

Service Charge Policy

DESIGN HEADER TO INCLUDE POLICY NAME AND DATE RANGE

INFORMATION

Policy Name	Service Charge Policy
Effective Date(s)	November 2023 – November 2025
Approved By	Customer Services Committee & Group Board
Approval Date	
Policy Owner/Dept	Head of Finance - Reporting and Controls
Policy Author	Finance Manager - Rent & Service Charges
Review Date	November 2025
Version Number	1.0

Your Housing Group Strategic Priorities			
Safe	☐	Viability	☒
Landlord	☒	Growth	☐
People	☐	Technology	☐

Relevant National Standards or Regulation	Please State if the Policy aligns to any of the Regulators Standards: • Governance and Financial Viability Standard • Rent Standard • Value for Money Standard • Tenancy Standard • Neighbourhood and Community Standard • The Transparency, Influence and Accountability Standard • Home Standard • Homes England Capital Funding Guide
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Relevant Legislation/Contractual Documentation	This policy operates within the context of Regulatory and Legal frameworks as follows: • Landlord and Tenant Act 1985 • Landlord and Tenant Act 1987 • Commonhold and Leasehold Reform Act 2002 • General Data Protection Regulation and Data Protection Act 2018 • Lease and Tenancy Agreements • Management Agreements • Ground Rent Act 2022
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1. Purpose of the Policy

This policy sets out how Your Housing Group (referred to as Your Housing Group/Group/YHG throughout the policy) will manage and administer service charges.

Our aim is to do this in a fair, reasonable and consistent manner, examples of which include:

- providing good value for money at all times
- showing transparency with service charge statements
- detailing services provided separately and,
- when requested, further information provided in accordance with legislation.

The Rent and Service Charge Team (part of the Finance Team) will adopt a collaborative approach with the Operational Teams to strike the appropriate balance of sustainability and income maximisation in relation to non-standard or ad-hoc charges to be applied to the service charge accounts.

This document is supported by a procedural document which deals with the practical aspect of setting service charges and which, itself, must always be read in conjunction with this policy document to ensure it is delivered in context.

2. Scope of the Policy

This policy applies to Your Housing Group's tenants, leaseholders and other service users such as freeholders, Right to Buy / Acquire homeowners, shared owners or residents living on estates managed by Your Housing Group who pay a service charge.

Note: Service Charges do not generally apply to Affordable Rents, Intermediate Rents or Market Rents; these rents are fully inclusive of all services provided and whilst a breakdown of service may be provided, this will not affect the overall rent.

3. Definitions

The Group has adopted the following definitions:

Service Charge – a payment made by a tenant, or leaseholder for services received in connection with occupying their home. The payment is as part of or in addition to the Rent and is payable directly or indirectly for services, repairs, improvements, maintenance, insurance, and the landlord's costs of management.

Estate Charge – payable by a freeholder for the upkeep of the communal areas of the estate where the property is located. This charge is not used to pay for the repair or maintenance of individual properties, it is used to fund services that benefit the whole estate such as grounds maintenance or street lighting.

Scheme Asset Replacement – an element within the Service Charge to recover the capital costs of an asset over its expected useful economic life.

Sinking Fund - an amount of money set aside in advance to cover any future major works which will be needed on a block or estate. A contribution to the sinking fund is usually part of a lease which can be paid through annual contributions in the service charge, assignment of the lease through re-sale via assignment of the lease or a combination of both.

Section 20 Consultation – a statutory process to be followed when certain thresholds are met when carrying out major works or entering into long term contracts in relation to variable service charges.

Ground Rent - a rent charged to some leaseholders; the amount is normally stipulated in the lease. Some are fixed and are the same each year and some are escalating and rise each year by the calculation set out in the lease. A prescribed notice is used to demand this.

The Ground Rent Act 2022 prohibits the inclusion of Ground Rent charges in new leases issued after 30th June 2022, and after 1st April 2023 for leases of Retirement Homes. It does not change the position in relation to existing leases.

4. Consultation

Consultation has taken place as part of the development of this Policy with the Customer Focus Group/Customer Connect Panel, Risk and Compliance Group, Customer Services Committee and Group Board. The policy has also been reviewed by Devonshires to ensure compliance with relevant legislation and best practice.

5. Background and Context

Your Housing Group provides services in connection with the occupation of its homes and surrounding areas for which service charges will apply.

A service charge is a payment made by a tenant, leaseholder, shared owner, or freeholder towards the cost of services provided for them beyond the benefit of enjoying occupation of their home.

Examples of service charges include:

- Communal Cleaning
- Grounds Maintenance
- Maintenance of door entry systems
- Servicing and maintenance of lifts
- Fire Safety requirements

This is not an exhaustive list. The specific services provided for a home are listed in the Occupancy Agreement, Tenancy Agreement or Lease and any variations or updates issued from time to time.

Service charges for leaseholders living in blocks of flats or maisonettes will also include costs for the repair, maintenance, renewal and sometimes improvements of things such as the structure (such as renewal of the roof and external brickwork maintenance) as well as repairs to communal areas and buildings insurance as determined by the lease.

A management charge is applied to cover Your Housing Group's costs of managing the services provided in the Service Charge where the lease or tenancy agreement allows for this.

6. Policy Detail

For tenants paying a social rent, the weekly/monthly service charge at signup will be set out in the tenancy agreement. Where a property is classed as affordable rent the rent payable will be inclusive of service charges and will not be charged separately.

For leaseholders and freeholders, the services are identified in the lease or transfer document and the charges are set out in the annual service charge estimates and accounts.

For new developments, where practical, estate and communal area designs will aim to avoid or minimise service charges to ensure long term viability and affordability for residents.

6.1 Consultation

When required to do so, Your Housing Group will consult customers when adding to, removing, or varying the services provided. Your Housing Group will adhere to the requirements of Section 20 of the Landlord and Tenant Act 1985 (as amended) which requires Your Housing Group to consult customers who pay a variable service charge:

- Prior to entering into a qualifying long-term agreement (for a term of 12 months or greater), the apportioned cost of which will exceed £100 per year for any affected service charge payer, or
- Where apportioned works costs are more than £250 for any affected service charge payer.

6.2 Service charge setting

Unless the occupancy agreement states otherwise, Your Housing Group operates variable service charges. Prior to the start of each financial year, Your Housing Group will estimate the sum likely to be spent in providing services over the coming year. Please see our Service Charge setting procedure for further details. That will be the service charge to pay for the year.

After the end of the financial year Your Housing Group will calculate the costs that were actually incurred for that year and compare this to the estimated charge that was set.

Where the service charge that was set exceeds the actual costs incurred, the service charge will be reduced for the following year. This is referred to as a surplus. Where the service charge set is less than the costs incurred, the estimated service charge for the following year will be increased. This shortfall is referred to as a deficit. The lease may specify an alternative treatment of the surplus or deficit such as a demand for payment for the deficit at the end of each year.

Where the lease, transfer document or any other written contract made with Your Housing Group, or a practice implemented over previous years differs from this, then service charges will be administered accordingly. For example, deficits may be billed directly, and surpluses may be refunded immediately.

6.3 Apportionment

For each site, block, scheme or estate the cost of services will usually be apportioned by the number of dwellings where the service is provided. Apportionment will not be adjusted where a customer does not wish to use or receive any service provided through the service charge for communal use.

In some cases, to maintain the reasonableness and fairness of a service charge, another method may be used, for example, floor area or number of bedrooms.

For leaseholders, where the method of apportionment is defined in the lease, or where a specific apportionment was agreed previously, that method will be used.

6.4 Benefit Eligibility

Your Housing Group will clearly identify aspects of the service charge which are eligible and ineligible for the housing element of welfare benefits to enable customers to claim the appropriate amount of welfare benefits.

6.5 Scheme Asset Replacement

Where the cost of an asset is borne in its first year, and the benefits derived from that asset are received in more than one year, Your Housing Group will apportion the cost of that asset over the remainder of its expected useful economic life and recharge this cost through service charges. These costs will be shown separately as “Scheme Asset Replacement” charges.

Your Housing Group uses the lifecycles for assets as outlined in the National Housing Federation service charge guide (6th Edition) or as determined by the supplier/manufacturer of the component.

6.6 Sinking Funds

A Sinking Fund is a reserve built in advance with the aim to contribute to the cost of future major or cyclical works at the time they become due.

The intention is to spread the costs of anticipated works as evenly and as fairly as possible throughout the life of the building, to prevent penalising those who happen to be in occupation when the expenditure occurs.

Your Housing Group will operate a Sinking Fund where the lease or occupancy agreement requires this and/or where sinking fund contributions have been collected as an agreed and accepted practice over previous years.

Contributions will be collected using the method determined in the occupancy agreement or as previously agreed. This may be through payments within the annual service charges, through a contribution to be made at the time that a property is sold or a combination of both.

Where a cost is incurred for which the Sinking Fund could be used and there are insufficient monies available in the Sinking Fund, the balance will be payable as per the terms of the lease.

Sinking Funds will be held separately from Your Housing Group's own funds and will be used only to meet the expenditure for which they have been collected.

Interest earned will be added to the funds at the rate allocated by the bank or financial institution with which the accounts are held.

6.7 Ground Rents – Leaseholders

Ground rents range in value in accordance with the lease. Your Housing Group will ensure that monies due as ground rent are demanded in accordance with legislation.

6.8 Management Charge

Your Housing Group will include an element for managing activities related to service charges, such as arranging contracts, attending meetings, collecting charges and preparing accounts and the associated overheads.

This element will be set by Your Housing Group, either at a percentage of service costs or a fixed amount. This will be dependent on the occupancy agreement or prior agreed practice. Your Housing Group may change the annual Management Charge at its discretion where the lease or tenancy agreement allows.

6.9 Service Charge Collection

Your Housing Group provides a range of payment methods and promotes payment by direct debit along with digital payment options.

Your Housing Group will act in line with our income collection procedures as soon as an account goes into arrears.

The money advice team and Income collection team will assist with guidance in relation to benefit entitlement and setting up payment plans where needed.

6.10 Disputes/Issues

Issues in relation to service charges, standards of services or the administration of service charge accounts will be dealt with in accordance with Your Housing Group's Customer Feedback Policy.

Tenants and leaseholders have statutory rights to:

- Seek a summary of the service charge account from the landlord (section 21 of the Landlord and Tenant Act 1985)
- Inspect accounts, receipts and other documents relating to the service charge summary and take copies of these (section 22 of Landlord and Tenant Act 1985)

Tenants and leaseholders who pay a variable service charge also have a right to challenge reasonableness of costs by applying directly to a First Tier Tribunal. It is recommended that tenants and leaseholders obtain independent legal advice and organisations such as the Leasehold Advisory Service (LEASE), Shelter or Citizens Advice may be able to provide free legal advice.

7. Responsibilities under this Policy

The Finance Manager - Rents and Service Charges will be responsible for:

- this Policy and that it complies with all current and new legislation.
- ensuring that relevant teams adhere to this policy whilst monitoring and managing Service Charges and Sinking Funds.
- The accounting of service charges, this includes allocating all sinking fund contributions and expenditure incurred to the correct sinking fund.

The Director of Asset Management is responsible for identifying communal asset replacements that will be charged via a Scheme Asset Replacement Provision or a Sinking Fund, and for informing the Finance Team of this requirement.

The Head of Asset Strategy and Sustainability is responsible in conjunction with the Finance Manager - Rents and Service Charges for ensuring that sinking funds are assessed for sufficiency at least annually.

The Income Manager is responsible for the collection of charges in accordance with Your Housing Group's Income Collection Policy.

8. Risk Management

Financial Risk - Failure to properly administer Service Charges and Sinking Funds could result in an inability to recover costs incurred resulting in a direct financial loss to the Group.

Reputational Risk - Your Housing Group could be exposed to significant reputational risk with key stakeholders, including residents and funders if Service Charges and Sinking Funds are not managed effectively.

The failure to operate a Sinking Fund when required by a lease may result in hardship for residents and a challenge as to the appropriate management of the leases.

Failure to set clear and transparent service charges increases the risk of complaints from tenants and leaseholders. Tenants and Leaseholders can escalate their complaint to the Housing Ombudsman for review, a determination of maladministration or severe maladministration has an impact on Your Housing Group's reputation as a Landlord.

Regulatory Risk - The Regulator for Social Housing expects providers to set reasonable and transparent service charges which reflect the services being provided to tenants; to supply tenants with clear information on how service charges are set; and in the case of social rented properties to identify service charges separately from the rent.

The Governance and Financial Viability Standard requires compliance with all relevant legislation.

Failure to manage Service Charges and Sinking Fund monies in accordance with regulatory requirements may result in a risk to the Group's governance rating.

Providing clear and transparent service charges is also a requirement of the Transparency, Influence and Accountability Standard meaning that Your Housing Group must provide information regarding the service charges that are payable. Failure to do so may affect any future rating under the Consumer Standards.

Legal Risk - Failure to comply with legal requirements could lead to Your Housing Group facing legal action.

9. Data Protection, Record Storage and Retention

This policy complies with the principles of GDPR and YHG's Data Protection Policy.

10. Equality and Diversity

This Policy will be applied in a way which ensures equality of treatment for all customers without discrimination, or victimisation on account of any protected characteristic as defined within the Equality Act 2010. In drafting this policy YHG has had regard to its public sector equality duties under s149 of the Equality Act 2010, namely the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited under the Act;
- advance equality of opportunity between people who share a relevant protected characteristic and persons who do not share it;
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The policy pays regard to diversities around access to and delivery of any services.

An Equality Impact Assessment (EIA) has been undertaken on this policy and copies of the EIAs are available upon request.

On request YHG will provide translations of all its documents, policies and procedures in various languages and formats including computer disc, braille, large print and audio tape.

11. Communication

This Policy is available internally to all staff on the Your Housing Group intranet (Yougggle).

This Policy will be available to all customers on the YHG website.

12. Learning and Development

YHG will ensure that employees are appropriately trained in calculating and applying service charges in line with this policy. In addition to training, it is expected that all staff involved in the service charge process will have an understanding of the regulatory standards and legislation that apply to this policy.

13. Performance Management of this Policy

Service Charge levels are monitored annually to identify and report on significant variations to charges.

Sinking Funds are reviewed annually in accordance with known planned works and contributions assessed and amended where required.

14. Review of this Policy

YHG will review the Service Charge Policy every two years, or sooner if required by statutory, regulatory, best practice, emerging developments, or circumstances arising from reviews of other Group wide policies.

The Head of Finance – Reporting and Controls has the responsibility for updating the Policy.

Related Documents

Document Type	Name
Connected Policies and Procedures	Annual Rent Setting Policy Service Charge Procedure Your Housing Group Customer Feedback Policy Your Housing Group Equality, Diversity, and Inclusion Policy. Your Housing Group Income Collection Policy Your Housing Group Shared Ownership and Leasehold Management Policy
Forms and Letters	Department for Work and Pensions: Universal Credit service charges – guidance for landlords National Housing Federation: Service charges - A guide for housing associations (6th Edition)
Leaflets/Publicity Material	
Training Materials Available	
Intranet/ Website Page	Service Charge Policy

