

Ashworth Mansions Limited

Service charge, reserve funds and expenditure

1. Service charge vs Reserve fund

Service charge fund

Service Charge Funds are funds where the intention is to cover only the routine day to day costs of running the estate, cleaning and maintaining the communal areas, paying for communal facilities such as the television aerials and entry phones and paying for minor repairs and decorations. The service charges are reviewed annually and set at a level to try to balance the actual expenditure and leave a 'no surplus - no deficit' situation at the end of each year. In practice there may be a small amount held in reserve or carried over from the previous year. Service charges are collected in advance, on a quarterly basis, calculated on a budget estimated at the commencement of each financial year. Any deficit will be recovered in the succeeding year once the service charge accounts have been audited. The service charge account will not accumulate any surplus charges or create any sort of contingency or sinking fund

Reserve or Sinking Funds

Your lease also provides for AML to collect sums in advance to create a Reserve or 'Sinking' Fund. The purpose of the fund is to build up a sum of money to cover the cost of irregular and expensive works such as external decorations or roof replacement.

There are two main reasons for maintaining such a fund. The first is to ensure that all occupiers contribute to major works, not just those who are in occupation at the time they are carried out. The second is to even out the annual charges and to assist with leaseholders' budgeting. Leases sometimes say how much is to be contributed each year, but usually they do not and it is left to the landlord to determine the contributions. Best practice is to calculate the contributions by reference to estimated budget costs for the works and spread them over the periods before the works are expected to be undertaken.

The fund will build up as lessees make regular contributions alongside service charge installments. When future replacements, major repairs

and cyclical maintenance are carried out, the sinking fund will be used to offset the cost. Any surplus will remain in the sinking fund, but any deficit will be debited to your service charge account and you will have to pay the balance.

Over a period, the fund can grow to a significant size and generate substantial investment income, which is credited to the sinking fund account.

Ownership/security of the funds

Both service charge and reserve funds must be trust funds in accordance with Section 42 of the Landlord and Tenant Act 1987 and are maintained in separate bank accounts. This means that no matter what happens to the landlord, the money cannot be used for any other purpose and remains the property of the leaseholders. Interest payable on the sinking fund balance is credited to the fund after tax. Contributions to the sinking fund are not repayable when an individual flat is sold as the benefit of the fund is transferred to the new leaseholder.

2. Maintenance, cyclical repairs and major works

One of the advantages of regular maintenance is to avoid serious deterioration of the building. However, from time to time major works do become necessary.

Responsive Repairs

These are carried out in response to a repair request either from a leaseholder or tenant or as advised by the managing agents. Responsive repairs include communal glazing or entrance doors, gutters, rainwater down pipes, blocked drains, etc. The costs incurred in carrying out responsive repairs will be included in the service charge.

Planned Maintenance

As the landlord, we are responsible for the main structure of the building and surrounding areas. This includes regular – also called ‘cyclical’ – decoration of the exterior and communal areas of the buildings. The lease does not set out the maximum time periods for when we must carry out redecorations, but five or seven years are usual. Planned maintenance also includes schedules for major repairs

to roofs, door entry systems, etc. As with major works, you will be consulted on the repairs needed, why they are needed and the estimated cost involved before any work commences.

Major works

Where major works are required, we will first consult with you as required by law and then, if agreed, arrange for a surveyor to draw up a specification, a copy of which we will forward to you. We will then seek to obtain at least 2 competitive tenders from independent builders and details of these, and any tenders obtained by lessees independently, will be sent to you in accordance with the provisions of Statute. Upon receiving details of the tenders you will have 30 days to let us have your views concerning the proposed works. We will have regard to your comments before commencement of works.