

Service Charge Policy

1 Our approach to Service Charges

- 1.1 This policy sets out our approach to setting and managing service charges, in line with best practice and relevant legislation and guidance.
- 1.2 If you live in one of our homes where we provide a service to your building, such as hallway cleaning, you will need to pay service charges. It is important that we recover the costs of providing services and meeting health and safety requirements where contracts and legislation permit us to do so. Your lease or tenancy agreement will clearly set out your service charge obligations.
- 1.3 For the purposes of this policy, any references to 'you' or 'your' mean the tenant or homeowner who is responsible for the payment of service charges. Any reference to 'we', 'our' and 'us' means Octavia.
- 1.4 Where words or phrases have been capitalised which otherwise would not normally be, these relate to terms that appear in section 5: Definitions.

2 Scope

- 2.1 This policy applies to all residential service charges applied by Octavia Housing and any of its subsidiaries and related companies
- 2.2 This policy applies to all residents, leaseholders, licensees and freeholders who pay a service charge.
- 2.3 This policy does not apply to commercial service charges or entities where there are no service charges.
- 2.4 We have separate policies and procedures that set out Section 20 Consultation requirements, how we set rents and how we collect Service Charges and rent. Therefore, these matters are outside the scope of this policy. A list of these can be found in the 'related policies' section.

3 Policy aims and objectives

- 3.1 This policy sets out how we intend to meet our legislative and regulatory obligations, along with the terms included in your tenancy, lease or licence agreement that applies to the setting and management of service charges.
- 3.2 We will take a clear, consistent and transparent approach in setting fair and reasonable service charges.
- 3.3 We will ensure that wherever possible, our approach to service charges aligns with best practice.

4 Legislative / regulatory context

4.1 The following legislation has been considered when writing this policy:

- Rent Act 1977
- Landlord and Tenant Act 1985
- Landlord and Tenant Act 1987
- Housing Act 1988
- Commonhold and Leasehold Reform Act 2002
- Housing and Regeneration Act 2008

4.2 The following guidance has been considered when writing this policy:

- RICS Service Charge Residential Management Code, 3rd Edition (where relevant)
- Greater London Authority: Service Charges Charter
- New Homes Quality Board: Code of Practice
- RICS/ICAEW: Technical release 03/11: Residential Service Charge Accounts
- Regulator of Social Housing: Rent Standard 2020
- DWP: Universal Credit: Service Charges – guidance for landlords

5 Definitions

5.1 Service Charge

This is a charge you pay for services on your estate such as general maintenance repairs and gardening in communal spaces. It may also cover other charges or costs, such as a contribution towards a reserve fund (see section 5.4 for more information on reserve funds), management or administrative costs. If you are a tenant, some of the above costs may be covered by your rent.

We operate two types of service charge; a fixed service charge, and a variable service charge. Your tenancy agreement, lease or licence agreement will outline which charge applies to you.

5.2 Fixed Service Charge

This is a fixed charge we provide you with each year based on our estimated charge for the upcoming Accounting Year.. If you are on a fixed service charge, you will not be charged extra for the year if we spend more than we estimated during the year, and you will not be refunded if we spend less than we estimated.

5.3 Variable Service Charge

This is a variable charge we provide you with based on our estimates for the upcoming Accounting Year that may change depending on the actual cost of the services you receive. If we spend more than we estimated in the year you will be asked to pay an additional contribution. If we spend less

than we predicted, this money will be refunded to your service charge account, to be offset against future payments or any arrears that have been accrued.

5.4 Reserve Fund

If you are a leaseholder or shared owner, you may pay into a Reserve Fund. A Reserve Fund is the total contributions made by leaseholders and shared owners towards future maintenance work to take place across the lifetime of a development. Not all developments have Reserve Funds and we will only collect Reserve Fund contributions from you if your lease allows. If you sell your home or the share of the home you own, your reserve fund contribution will not be refunded, it will remain as a contribution towards the development's future maintenance costs.

The Reserve Fund is held in a separate bank account, away from the general bank account, which will be covered by the Financial Services Compensation Scheme (FSCS) up to a maximum of £85,000 per person. Therefore, if a fund has 50 people contributing, it is protected up to the value of £4.25 million. Interest is earned on the monies that are held and is added to the Reserve Fund each year.

5.5 Apportionment

Apportionment is the way a cost is divided between all the properties that are responsible for contributing to a service. The age of your property may affect how the cost is divided. (see section 11 - Apportionment)

5.6 Management and administration fees

You may be charged management and administration fees for the costs of work incurred by Octavia that are carried out by a third-party contractor, and the costs associated with creating and managing service charges and accounts and assisting with enquiries. If you are a leaseholders or shared owner, this is covered in your Management Fee. If you are a tenant, some of these services are considered a rent cost and therefore will not be charged back to you. You may still be charged an administration fee for elements which are not included in the rent.

5.7 Third-Party Managing Agent

Some of our properties are within a development with private housing for sale or commercial units. In many of these cases, Octavia is not the freeholder but a leaseholder. If you live in one of these properties, you will have a sublease or tenancy issued by us. The freeholder may appoint a managing agent to manage services, maintenance and repairs. The third-party agent will then recharge us for costs associated with providing these services. If we agree that the charges have been reasonably incurred, we will include your share of the costs in your service charges.

5.8 Accounting Year

The Accounting Year refers to the period your service charge accounts begin and end each year. This is not necessarily the same as the financial year. Our Accounting Year is from 1st April – 31st March. However, third-party Managing Agents may run different Accounting Years. We will let you know the period your service charge covers in your tenancy agreement, lease or licence agreement.

6 Key principles

- 6.1 When managing service charges, there are four key principles which apply to ensure excellence. These are:
- 6.1.1 **Value for Money** – providing quality services that drive better outcomes for our residents while keeping costs down. At Octavia, we are committed to providing Value for Money wherever possible, and achieving the best possible outcomes in an affordable way.
 - 6.1.2 **Transparency** is being clear, open and honest wherever possible about service charges, from the moment you engage with Octavia, whether at the start of your tenancy or before you purchase a property. We will communicate clearly, offer you the best information available and provide you with unique booklets that are tailored to you.
 - 6.1.3 **Customer Centric** is about putting our residents at the heart of what we do around service charges, engaging on how services are provided and managed. Where it is possible, we want to engage with you about services, what you value, and where challenges exist to create solutions in a collaborative way.
 - 6.1.4 **Recovery of Cost** is an important part of excellent service charges. Wherever possible, it should be the ambition of an organisation to recover as much of the money spent on providing services as possible. At Octavia, we deliver equality through homes, support, and opportunity. It is important that we recover costs where possible, otherwise, we have less money to maximise the delivery of our purpose.

7 Calculating service charges

- 7.1 We take account of data such as previous estimated costs and actual costs, contracts where services are set out with costs, and external expertise such as energy portfolio managers to estimate your service charge..
- 7.2 We will add inflation to historical data to ensure it is fit for purpose. The amount added will differ based on the age of the data and the expenditure type.
- 7.3 We will create an assumptions document which will identify the current and future likely trends in expenditure as advised by leading organisations such as the Bank of England and subject matter experts such as energy brokers or Third-Party Managing Agents. This document will be signed off by Octavia as the rules by which services will go up or down, and will be available on request.
- 7.4 Each year, we will apply this information and create your new estimated service charges. You will be issued with a letter and breakdown of those charges ahead of time and depending on the status of your property, this may also be accompanied by changes to your rent.
- 7.5 In Octavia, the Accounting Year for service charges and rent is April to March. If you pay monthly, this period will be from 1st April to 31st March. If you pay weekly, this will run from the first Monday

of April, until the day before the first Monday in April in the following year. In some years, this means that 53 weeks, rather than 52 weeks of charges will be raised, however, this will have no impact on the overall service charges you contribute in the year.

8 Calculating service charges for new properties

- 8.1 When a new development is built, we will provide you with service charge information as early as possible in the process for those planning to move into a new home.
- 8.2 For shared owners, this will be through the Key Information Documents. This will also inform you if there is a Reserve Fund you will pay into. and if a cap to reduce service charges for a set amount of time has been agreed. It should also detail when the cap will expire and what service charges would be without the cap in place.
- 8.3 For leaseholder, this will be in the form of a booklet, which will provide you with information about your new property. It will also contain information about services, amounts, Reserve Funds and any caps.
- 8.4 For tenant, your service charges will be clearly advertised as part of the lettings process.
- 8.5 If you are buying one of our homes we will provide you with a long-term view of service charges, which show costs beyond any warranty or defects periods which may be in place. long-term projections are not a guarantee of future service charges, which may differ based on market pressures, changes to health and safety requirements or other factors may impact the cost of a service.

9 Year-end actuals for variable service charges

- 9.1 If you pay a variable service charge, we will send you a breakdown of the actual cost for service charges as soon as possible after the Accounting Year has finished These accounts will compare the actual costs to the estimated costs.
- 9.2 Any difference between estimated costs and actual costs will be stated on your breakdown., with any deficit or surplus debited or credited to your service charge account.
- 9.3 You can ask to review the invoices and receipts for costs up to six months after your accounts have been provided.. If you do so, we must provide those to you no later than one month after it is requested.
- 9.4 You have the right to ask a Tribunal to determine whether your service charges are reasonable. We urge all residents to attempt to address any concerns directly with us first.

10 Universal credit and housing benefit

10.1 When thinking about providing services in developments, we will consider whether those services are eligible for payment under Universal Credit or Housing Benefit. Where possible, we will limit the services provided to those that are eligible, so developments can remain desirable to live in without financially impacting those on low or no income.

11 Adding, removing or changing services

11.1 We believe you should have a say in how your development is managed, such as adding, removing or changing services that are provided to a development. However, we are unable to add, remove or change services provided by Third-Party Managing Agents.

11.2 Consideration will be given to adding services where:

- It does not impact affordability. Examples where affordability may be impacted are:
 - Adding services which are ineligible for Universal Credit
 - Adding services which would make the overall cost of service charges unaffordable (for example an increase that homeowners cannot afford based on feedback or our knowledge of the development)
 - Developments which have units with service charges included within the rent and therefore would impact affordability for Octavia
 - Any other example of an impact to affordability as deemed so by Octavia
- If there are social rented units, the service should be eligible for Universal Credit
- It does not detract from the development in any way

11.3 Should the criteria in 10.2 be met, 75% of residents in the development would need to vote for the change for it to meet the required threshold for amendment.

11.4 Consideration will be given to removing services where:

- The service is not required for health and safety purposes
- Its removal does not impact desirability
- We are not legally obligated to provide the service
- It will not impact the condition and upkeep of the development or any components within the development

11.5 Should the conditions in 11.4 be met, 75% of residents would need to vote for the change for it to meet the required threshold for amendment.

11.6 In addition to adding or removing services, existing services can also be amended. Examples include:

- A change to the regularity of a service (changing a service from once to twice a week)
- A change to the scope of a service (the cleaner will now deep clean the carpet every month)

- A change to when a service is provided (the grounds will be maintained on Fridays, not Wednesdays)

11.7 Where the change to a service is adding cost, the criteria for adding services will apply. Where the change is reducing the cost, the criteria for removing services will apply.

11.8 The process of adding, removing or amending services will not be required where Octavia is duty bound to provide you with a service due to a change in the terms of your lease or health and safety reasons or we need to provide the service as a responsible landlord. In these examples, we will communicate the reasons for the change, but will not require a vote.

11.9 This process is in addition to the requirements to perform a Section 20 Consultation should certain criteria be met. Please see the Section 20 Consultation policy for more information.

12 Apportionment

12.1 The three most common methods of apportioning costs are:

- **Equal contribution:** This is where each resident pays an equal proportion of the services provided.

Example: If you live in a development with ten individual properties and pay an equal contribution, you will pay 1/10th or 10% of the charges attached to the development.

- **Points system:** The points system is a way of apportioning costs based on the size of each resident's property.. Those with a smaller property will contribute less than those with a bigger property. All new developments at Octavia use this form of apportionment.

The points system sets a base level number of points (4) which applies to all properties. This number is then added to the number of occupants your property was designed for. The table below sets out how points are attributed.

Base level points	No. of occupants property was designed for	Total points
4	2	6
4	3	7
4	4	8
4	5	9
4	6	10

Example: If you live in a development with ten individual properties, the total points for your development is 75 and your individual property has been attributed 6 points, you will pay 6/75th or 8% of the charges attributed to the development.

- **Rateable value:** This is a value that was historically generated for the purposes of charging for things like utility costs as well as service charges. As an apportionment method, it is not used for new properties.

Example: If you live in a development with ten individual properties, the total rateable value of all the properties is 5,400 and your individual property has a rateable value of 350, you will pay 350/5,400 of the overall value or 6.481% of the charges attributed to the development.

12.2 We may, where permitted by the tenancy or lease, decide to change an apportionment should we feel that the current method is not good practice or is not reasonable.

13 Reserve funds

13.1 Reserve Funds apply to leaseholders and shared owners where there is an obligation to contribute towards the replacement of large assets, items considered part of the fabric of the building and cyclical decorations programmes. When calculating Reserve Fund contributions, we take account of inflation, and any planned works to the development during the Accounting Year.

13.2 Where required, we will apply a Reserve Fund to new developments. These will be calculated at the start of a new development and be based on the expected cost of replacement, useful life of the item and factoring in predicted inflation.

13.3 We will hold your reserve fund contributions in an interest-bearing bank account, which is ringfenced to provide protection.

13.4 Your actual accounts for the year will show you a breakdown of your contributions, interest received and any deductions in the year.

13.5 When a large item requires replacement or your development requires decoration and a Reserve Fund is in place, we will use the money held within the Reserve Fund first to reduce the impact on resident finances. It should be noted however, that should the Reserve Fund not hold enough money to cover the cost of the work, you will be required to contribute to the difference.

14 Management and administration fees

14.1 For leaseholders and shared owners, we charge a Management Fee to cover the cost of providing management services. The Management Fee is calculated annually and is charged at a single rate, and not apportioned in the same way a service charge would be for your development.

14.2 For tenants, an Administration Fee is applied, which has been set at 15% of your overall service charge.

14.3 Where you contribute to service charges ineligible for Universal credit and you receive Universal Credit, a portion of your Administration or Management Fee will also be ineligible for Universal Credit.

15 How we will manage your personal data

15.1 We will manage and process personal data in compliance with the Data Protection Act 2018 and UK GDPR. For further information on how we process personal data, see the Octavia Data Protection Policy, and Octavia Privacy Notice.

16 Equality, Diversity and Inclusion

16.1 We will apply this policy fairly and consistently. We will deliver all services and activities within the spirit and context of current Equality legislation including the Equality Act (2010).

16.2 We will not discriminate against any person or group of persons on the grounds of: age; disability; gender reassignment; marriage or civil partnership; pregnancy or maternity; race; religion or belief; sex; sexual orientation.

17 Contact for further information

17.1 If you wish to discuss service charges you can contact us in the following ways:

Phone: 020 8354 5500

Email: info@octavia.org.uk

More information can also be found at www.octaviahousing.org.uk

Revision History		
Date	Reviser	Revision Detail
09/09/2022	DO – Consultant	New policy generated
13/10/2022	DO – Consultant	Wording amendments and clarifications made based on feedback from stakeholders
20/10/2022	DO – Consultant	Further changes made to ensure clarity around the meaning of affordability
25/10/2022	DO – Consultant	Removal of section on Universal Credit which was duplicated elsewhere at request of Executive Team
27/10/2022	DO – Consultant	Renumbering within document so all sections are correctly referred to. Added information on data handling, EIA and contact details

16/01/2023	YC – Rent and Service Charge accountant	Editorial amendments
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17 Related policies

Rent Policy (currently under review)

Section 20 Consultation Procedure (currently under review)

Rent Management Policy

Title: Service Charge Policy | Policy Owner: Assistant Director of Financial Control | Approved by: Finance Committee | Approval date: 29/11/2022 | Effective from: 16/01/2023