Sage Homes will take legal action to recover these arrears. Our approach to income management is set out in our Income Policy.

8. Communication

- 8.1. Sage Homes will communicate clearly with customers regarding the service charges they have to pay. Customers will receive all demands for payment in writing or via e-mail, setting out how the service charge being claimed for, whether estimated or actual, has been calculated. These will be issued annually, but customers will be able to view information about their service charge account through the customer portal.
- 8.2. Customers will receive at least one month's notice of any changes to changes in their service charge. We will provide information on the outcome of the reconciliation of actual and estimated service charges within 6 months of our financial period end (in line with L&T requirements).
- 8.3. We will use feedback from customers regarding the services they receive to inform the decisions we make about service charges. As required by law we will consult with leaseholders before entering into long-term qualifying agreements or undertaking

qualifying work⁴.

- 8.4. Customers have the right to ask for a summary showing how their service charge is calculated and how it is spent⁵. They also have the right to see any supporting paperwork such as receipts⁶. We will respond within one month to all such requests received.

9. Forms of Estate Management

- 9.1. Many of our homes will have a management company to provide services across the whole scheme, including homes which are not owned by Sage Homes. This ensures a common and consistent level of service despite the presence of multiple owners.
- 9.2. The management company will charge Sage Homes a fee for the services it provides to our homes. Sage Homes will allocate these costs to each home and will be responsible for collecting the service charge from customers.
- 9.3. Sage Homes will pass on the management company fee plus an additional fee of 7% to cover Sage Homes costs. This covers Sage Homes contact with the management company, individual billing to customers, collecting and pursuing income, scrutinising the management company's accounts, and checking that the charges being asked for are reasonable, and challenging them if necessary.
- 9.4. For all shared ownership properties, a management fee of £195 (inclusive of VAT) will be charged.
- 9.5. The fee of £195 covers Sage Homes administrative costs of managing the property portfolio, including the procurement of buildings' insurance, compliance with regulatory requirements and good practice, accounting, IT systems, stock-condition surveys and dealing with queries from leaseholders, as well as the costs of collecting and pursuing payments.
- 9.6. Where a section 106 (planning) agreement explicitly prevents us recovering the full amount for service charges, the service charges will be set at the lower rate according to the specific restriction; these can apply to both periods of time and in perpetuity.

10. Sinking Funds

- 10.1. Sage Homes will look to implement sinking funds in its properties, where appropriate. This will be contingent on the required information to accurately set the sinking fund being available. This will help reduce the risk of high one-off bills to our customers for large items of expenditure.
- 10.2. All sinking funds will be held in a separate, interest-bearing trust fund account to make sure the protection of the fund⁷. If a staircase outside of Sage Homes interest the up-to-date value of the fund shall be returned to them.
- 10.3. Leaseholders and shared owners may pay into sinking funds, however rental tenants will not, as it is the responsibility of Sage Homes to pay for major works for rented

⁴ Landlords and Tenants Act 1985 (as amended) Section 20

⁵ Landlords and Tenants Act 1985 (as amended) Section 21

⁶ Landlords and Tenants Act 1985 (as amended) Section 22

⁷ Landlords and Tenants Act 1987 (as amended) Section 42

tenants.

11. Major works – Section 20

- 11.1. Where major works are proposed to leasehold properties a formal, legal process must be carried out under Section 20 of the Landlord and Tenant Act 1985. This procedure must be followed if the total one-off charge or connected group of works⁸ to any leaseholder is likely to exceed £250, or if the annual charge of a long-term contract (i.e., for more than 12 months) is likely to exceed £100 for any leaseholder.
- 11.2. We will consult leaseholders in line with the requirements of Section 20. To make sure we deliver services in a fair and transparent way, in mixed blocks we will also undertake to keep all tenants (including rental) informed before undertaking major works.

12. Service Charge Disputes

- 12.1. In the first instance if customers are unhappy with their service charges they should speak to us, using the process set out in our complaints policy.
- 12.2. The lease requires service charges are paid and discussed/challenged thereafter, rather than Leaseholders deferring payment. Sage Homes will continue to chase any outstanding payments via the usual routes even if disputed by the tenant/Leaseholder.
- 12.3. Leaseholders and tenants can challenge service charges that they feel are unreasonable by applying to the First tier Residential Tribunal.

13. Background and Legal documents

- 13.1. This policy should be read in conjunction with the following policies and procedures:
 - Lettings and Allocations Policy
 - Income Collection Policy
 - Rent Policy
- 13.2. This policy is also informed by the following primary legislation and regulatory documents:
 - The Regulatory Standards – HCA
 - Landlord and Tenant Act 1985
 - Landlord and tenant Act 1987
 - Housing Act 1988
 - Commonhold and Leasehold Reform Act 2002
 - Universal Credit service charges – guidance for landlords – April 2013, published by the Department of Works and Pensions.
 - Homes for Londoners: Affordable Homes program 2016 – 2023 Funding guidance.

⁸ See Philips Goddard v Francis (High Court decision)

14. Equality and diversity

- 14.1. Sage Homes is committed to making sure all services are accessible to all our customers. Our staff will be trained to make sure they are communicating appropriately with our customers, and they have the relevant information.
- 14.2. This policy will be applied in a way which makes sure we treat all customers with fairness and respect. We recognise our duty to advance equality of opportunity and prevent discrimination or victimisation on the grounds of age, sex, sexual orientation, disability, race, religion or belief, gender re-assignment, pregnancy and maternity, marriage and civil partnership and any other protected characteristics defined within the [Equality Act 2010](#).
- 14.3. On request we will provide translations of all our documents, policies and procedures in various languages and formats including braille and large print.

15. Policy review

- 15.1. We will review this policy at once least every three years to make sure it remains relevant and accurate unless:
- Legislation/regulation or industry changes require otherwise, making sure that it continues to meet our aims and industry best practice.
 - We identify any problems or failures in this procedure as a result of customer and stakeholder feedback, complaints, or findings from any independent organisations.

Version	Checked by	Amendments	Approved at/by	Date of Approval	Published by	Date of Review
4.0	Lettings and Homeownership Director	Strategic review and update to corporate template	Lettings and Homeownership Director	May 23	Lettings and Homeownership Director	Oct 26