
Service Charges: Information for residents

What are service charges, and how do they work?

What is a service charge?

Service charges are charges Hanover makes to residents (tenants, leaseholders and freeholders) for the cost of services we provide. Services we provide might include cleaning or gardening in shared areas, a lift and warden call equipment. The service charge will usually include an amount being saved up to meet future costs, for example, replacing a lift or fire alarm.

Service charges for leaseholders and some freeholders also include the cost of maintaining and insuring the structure and exterior of the building and buildings insurance. Some freeholders have to do this for themselves. For tenants, their share of these costs is not included in the service charge and is paid by Hanover, as landlord, from the rent they pay.

The service charge will not include the cost of your home, which is covered by your rent if you are a tenant, or by the price you paid if you are a homeowner (leaseholder or freeholder).

How much do I have to pay?

If you have to pay a service charge, your lease or tenancy agreement will set out the range of services you should receive. All tenants or homeowners who receive services must pay their share of the full cost of those services. These payments are known as 'variable service charges' as the amount you have to pay varies (it can go up or down) if the cost of providing the services changes.

How can I influence my service charge and the services offered?

The estate and housing managers meet residents annually in October or November each year, if required, to discuss the services paid for through the service charge and the performance of contractors. Quotes are obtained where necessary and residents views on the services and which contractor to appoint will be taken into account by Hanover when making decisions on these matters. The new arrangements will come into force from the following 1 April or the start of the financial year as determined by the lease.

At any time through the year the services provided by Hanover may be added to, removed or varied by agreement and the service charge amended accordingly. This would follow a consultation with the affected residents and Hanover giving at least one month's written notice of the new amount.

How do variable service charges work?

1. Before the start of the financial year, which for most estates begins on 1 April each year, Hanover will estimate how much it will cost to provide services to tenants and homeowners. We will then consult you about these estimates and change them if appropriate.

2. During the year Hanover will charge residents their share of the estimated cost usually in monthly instalments.

3. After the end of the financial year, which for most estates ends on 31 March, Hanover will compare the amount we have charged with the actual amounts we spent. We will send you a summary of the accounts for your estate, showing the comparison, within six months of the end of the financial year. If necessary we will follow this with a meeting with residents to discuss the summary and explain any differences.

4. If the actual cost of providing services is lower than the amount Hanover charged, there will be a surplus on the service charge accounts for the estate. This may occur because a service that was budgeted for was in fact not provided and an alternative could not be provided or was not required. For tenants and many homeowners we will carry forward the extra amount and refund by reducing their charge in a later year, as required by the lease or tenancy.

Compensation would not normally be paid as the tenant/homeowner is only charged for any services that they actually receive.

5. If the actual cost of providing services is higher than Hanover estimated there will be a deficit on the service charge accounts for the estate. This may occur because a service cost more than anticipated or because a service was introduced mid way through the year at the request of the tenants or homeowners. Again, for tenants and many homeowners we will carry forward the amount we are owed and collect it by increasing their charge in a later year, as required by the lease or tenancy.

6. The leases on some schemes require the surplus or deficit to be passed on in different ways, often being credited or billed once the amount is known. This is often called a 'balancing charge'. If this applies to you, your housing manager will let you know.

If you have any questions about your service charge, you should contact your housing manager or estate manager.

Service Charges – the legal background

The lease, tenancy or transfer agreement you have sets out the services Hanover is to provide, and that residents have to pay for through their service charge. In addition, the law requires landlords to follow some specific procedures when managing service charges.

The law about service charges is mainly found in the Landlord and Tenant Act 1985, sections 18 to 30, as amended by later legislation. It applies equally to all residents who pay a variable service charge, whether they have a tenancy or a long lease on their home.

The rights and obligations of residents relating to service charges are set out in a summary that will be sent to you with your estimated charges before the start of each financial year. A copy is available on request from your housing manager or estate manager.

The Hanover service charge programme

The information given is correct for estates that have a financial year starting on 1 April and ending on 31 March. For some homeowner estates, the financial year starts and ends on other dates. For example, starting on 1 July and ending on 30 June. Where this applies the dates will be different from those shown and you will be notified by your housing manager.

November to January of each year	Hanover sends you a draft budget, consults you at a meeting, and makes any changes that may be required. The budget is finalised.
February of each year	Hanover writes and confirms your estimated service charges for the following financial year.
April of each year	The revised estimated service charges become payable and the first monthly instalment will be charged to your account.
Each month until 31 March each financial year	The revised estimated service will be charged to your account in monthly instalments.
31 March	Accounts for the year 1 April to 31 March will be closed.
April – June	Accounts for the previous 1 April to 31 March will be checked and finalised. Where a lease requires them to be independently audited, they will be reviewed and signed by external accountants.
July - August	Service Charge accounts for the previous 1 April to 31 March will be sent to residents, together with the amount of surplus or deficit for their property.
September	<p>Balancing charges for surplus or deficit will be applied to resident's accounts where the lease requires this.</p> <p>The surplus or deficit for tenants and most other homeowners will be carried forward and used to adjust the budget for following 1 April to 31 March financial year.</p> <p>If the surplus or deficit for your scheme is dealt with in a different way you will be notified by your housing manager.</p>

Frequently Asked Questions

How is my share of the costs worked out?

On homeowner estates (those where the homes have been sold to the occupiers) the leases and freehold sales terms set out the share of costs that each resident pays. On some estates residents pay different amounts, with larger homes paying more than smaller ones. If this applies to your estate, the amount you pay will be the percentage of costs set out in your lease.

On other homeowner estates, and rented estates, the costs of most services are shared equally among all the dwellings that receive them. If heating and hot water are supplied from a central boiler, that cost will be shared differently so that larger homes pay more than smaller ones.

Do homeowners (freeholders and leaseholders) subsidise tenants?

No. There are some service charge costs paid by homeowners that are not included in the service charge paid by tenants. Hanover pays the tenant's share of these costs, out of the rental income we receive.

These differences are due to the requirements of the Landlord & Tenant Act 1985, Section 11. This makes landlords letting property on tenancies, rather than on long leases, responsible for specified repair and insurance costs. For example, tenants do not pay for repairs to the structure or for cyclical decorations through their service charge.

For any given service charge item you are only required to pay for your share. If there are 5 homeowners and 5 tenants in a block of 10 dwellings you will always, unless your tenancy or lease specifies a different proportion, pay 1/10 of the total cost of any given service. You will not pay more simply because there are tenants in your estate.

What is a balancing charge?

Under the terms of your tenancy, lease or transfer, you pay an estimated service charge during each financial year. At the end of that year, we prepare accounts for each estate, comparing the amount charged with the actual costs incurred. A balancing charge is an individual resident's share of the surplus or deficit on the end of year service charge accounts for their estate.

An example, for an estate of 10 homes, is shown below:

Total scheme expenditure to 31 March	£1000
Less income receivable to 31 March	£ 900
Carried forward: scheme balance – deficit	£ 100
Balancing charge per property	£ 10

I moved in to my home during the last financial year to 31 March. Does this affect how Hanover deals with the balancing charge?

No. The full amount of the year end balancing charge (whether a credit or debit) will be applied to your charges in the way required by your lease or tenancy. If you have bought your home, your solicitor may have arranged for some of the purchase monies to be held back to meet any deficit that might arise. You should contact them to see if that is the case and ask for it to be released to meet the balancing charge.

What is the service charge management fee for?

This is the Hanover charge for managing the services you receive and pay for through your service charge. It does not include the cost of letting, managing and maintaining rented dwellings.

There are no hidden charges; it is one of the elements in your service charge. We do not – as some other landlords and managing agents do – charge or receive a commission on services we purchase on your behalf, such as insurance.

What does our management fee include?

- Providing information to residents and consulting them on management matters and liaising with residents' associations and resident representatives.
- Preparing specifications for minor works and services, such as cleaning, gardening, window cleaning, arranging tenders or quotations, consulting residents on which contractor to appoint and setting up and managing the contracts.
- Holding annual meetings with residents to agree the service charge budget for the following year, present the accounts for the preceding year and to agree the content of the estate's local agreement.
- Managing, training, supporting and supervising the estate manager. Making periodic health and safety checks, drawing up, reviewing with residents and agreeing health and safety risk assessments and plans.
- Liaising with statutory and local authorities about local services, for example rubbish collection and highway maintenance etc.
- Preparing budgets and service charge estimates, collecting service charges including arrears, processing and paying invoices to suppliers.
- Producing estate service charge accounts and statements of residents' accounts. Providing copies of invoices and receipts, where requested.
- Administering contents insurance for communal area contents.
- Consulting residents in the way required by Section 20 of the 1985 Landlord and Tenant Act. This will be before contracts for services are entered into of longer than 12 months and the estimated charge is more than £100 for a property per year, or where the amount a resident has to pay for proposed works is estimated to be more than £250.
- Providing information to residents and opportunities to be involved on their estate or at a regional or national level.

In addition, because homeowners pay for a wider range of items through their service charge, the management fee they pay will also include the following:

- Opening, administering and acting as trustee for estate bank accounts
- Arranging the payment of tax, where applicable
- Arranging and administering buildings insurance, preparing replacement cost assessments, and providing copies of insurance schedules
- Providing professional indemnity insurance
- Inspecting the property to check condition
- Arranging any necessary repairs, where this is not the responsibility of a homeowner
- Providing advice on repair and maintenance matters, up to a project value of £1,999. Additional fees will be charged for higher value contracts
- Arranging for estate accounts to be independently certified or audited
- Keeping records of residents and property ownership

Questions and complaints about service charges

If you have any questions about your service charge, please contact your housing manager in the first instance. They will discuss your enquiry and provide additional information if that is required.

If you are not satisfied with the information you receive you can ask for the matter to be dealt with as a formal complaint. Information about our Complaints Policy is available on our website www.hanover.org.uk and a Complaints helpsheet is available via the website or from your estate manager.

You can also take independent advice from a solicitor (though you will be liable for their fees) your Citizens Advice Bureau, or from the Leasehold Advisory Service. This is a government funded service offering impartial advice to landlords and tenants (including leaseholders). They can be contacted on 020 7383 9800, and a great deal of information is available on their website, see below:

<http://www.lease-advice.org>

Formal disputes about service charges that cannot be settled by agreement with Hanover can be referred to the First Tier Tribunal (Property Chamber). This is a specialist court that has authority to make binding decisions if the parties cannot agree. The Tribunals operate on a regional basis. The contact details for each and the areas they cover can be found on the following website

<http://www.justice.gov.uk/tribunals/residential-property/venues>

If you require any additional information, please contact your housing manager.