

MAYOR OF LONDON

Service Charges Charter

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About this document

London has more leaseholders than any other part of the country. Service charges are used by landlords to recover costs from leaseholders for providing services that are agreed in the lease and while they are a vital way in which buildings are maintained and repaired, they also affect the affordability of housing in London – a particular issue for leaseholders of affordable housing such as Shared Ownership. Where service charges are incorrectly administered, this requires time-consuming scrutiny and challenge, which can have a detrimental impact on leaseholders' quality of life as well as the efficient operation of housing providers. This Charter sets out commitments that housing providers are expected to comply with in order to improve the experience of leaseholders with service charges.

This Charter draws from feedback from leaseholders as well as housing providers. For providers, the Charter specifies principles and requirements to be implemented. For leaseholders, the Charter sets out what should be expected from their provider. As the document goes into significant level of detail, the following paragraphs offer a summary of the commitments set out by the Charter to aid leaseholders in navigating the document.



A leaseholder's guide to the Charter

The Charter's primary goal is to improve leaseholders' experience of service charges. All housing providers receiving funding through the Mayor's Affordable Homes Programme 2021- 2026 are expected to sign up to the Charter. The Mayor also encourages all Registered Providers directly involved in the development and management of Shared Ownership homes in London as well as private developers of leasehold homes to sign up and apply the Charter's principles across their properties.

Where a provider has signed up to the Charter, leaseholders can feel confident that their service charges will be managed following best-practice principles that address the concerns of Londoners.

London's leaseholders want service charges to provide value for money and need transparency and clarity from landlords in order to assure themselves this is the case. Housing developments can and should be designed in such a way to reduce future service charges. Leaseholders also need to know how they can challenge high costs and errors if things go wrong. This document is divided into four main principles, each with a set of commitments that housing providers should adhere to:

- **Transparency** – this section sets out that early information should be provided to potential buyers; that leaseholders should be given detailed descriptions of what services the charges cover and that their statements should be detailed and include information on how service charges are shared between residents. The principle also requires leaseholders to be consulted on significant changes to service charges.
- **Affordability** – this section sets out that leaseholders should be given realistic estimates on charges and that housing providers need to manage potential cost rises appropriately. Housing providers should set out how leaseholders facing financial hardship may be assisted, particularly where this has been exacerbated by increases to service charges.
- **Design** – this section sets out that buildings should be designed to minimise service charges by ensuring that materials are chosen to last and consulting relevant stakeholders to capture how the scheme might be managed. It also stresses that buildings should prioritise creating inclusive communities through design and give leaseholders greater flexibility to access on-site amenities (such as gyms, workspaces and car parking).
- **Challenge and redress** – this section sets out that housing providers should make clear how leaseholders can formally challenge or complain if something goes wrong with their service charges and it requires housing providers to quickly rectify errors.

Introduction

Service charges are governed by the legal framework set out in the Landlord and Tenant Act 1985 and the Commonhold and Leasehold Reform Act 2002. This Charter complements these legal obligations and aims to improve the experience of leaseholders in relation to their service charges, with a particular focus on enhancing the confidence of Londoners in Shared Ownership.

The Charter sets out commitments relating to four key areas of service charges:

- **Transparency** – ensuring leaseholders are provided with the information they need to understand their service charges
- **Affordability** – ensuring that the affordability of service charges is a key consideration when setting or reviewing service charges
- **Design** – encouraging design approaches for new build developments that minimise service charges while ensuring high quality design
- **Challenge and redress** – ensuring that leaseholders are aware of how to challenge their service charges and the routes to redress that are available to them.

All investment partners in the Mayor's Homes for Londoners 2021-2026 Affordable Housing Programme must sign up to the Charter.

The Mayor also encourages all Registered Providers directly involved in the development and management of Shared Ownership in London to sign up and apply its principles across all of their homes. Private developers of leasehold homes are also encouraged to adopt the Charter.

This Charter recognises that landlords are often party to arrangements with freeholders, whereby a third-party managing agent is responsible for the day-to-day running of a scheme. Landlords should engage closely with managing agents to ensure that principles are understood and followed. The Charter can also be used to empower providers to challenge poor management practice. It is anticipated that the Charter may be useful for investment partners specifying a brief for managing agents. Third-party managing agents that comply with the Charter will have a positive point of differentiation from competitors, improving choice in the market.

Transparency

Service charges can be complex: they may cover a wide range of services, and residents may be charged varying amounts depending on which part of the building they live in or the tenure of their homes. Often leaseholders are concerned about a lack of transparency and clarity over what service charges are paying for, as well as the amounts.

Providing leaseholders with sufficient and clear information about their service charges is therefore vital to helping them make sense of this potential complexity. Greater transparency builds trust and confidence between leaseholders and housing providers in the administration of service charges.

Early information

Providing potential buyers with early information on service charges and other fees will help them to understand their obligations and make informed decisions, avoiding surprises further down the line.

- Prior to purchase new buyers should be provided with explanatory information on service charges in plain English.
- For Shared Ownership homes, GLA funding requires the provision of Key Information Documents prior to purchase, in which estimates of service charges should be included.¹
- The sinking (reserve) fund should be clearly explained in Key Information Documents, including an explanation of what the fund will be used for and an estimate of the annual contribution. The value of sinking fund contributions should form part of the affordability assessment prior to purchase.
- Where a cap or arrangement is in place to limit service charges, these should be clearly stated prior to completion, including information on when they expire and the impact on future charges.²

¹ The Capital Funding Guide requires housing providers to ensure they provide Key Information Documents to a sufficient level of detail for all unreserved Shared Ownership homes. Template versions are published by the GLA for [AHP 16-23](#) and [AHP 21-26](#).

² See [Capital Funding Guide](#) 4.1.168 - Where a service charge may be reduced or discounted for an initial period this should be communicated clearly to the leaseholder. Any subsequent increase or change should be considered, in terms of affordability, to ensure that costs will be sustainable to shared owners.

- The information provided to potential buyers should contain details about warranty and defect periods of major components in the development and buyers should be made aware of how service charges may be affected once these periods have expired.

Best-practice

Potential buyers should be provided with a long-term estimate of their service charges that goes beyond warranty/defect periods³. As an example, they could be provided with a year-3 estimate with all the expected repair and defect costs included.

- Housing providers should publish a list of their additional fees and charges (other than service charges) on their website and ensure this is updated annually.
- Housing providers should clearly explain their relationship to the building to new buyers. This should include an explanation of who the freeholder is, the role of the housing provider in holding the head lease. If there is a managing agent (or multiple parties providing services), it should be made clear who they are, who appoints them and on what terms, and what their responsibilities are.

Service expectations

Leaseholders should be able to find out what level of service they can expect. As well as providing practical information on the maintenance, repair and running of their building, this may serve to improve transparency for leaseholders in understanding what service charges are paying for.

- Housing providers should outline what level of service their leaseholders can expect with respect to relevant components of their service charge statements. For example, leaseholders should be told how frequently they can expect cleaning of communal areas, how often regular maintenance will be performed or how quickly they can expect repairs to be completed. Residents should be provided with full contact details of the relevant people to whom any concerns about service level performance should be communicated. Such contact details should be updated when those people change.
- Leaseholders should be made aware of the communal areas that they will be liable for through their service charges.
- Sinking fund contributions should be reasonable and aligned to major works programmes. Information on major works programmes (including the nature of the work involved and planned timescales) should be accessible to leaseholders in order to help them understand their sinking fund.

³ This may be produced using cost data from stabilised schemes



Service charge statements and apportionment

Service charge statements are the primary means through which leaseholders understand their service charges. Statements that are easy to understand and consistent from year to year are therefore vital to providing leaseholders with the clarity they need – particularly where costs or services change significantly.⁴

Leaseholders place a high value on the accuracy of statements and appreciate not feeling the need to scrutinise or challenge statements. Getting service charge statements right the first time builds trust between housing providers and leaseholders and saves time and energy for both parties. Where there are recurring issues or inaccuracies on statements, particular focus should be given to resolving these systematically.

- The service charge statement should be laid out clearly with costs broken down by service.
- Detailed explanatory information should be provided in service charge statements to assist leaseholders with understanding the charges.
- The proportions that leaseholders pay for particular services should be clearly and consistently stated and the method for apportioning service charges should be clearly explained.
- Where the charge for a particular item has changed by a significant amount, leaseholders should be given a clear explanation of why. It is for providers to establish and communicate a reasonable objective threshold for circumstances in which an explanation will be provided.
- Statements should be consistent and comparable over time, using consistent itemisation, categorisation and definitions over time. Where changes are made, these should be explained, and leaseholders should be advised on the comparability between new and old items and categories.

Best-practice

Housing providers should aim to update leaseholders of whether incurred costs are in line with the estimated service charges mid-period in order to allow leaseholders to budget accordingly.

- Where services are provided by more than one party, the accounting year used by each party should be made clear.

⁴ See [Capital Funding Guide](#) 4.1.165 - any increases in service charges must be communicated to residents in a transparent and timely way.

Consulting leaseholders

The operation and management of buildings may change over time and it is reasonable for leaseholders to expect that they should be consulted if such changes would result in significant changes to their service charges. Greater transparency in the process of changes to service charges is likely to facilitate greater trust in the administration overall.

- Housing providers should have a published policy on when and how they consult leaseholders when proposing significant changes to service charges.



Affordability

Service charges can be a significant proportion of a leaseholder's housing costs and for affordable housing tenures such as Shared Ownership, service charges can be the difference between housing costs being affordable or not.

The London Plan 2021 specifies that annual housing costs – defined as inclusive of service charges - are considered genuinely affordable at under 40% of net household income. It also sets out the income thresholds where housing need makes a household eligible for intermediate housing. Housing providers should refer to the latest London Plan Annual Monitoring Report to confirm current thresholds and ensure that their service charges remain affordable.

For homes funded through the Mayor's Affordable Housing Programmes, the [Capital Funding Guide](#) includes requirements for service charges. These are in relation to setting overall housing costs (4.1.147) and service charges administration including sinking funds (4.1.159-172). In addition, the Capital Funding Guide mandates the publication of additional fees and charges; online and within Key Information Documents (4.1.149).

Setting service charges

To ensure affordability, prioritising economies of scale and appropriately managing potential cost rises after defects and warranty periods are key. Regular reviews can also ensure that costs to leaseholders are minimised and setting realistic service charges also helps to build trust between housing providers and leaseholders.

- New service charges should be set at a realistic level wherever possible to ensure customers are clear on their likely ongoing costs.
 - Services should utilise economies of scale and deliver value for money to the customer.
 - When setting budgets, housing providers should have regard to potential defects and warranty periods to ensure that potential future cost rises after this period are managed appropriately.
 - Service provision and cost expenditure should be reviewed regularly to ensure that ongoing costs to leaseholders are minimised and where appropriate are reduced accordingly.
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- Dealing with overpayment is sometimes specified in the lease. In all scenarios, leaseholders should be made aware and promptly refunded (or credited against their next service charge payment) where there is an overpayment.
- Where appropriate, smart meters should be installed in communal areas to ensure billing relies on up-to-date actual readings for leaseholders.
- Sinking funds should be reasonable and tailored to the nature of the development, accurately reflecting the extent of shared areas, associated levels of plant and infrastructure, and major works programmes. They should be reviewed periodically to ensure value collected will cover the cost of future replacement.⁵
- The value of sinking fund contributions should be sufficient to prevent large claims being made on leaseholders in years when high value cyclical or replacement works are required.

Financial hardship

Unexpected repairs or works may be necessary and are a common reason why service charges can fluctuate. These unanticipated changes in service charges may impact residents on lower incomes more adversely than others and some may find themselves in financial hardship as a result.

- Housing providers should have a published policy on repayment options for leaseholders experiencing financial hardship, including where increases in their service charge have contributed to their situation.

⁵ See [Capital Funding Guide](#) 4.1.70 to 4.1.72; in particular the requirement for Shared Ownership homes funded under the AHP 2021-26: in calculating the annual sinking/reserve fund charge, landlords should not factor in any external and structural repair work, expected or unexpected, within the first 10 years of occupation. Sinking/reserve fund contributions cannot be used for any works, expected or unexpected, within the first 10 years. However, contributions to a sinking/reserve fund may be collected during first 10 years of occupation, if deemed appropriate.



Design

The principles below should be read in conjunction with the design requirements of the [London Plan](#) and associated [London Plan Guidance](#).

This Charter recognises that different decisions about design are made at different stages of the planning process. It is not expected that existing developments are always able to comply with the requirements set out in this section. However, for any schemes not yet built the requirements should be met.

It is often the case that Registered Providers get involved with a developer-led scheme after planning permission has been granted. It is recommended that the Charter requirements are considered within developers' discussions with planning authorities. Moreover, the Charter can be used as a tool by housing providers to encourage developers to deliver schemes in accordance with its requirements. The Charter requirements could be referenced through Section 106 agreements, in reserved matters planning approvals, or through discharge of a planning condition.

Designing to minimise service charges

The design stage is crucial to the performance of the service charge regime for the life of the building.

- The affordability and apportionment of service charges derive from the built fabric, which often cannot be changed easily after schemes are completed and occupied. Where appropriate and practical, improvements to design should be considered which may have a higher initial cost but minimise ongoing cost to the leaseholder.
- Consideration should be given to the number of customers benefitting from a service relative to the cost of maintenance and replacement.
- Components and assets used in the development of new properties should be of sufficient quality to ensure maximum lifespan for replacement and minimal repair costs.

Approaches to procurement

Developers and housing providers should pay specific attention to longevity and quality of components, to maximise whole life value-for-money for leaseholders.

- Where possible, procurement of component parts should be standardised to achieve economies of scale and minimise costs.
- Where possible, procedures for procuring significant assets (such as lifts) should be standardised.
- Cyclic replacement cost considerations should be factored into all procurement.

Consulting stakeholders

Understanding how a development will be managed once operational is central to understanding the potential impacts on service charges.

- Developers should consult sufficiently widely, and at an appropriate stage, to ensure that scheme design has considered long-term service charge and building management implications. All relevant housing management departments should be consulted within the design and construction phases of development.
- Housing providers should liaise with developers on mixed tenure schemes at the planning stage to ensure their management needs are understood and to develop designs that sustain inclusive communities and affordable service charges throughout the life of the development.
- Feedback and challenge from existing residents should be used to inform the design of service charge regimes for future development.

Creating inclusive communities

Design should play a key role in encouraging inclusive communities to develop while at the same time maintaining the affordability of service charges and housing costs overall, particularly for residents of affordable housing. Access to amenities and facilities within a development is an important consideration in the apportionment of service charges.

- Leaseholders and residents of affordable housing should be provided with equivalent or shared access to green and open spaces such as gardens, public realm and play space.
- Providers should make it clear to leaseholders and residents of affordable housing if there are facilities (for example, gyms, workspace and car parking) in their wider development that are not included in their leases or outside the scope of their service charge in the case of Shared Ownership homes.

- Leaseholders and residents of affordable housing should be able to access on-site amenity included in the leases of private housing through pre-paid arrangements at prices specified by providers (for example, gyms, workspace and car parking). This requirement does not have to be met in developments already occupied, but it will apply to any schemes occupied from April 2022 onwards⁶.



⁶ In order to facilitate management procedures, this requirement can be met by, as a minimum, offering the ability to opt-in to additional facilities to affordable housing leaseholders and residents once a year. For those that do opt-in, key fobs or other relevant access tools should be issued for the period of access. If additional administrative fees are incurred to meet this requirement, these can be passed on to the fees charged to access the additional facilities.

Challenge and Redress

Service charges may vary, including from their estimates, for various unforeseen reasons. Errors in the calculation or administration of charges may occur for a number of reasons. It is therefore important that housing providers supply the information necessary for leaseholders to scrutinise service charges and related evidence in a timely and convenient manner. By being transparent, prepared for scrutiny, and administering a convenient process to query or challenge service charges, housing providers can save time resolving issues and reduce the burden on leaseholders.

Challenging service charges

Housing providers should clearly describe the process that leaseholders should follow to formally challenge or complain about their service charges.

- Challenge and complaints procedures should be made clear to leaseholders when they move in and made easily available after (for example flagged on service charge statements or easily located on the provider's website).
- Where there is a managing agent, it should be made clear who leaseholders should contact to complain, what the housing provider's responsibilities are and how they can help.
- Where further detail is required to challenge service charges (e.g. invoices, detailed accounts) this should be made available. Housing providers should set out what leaseholders can expect in relation to how such information will be provided and in what timeframe.

Achieving redress

Service charge errors should be rectified swiftly.

- Providers should signpost external routes of redress and explain how they might be relevant to leaseholders who do not perceive their concerns have been adequately resolved (e.g. the First-tier Tribunal, Housing Ombudsman). The GLA webpage hosting the Charter will refer to other sources of independent leasehold advice.
 - Where an issue affecting multiple residents has been resolved for one resident, housing providers should proactively seek to remedy the issue for all affected residents (rather than in response to further individual complaints).
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Acknowledgements

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