SERVICE CHARGE POLICY

Board Approval: March 2017
Next Review: March 2019
Responsible Board: Ocean Housing Ltd
Responsible Executive: Managing Director of Ocean Housing Ltd

1.0 POLICY STATEMENT

1.1 The purpose of this policy is to provide a framework for the legal, regulatory and operational management of service charges together with setting out the overarching values and ethos of Ocean Housing Ltd (OHL) with regards to its service charge regime.

1.2 OHL is committed to delivering quality services that are cost efficient, user friendly and transparent for its customers across all tenures including rented, shared ownership, leasehold and freehold.

1.3 OHL will ensure that the services it provides comply with statutory requirements and relevant case law as well as guidance and best practice issued by the regulator.

2.0 BACKGROUND

2.1 OHL owns and manages approximately 4,500 properties across 321 schemes and the majority of which require the provision of communal services.

2.2 Predominately services are provided by OHL however in some instances services may be provided by a third party Management Company and in these circumstances OHL undertakes to monitor the performance of such organisations in the interests of its customers.

3.0 DEFINITIONS

3.1 SERVICE CHARGES – Section 18 (1) of the Landlord and Tenant Act 1985, defines a service charge as an amount payable by a tenant of a dwelling as part of or in addition to the rent which is payable, directly or indirectly, for services, repairs, maintenance, improvements or insurance or the landlords costs of management; and the whole or part of which varies or may vary according to the relevant costs.

3.2 VARIABLE – a variable service charge is one where the provisions of the occupancy agreement i.e. Tenancy Agreement, Lease Agreement or other relevant contractual arrangements allow the landlord to change the service charge each year (and perhaps during the year) according to actual costs incurred or estimated.

The cost of providing the relevant service(s) is estimated at the beginning of the financial year, with a final account being produced once the year is complete. The final account compares the actual costs in delivering services against the estimate that was set, and may result in a surplus (credit back) or a deficit (an additional amount) due to/from the tenant.

All homeowners including leaseholders, shared owners, and freeholders as well as some remaining OHL assured tenants pay a variable service charge.
3.3 **FIXED**— a fixed service charge is one where the provisions of the occupancy agreement i.e. Tenancy Agreement, Lease Agreement or other relevant contractual arrangements limit the amount that the landlord can increase the service charge by. This means that if the service charge is less than the costs incurred, OHL will have to fund the deficit, but if the service charge is more than the costs incurred, OHL will retain any surplus.

The statutory duties and rights set out in the Landlord and Tenant Act 1985, including the obligation to consult under Section 20, do not apply to a fixed service charge. However as a matter of good practice OHL will ensure that some form of consultation takes place where a change in such service provision is considered.

The majority of OHL’s assured and assured shorthold tenants pay a fixed service charge under the terms of their tenancy agreements.

3.4 **UNIVERSAL CREDIT** – In 2013 the government announced the introduction of a major new benefit, Universal Credit which combines six existing welfare benefits into one monthly payment. It will affect a large number of social housing tenants. Ahead of the introduction of Universal Credit, the Department for Work and Pensions published its landlord guidance for Universal Credit service charges.

The regulations relating to service charges can be divided into two categories: a legal definition of what is meant by a service charge for the purposes of Universal Credit; and broad definitions of the eligible service charge categories with some additional specific exclusion criteria.

There are four conditions for eligible service charges payments:

1. The right to occupy the accommodation is dependent upon the tenant paying service charges, for example where it forms part of the tenancy agreement.

2. The service charge wholly falls into one or more of the following categories:
   - Category A: Maintaining the general standard of the accommodation
   - Category B: Areas of communal use
   - Category C: Basic communal services
   - Category D: Tenant accommodation-specific charges

3. The costs or charges are reasonable and that they relate to such services as it is reasonable to provide.

4. There are a number of exclusions, which include any charges for meals, medical expenses, and personal services of any description.

4.0 **THE POLICY**

4.1 Where OHL has no statutory obligations but provides services to owners or shared owners in exercise of its responsibilities as a Managing Agent (which may be within, or in addition to the services provided to tenants), charges shall be levied on a comparable basis, or as near comparable as the lease conditions will allow.

4.2 Service Charges will be made in accordance with the occupancy agreement i.e. Tenancy Agreement, Lease Agreement or other relevant contractual arrangements. In addition, OHL will apply a management fee to cover the costs incurred in arranging, managing and administering services and charges.
4.3 OHL operates within the following service charge principles:

4.3.1 **SERVICES PROVIDED**
In setting Service Charges, OHL has identified the separate costs incurred in relation to each relevant service being provided.
Examples of chargeable services include (but are not limited to):
• Cleaning of common parts
• Grounds Maintenance
• Lighting and heating to common parts
• Provision of fire alarms, entry phones, lifts, etc.

4.3.2 **COST RECOVERY**
Service charges will be calculated at a level sufficient to recover the estimated direct cost of the service provision and any associated indirect costs such as administration.

Costs will be apportioned in a reasonable manner between those properties receiving those services. Where charges are variable and actual costs result in a shortfall in recovery or over recovery of costs in any charging period, the charges for the following period will be adjusted accordingly.

4.3.3 **APPORTIONMENT BASIS**
Service charge costs are apportioned to individual properties on a scheme and/or block by block basis and depending on the service item being provided. If a service is provided for a block all residents may be liable to bear a proportion of the cost whether or not the resident considers they derive a specific benefit individually.

Where a lease outlines how the costs of the services are apportioned between properties we will apply these principles. In all other cases we will apportion on an appropriate, pro-rata basis.

4.3.4 **FIXED AND VARIABLE CHARGES**
All homeowners including leaseholders, Shared Owners, and Freeholders as well as some OHL Assured tenants pay a variable service charge.

The majority of OHL’s assured and assured shorthold tenants pay a fixed service charge under the terms of their tenancy agreements.

4.3.5 **AFFORDABLE RENT**
Properties let under the Affordable Rent scheme include service charges as part of their overall charge. Rent is set at 80% of the market rate with the view that this includes costs which would otherwise be service chargeable (see Rent Policy)

4.3.6 **MANAGEMENT FEES**
Management fees which may vary from time to time will cover the costs of providing management and general administration on behalf of customers.

Some properties may be managed by a third party managing agent. In this instance Ocean will still levy a management fee which is proportionate to the involvement of OHL, this fee will be set to reflect the costs incurred and ensure that the properties in which we have an interest are effectively managed.

Where there is a third part management company OHL shall normally apply a 5% management fee. Where OHL provides the services it shall normally apply a 10% management fee.
5.0 CONSULTATION AND ENGAGEMENT

5.1 OHL will consult and inform tenants in line with statutory requirements as and when required in the specified processes. ‘Section 20 Consultation’ as prescribed by Section 20 (1) of the Landlord and Tenant Act 1985 sets the requirement for landlords to consult with tenants on a variable service charge carrying out qualifying works or qualifying long-term agreements, the relevant contributions of tenants are limited unless the consultation requirements have either been complied with or dispensed by the appropriate tribunal.

5.2 The term ‘qualifying works’ means works on a building or any premises where the costs to the individual tenant would be more than £250.00 (inclusive of VAT).

The term ‘qualifying long-term agreements’ means an agreement entered into by or on behalf of the landlord for a term of more than 12 months under which the amount charged to the individual tenant would be more than £100.00 (inclusive of VAT) in any 12 month period.

6.0 VALUE FOR MONEY

6.1 OHL strives to deliver continuous improvements and seek value for money in the provision and management of services.

6.2 OHL endeavours to ensure all service contracts are cost effective and represent good value for money for tenants. All contracts will be reviewed regularly to ensure their standard of service and cost effectiveness is being maintained in accordance with Ocean Housing Group’s (OHG) procurement strategy.

6.3 Through maintaining accurate records and accurate budgeting of future years spend, OHL will maximise the recovery of its costs. The approach to the collection of service charges is set out in the Income Recovery Policy.

7.0 EQUALITY AND DIVERSITY

7.1 OHL recognises the needs of a diverse population and acts within the scope of its own Equality and Diversity Policy. This allows OHL to deliver to tenants an appropriate service through a prioritisation of resources, enabling us to provide information and access to services to tenants according to their specific requirements.

7.2 This policy is made accessible on request and relevant staff members receive periodic updates on the service charge policy as required.

8.0 PERFORMANCE MONITORING

8.1 Service charge income and expenditure is monitored on a monthly basis via Ocean’s income and expenditure account.

8.2 The quality of services provided is monitored by Neighbourhood Services staff who regularly inspect estates to ensure that communal areas and services are delivered to a good standard. Communal cleaning and grounds maintenance services are provided in house and utilities are procured where possible to ensure good value for money.
8.3 In certain instances services are provided to an estate by a Management Company. Ocean is proactive in monitoring and challenging management companies as necessary where service provision is below the expected standard.

9.0 ACCOUNTABILITY

9.1 The Home Ownership Advisor together with the Assistant Accountant (Service Charges) is responsible for the day to day management of service charges. Overall responsibility for service charges sits with the Customer Account Manager reporting to the Head of Neighbourhood Services.

10.0 REVIEW

10.1 This policy will be reviewed bi-ennially.