SERVICE CHARGE POLICY

Documentation Master Sheet
Amendments to this Document are Detailed Below.

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SERVICE CHARGE POLICY

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01	28/10/24	Initial Policy	07/11/2024	Andrew Pickervance	SLT
02	10/12/25	Amended and Updated	07/01/2026	Andrew Pickervance	SLT
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1. Introduction

1.1 This policy sets out our approach to the setting and management of service charges for customers where a service charge is payable. The purpose of the policy is to:

- Develop a consistent approach to setting fair and reasonable service charges that provide value for money for customers and that comply with current legislation and lease or tenancy terms and conditions
- Give our colleagues and customers clarity on the principles by which service charges are set and managed
- Deliver quality services that are cost efficient, clear and transparent
- Comply with lease and tenancy terms together with legislation, case law and guidance issued by the Regulator of Social Housing (RSH) and other expert bodies where applicable, including the Mayor of London's Service Charge Charter

1.2 We will aim to recover all reasonable costs incurred in delivering the service to customers from start to finish by charging a variable or fixed service charge depending on the terms of their agreement.

2. Scope

2.1 This policy applies to all tenants (including general needs and supported housing) and homeowners (including shared owners and freeholders), and commercial tenants across the Gloucester City Homes Group.

2.2 If there is any variance between this policy and relevant contractual agreements (such as individual leases, covenants, deed of transfer or tenancy agreements), then the contractual agreement will take precedence. Therefore, this policy should be read in conjunction with your contractual agreement.

3. Key terms and definitions

Service Charges

3.1 A payment made by a tenant or leaseholder towards the costs of providing and maintaining services and benefits beyond the benefit of enjoying occupation of their own home. A service charge can be fixed or variable (see definitions below) according to the provisions of the tenancy agreement or lease. Common examples of services that may be included in your service charge are:

- Cleaning/caretaking, e.g. cleaning and maintenance of internal communal areas, stairs and rubbish chutes as well as refuse removal and dumping
- Gardening and grounds maintenance, e.g. cutting grass, planting and weeding flower beds
- Door entry, i.e. the cost of maintaining and repairing door entry systems to a block
- Lighting, i.e. block or estate costs which include replacement of any lightbulbs in the communal areas
- Buildings insurance: As a freeholder, we're responsible for insuring buildings on behalf of customers against risks such as fire and flood. Leaseholders pay buildings insurance via their

service charge, Tenants contribute to this via their rent. Please note you're responsible for insuring your contents and we strongly advise you to arrange your own contents insurance policy.

- Lift maintenance

Fixed Service Charge

3.2 Those where the landlord fixes the charge according to the landlord's own estimates and costs. The Landlord bears responsibility for any deficit between the cost of services and the amount of money collected in charges. Similarly, the Landlord is entitled to retain any surplus that accrues if the Landlord collects charges in excess of the cost of providing the services.

Variable Service Charge

3.3 Those that can be changed, increased or decreased, in accordance with the provisions of the tenancy agreement, lease, transfer or licence. The main effect of variable service charges is that it allows surpluses and deficits to carry forward to the next accounting year.

Reserve Fund

3.4 A fund formed to meet anticipated future costs of replacement, maintenance, and upkeep in order to avoid fluctuations in the amount of service charge payable each year. These can sometimes also be referred to as sinking funds (for Gloucester City Homes sinking funds for leasehold and shared ownership properties).

Enhanced Charge

3.5 Enhanced Charge is a term used to describe a service charge set to pay for the additional housing management costs incurred in managing supported housing. Unlike other housing service charges, it is defined by the housing needs of the occupant rather than a cost arising from a specific block or estate.

Fair and Reasonable

3.6 Fair and reasonable describes goods or services that are fair to both parties involved in the transaction. The cost is based upon the agreed conditions, promised quality and timeliness of contract performance. There are a few different factors that are considered when determining if a service charge is reasonable for example these include: the size of the property, the frequency of works being done on the property, the standard of work being done.

Value for money

3.7 When we invest time, resources, and energy into an activity or programme, we carefully assess the costs (what is being invested) against the benefits (what is being achieved). By comparing different options, we build a robust case for why the chosen approach represents the best use of resources, delivering maximum value both financially and for our customers.

4. Our approach

4.1 We aim to facilitate the recovery of all costs reasonably incurred in providing services in accordance with good estate management.

4.2 We will procure services taking into account both the need for quality, value for money and in accordance with the principles of good estate management.

4.3 We will operate all our service charges in accordance with the relevant agreement, legislation (including case law) and any guidance issued by the Regulator of Social Housing. Our service charge processes will reflect best practice within the industry.

4.4 Variable service charges will be calculated and set in compliance with relevant legislation highlighted under section 6 of this policy as well as all other applicable regulation and guidance.

4.5 Affordable Rent tenants, whose rent is inclusive of service charges, will not be charged a separate fixed or variable service charge.

4.6 The services provided will be clearly identified to customers and set out in contractual agreements. The annual service charge budgets and apportionment schedules will detail the amounts charged for these services.

4.7 Customers will not be charged for the costs attributed to unlet premises; the landlord will bear these costs. The landlord will also bear the costs of any special or personal concessions given to customers or commercial occupiers.

4.8 Where we make use of our own property for purposes unconnected with the day-to-day management of the building and services, the landlord will contribute a fair and proportionate service charge in line with apportionment approach of other properties in that block or scheme.

4.9 We will not charge customers for any improvement costs above the normal maintenance, repair, or replacement where leases do not allow for this. An enhancement of the fabric, plant or equipment may however be regarded as a repair where it presents a cost-effective solution.

4.10 We will not charge customers or commercial occupiers for maintenance, repair or replacement of the fabric, plant or equipment during defect or warranty periods.

4.11 We will not charge a customer for the cost of a service where their property is physically excluded (e.g. without key access to a communal area) from the benefits of that service, and where the lease, covenant, deed of transfer or tenancy agreement does not prescribe the method of apportionment for those sharing the costs of that service.

4.12 We will however charge a customer for the cost of a service where that customer reasonably derives an indirect and/or real and tangible benefit from the service (such as where the customer derives a tangible benefit from having properly maintained fire safety equipment/systems in their block structure).

4.13 We will not adjust service charges if a customer or group of customers choose not to use a particular service.

4.14 In the case of our properties being managed by an agency, we authorise the agents to set service charges on our behalf, and also to recover designated Gloucester City Homes service costs on our behalf. Where we appoint a managing agent, we will review charges to ensure they are fair and reasonable.

4.15 Properties let under the affordable, market and intermediate rent schemes include service charges as part of their overall charge. Rent is set in accordance with the appropriate methodology, with the view that this includes costs which would otherwise be service chargeable. Personal service charges, for example gas, electric, and water relating to a specific property, may be charged in addition to the rent for affordable, market and intermediate rent schemes.

4.16 General needs and supported housing customers may be required to pay a provision towards the repair or replacement of existing assets on their estates. These funds will be used to pay for the replacement of these assets when necessary.

4.17 Leaseholder and Shared Owner contributions to reserve and sinking funds will be set annually as well as being subject to a periodical review as set out in Appendix 2.

Calculating service charges

4.18 We recognise that customers may receive different types of services as set out in their agreements and as such have different costs for service charges. We will use fixed or variable service charges depending on the scheme or agreement and have ultimate decision on the type used unless we are not the superior landlord.

4.19 Estimated service charges will be based on the expected costs of providing each service or, where these are not available (for example on new developments), we will provide estimated costs based on evidence from either comparable estates or properties or known service costs. The estimated service charges will also reflect any known or expected increases or decreases in costs. We will prepare estimates annually for all properties and for those on a variable service charge we will send out a statement of actuals, showing the surplus/deficit figures where appropriate, within 6 months of the end of the financial year.

4.20 We will apportion service charges in accordance with individual leases, covenants, deed of transfers and tenancy agreements. Where these do not include any specific apportionment, we apportion service charges in a fair and transparent way.

4.21 We will make a charge to cover our own reasonable costs of managing services where agreements allow. This will be based on the terms of the agreement, or a reasonable percentage or charge as deemed appropriate.

4.22 The service charges will be calculated by the Rent and Service Charge Team, who will liasie with the service delivery teams and neighbourhood management teams to ensure the calculations are accurate and based on information to hand at the time of calculation.

4.23 The service charge calculations will then be reviewed and signed off by the Director of Housing Operations and the Director of Finance. However, if there is a significant increase in the service charges for a block or a scheme, we may decide to cap the increase. This cap would require the approval of the Executive Team.

Customer involvement

4.24 We will consult and inform customers in line with legislation, best practice and tenancy and lease agreements, for the provision of additional, and changes to, existing services and therefore service charges. We will facilitate our customers' ability to scrutinise relevant information and received feedback on the services delivered as part of our assessment of value for money of the service charges. Customers will still be responsible for paying their service charges while scrutinising accounts. If a customer believes there has been a service failure in how we have managed or communicated service charges, they can raise this under our Complaints Policy. Where a customer wishes to formally dispute the reasonableness or payability of a service charge, they may apply to the First-tier Tribunal (Property Chamber) for a determination (or seek independent advice).

4.25 Following a request to inspect documentation, we will comply with section 22 of the Landlord and Tenant Act 1985, as amended by section 154 of the Commonhold and Leasehold Reform Act 2002 to accommodate access to the required information, including from third party managing agents.

4.26 Customers' associations and other representative groups can raise service charge queries on block, estate or scheme costs and we will respond accordingly.

Surplus and deficits of variable service charges

4.27 At the end of each service charge financial year, a reconciliation will be undertaken to compare the actual costs incurred against the estimated service charges levied to customers.
This reconciliation will be completed within six months of the financial year-end. Following completion, a statement detailing the actual expenditure and resulting balance will be issued to all customers.
Where the reconciliation identifies a surplus or deficit on the service charge account:

- any surplus will be credited to the customer's account and applied to the following year's service charge; and
- any deficit will be charged and added to the following year's service charge.

4.28 If there is a matter that prevents us from completing account statements and finalising surplus and deficit balances, in accordance with best practice and legislation, we will ensure customers are informed of the reason for the delay.

General Needs and Supported Housing

4.29 Where there is a surplus or deficit on the service charge account, the balance will be deducted from or added to the amounts due for the following years' service charge (as per 4.27).

4.30 When a tenancy is terminated, any surplus or deficit will not be repaid to or claimed from the customer leaving that property. We reserve the right to utilise any surplus to offset overdue balances owed by the customer. *"The service charges belong to the property, not the tenant"*. A deficit or credit arising from actual expenditure can be carried forward to the next accounting period, even if there has been a change of tenant, because it forms part of the ongoing service cost for that dwelling.

Homeowners

4.31 Where there is a surplus or deficit on the service charge account, the balance will be deducted from or added to the amounts due for the following years' service charge (as per 4.27).

4.32 When a homeowner sells their property, any surplus or deficit will be repaid to or claimed from the customer leaving that property. We reserve the right to utilise any surplus to offset overdue balances owed by the customer.

Statement and Demands - variable service charges

4.33 An annual statement (reconciliation) of account will be produced for each customer where variable service charges are payable unless the agreement provides for more frequent accounts.

4.34 Demands for service charges will be made in writing and will contain the landlord's name and address and a summary of rights and obligations as per Section 47 and 48 of the Landlord and Tenant Act 1987.

4.35 In addition to rights under the agreement, we will, where appropriate and applicable:

- Provide customers with an estimate of their service charge bill. This will include statements of anticipated expenditure for services to which the customer must contribute.
- Provide customers with a statement of actual service charge expenditure within six months of the year end, or if the agreement states, earlier where possible.
- Issue a Section 20b Notice where we are not able to provide statements of actual service charge expenditure within six months of the year end.
- Issue an annual statement of the reserve funds (for Gloucester City Homes, sinking fund) account to customers who contribute to those reserves
- Provide clear and transparent supporting information to explain any larger or anomalous increases in service charges.

4.36 In accordance with the relevant agreement, service charge accounts will be independently reviewed.

Adding services

4.37 We will consider requests made by customers for additional services to be provided and will consult with all customers potentially affected by the new service prior to making a decision.

4.38 We will only add a new service based on a customer's request if:

- The service relates to the provision of adequate accommodation, enjoyment of the premises or protecting the security of the building;
- The cost of providing the service is reasonable and affordable;
- It is customary to provide similar services for residential accommodation;
- We believe it is reasonable for the service to be provided;
- We will not be financially disadvantaged by the provision of the service;
- The lease or tenancy agreement allows or can be varied to allow for full costs to be recovered;
- More than half of affected customers respond to the consultation (excluding schemes where lettings are short term and the inclusion of the service is important to deliver contractual or

health and safety requirements or the introduction of the charge is necessary to ensure the viability of a supported or sheltered housing service); and

- Two-thirds of respondents are in favour of adding the service (excluding schemes where lettings are short term and the inclusion of the service is important to deliver contractual or health and safety requirements) or the introduction of the charge is necessary to ensure the viability of a supported or sheltered housing service).

4.39 We will also add a new service if we have a statutory obligation to do so, giving reasonable notice to customers.

4.40 We will review the success of a new service during a twelve-month period from the date the service is introduced - where the outcome of the review is to discontinue the service, we will charge customers for the full costs incurred by us from the date the service was introduced until the date the service is discontinued.

Discontinuing services

4.41 We will consider requests made by customers for services to be discontinued, and will consult with all customers who pay for a service when deciding whether it should be discontinued.

4.42 We will only discontinue a service if:

- There is a change in legislation which means we are unable to continue to provide a service;
- There are no reasonable health and safety risks involved with discontinuing the service;
- We believe it is reasonable to discontinue the service;
- We are not legally or contractually obliged to provide the service;
- We will not be financially disadvantaged by the discontinuation of the service;
- More than half of affected customers respond to the consultation (excluding schemes where lettings are short-term or supported housing service charges paying for an intensive/enhanced
- housing management service which has become unsustainable); and
- Two-thirds of respondents are in favour of discontinuing the service (excluding schemes where lettings are short term or supported housing service charges paying for an intensive/enhanced housing management service which has become unsustainable).

Gloucester City Homes - Freeholders

4.43 A freeholder in Gloucester City Homes is only liable if there is a legal document (covenant) associated with their property stating that they are liable. The covenant will state whether the freeholder is partially or fully liable for these charges.

Enhanced Charge

4.44 In introducing an Enhanced Charge or other charges to pay for staffing costs in supported housing we will:

- Consider the issue of affordability for current and existing customers, taking into account the nature of the service, intended length of stay and the client group.
- Seek in principle ratification of the proposed charge by the relevant Housing Benefit Authority

4.45 We will review of our Enhanced Charges and the viability of its Enhanced Charge funded services on an annual basis.

5. Management , administraion and audit fees

5.1 Landlords estimate the total cost of management functions—such as staff time, office expenses, compliance activities, and handling enquiries—and apportion these costs across the relevant properties. The approach aims to be reasonable and transparent, though the exact method is determined by the lease terms. Fixed fees are generally preferred to support consistent and predictable budgeting.

5.2 The homeowner management fee is calculated to cover administration, property management activities, and general overheads assocoiated with the management of leasehold and shared ownership properties. This is a fixed amount per unit and is reviewed on an annual basis.

5.3 The tenant administration fee covers adminiistration, property management activities and general overheads associated with the management of our social rent properties, Gloucester City Homes typically applies a 15% fee based on total service charges.

5.4 The costs of auditing the annual service charge accounts are allocated to leaseholders proportionately across schemes as per lease requirements.

6. Schemes with managing agents

6.1 On schemes, where Gloucester City Homes is not the Freeholder but has a head-lease or combination of several head-leases.

6.2 In these instances, it is likely that our Superior Landlord (usually the Freeholder) will have appointed an external Managing Agent to carry out services to the block and/or estate on their behalf.

6.3 The head-lease will allow the managing agent to recover a share of any costs from Gloucester City Homes as a service charge and Gloucester City Homes under-lease with its resident will stipulate the same, thereby passing costs down to them.

6.4 The financial year for the Freeholder/Managing Agent will often vary from that of Gloucester City Homes. Gloucester City Homes will invoice its residents based on the financial year 1 April to 31 March.

7. Equality, Diversity and Inclusion

7.1 This policy is available on our website and can be provided in paper format on request. It can also be translated or provided in alternative formats (e.g. Braille, large print, and audio) upon request.

8. Legislation and Regulation

8.1 Key legislation affecting this policy includes:

- Landlord and Tenant Acts 1985 and 1987
- Housing Acts 1985, 1986 and 1996 (including The Social Landlords Mandatory Reduction of Service Charges (England) Directions 2014

- Commonhold Leasehold and Reform Act 2002
- Building Safety Act 2022

8.2 Service charges are regulated on a case-by-case basis by the First Tier Tribunal (Property Chambers) and by the Rent Officer service for secure tenants. However, we have referred to the following guidance in developing this policy:

- Regulator of Social Housing, Rent Standard, Supplementary Guidance
- Greater London Authority, Shared Ownership Charter for Service Charges
- Rent Officer Handbook
- Royal Institution of Chartered Surveyors, Service Charge Residential Management Code (Code of Practice)
- Royal Institution of Chartered Surveyors, Service Charge Commercial Management Code (Code of Practice)
- GLA Consultation on Intermediate Housing
- National Housing Federation service charges guide for landlords

Appendix 1 - Gloucester City Homes Service Charges

The tenure type of customers in Gloucester City Homes is set out in their tenancy agreement, lease or in the case of Freeholders the covenant they signed when purchasing the property. The covenants signed by freeholds vary, with some freeholders liable to pay in part for public realm expenditure (partially liable freeholders) and other freeholders liable to pay in full (fully liable freeholders). All new Freeholders purchasing property from us will be set up as fully liable.

Public realm expenditure in Gloucester City Homes is recharged to customers in accordance with the following methodology:

Leaseholders and Shared Owners are subject to pay all costs incurred. Costs are apportioned between the number of payers in the Gloucester City Homes regions and this apportioned amount is then charges to each leaseholder.

Fully Liable Freeholders are subject to pay all costs incurred. Costs are apportioned between the number of payers in the Gloucester City Homes regions* and this apportioned amount is then charges to each liable freeholder.

Partially liable Freeholders are historic but not charged; no new freeholder should be set up as partially liable. These freeholders are liable to pay for cost types: Road and Footpath Maintenance, Drain Refurbishment, Bridge Links and Minor Repairs to Hard Landscapes. As with the vast majority of fully liable freeholders and general needs customers these cost types are apportioned between the number of payers in the nine Gloucester City Homes regions this apportioned amount is then charges to each liable freeholder.

Non liable customers: We do not have legal arrangements in place with all customers within the Gloucester City Homes region. Where no legal arrangement is in place the costs that would otherwise be apportioned to these customers is paid by us.

* For historic reasons in accordance with their covenants, there are a number of fully liable freeholders who do not pay for these cost types.

Appendix 2 - Reserve/Sinking Funds

1. Summary

This Appendix is intended to provide clarity on the setting, management and review of reserve/sinking fund funds, including cyclical redecoration funds, to ensure that charges are reasonable, reflective of estimated costs and life cycles and are regularly reviewed.

2. Context

Reserve/sinking funds may be collected by us on behalf of our customers to ensure that sufficient funds are available in advance of planned or major repairs, replacements or improvements which, due to their nature or magnitude, are not expected to be incurred every year. This helps to avoid large fluctuating annual costs should such works be required for a scheme.

3. Reserve/Sinking and cyclical fund setting

The setting and management of reserve funds must be consistent and transparent. We have an obligation to ensure that customers are able to clearly understand what they are paying for through these funds and the associated contributions included in their annual service charge, that the charges are reasonable and that they are regularly reviewed.

When setting reserve/sinking fund contributions, such as for a new development, life cycle assumptions applied to elements included within the reserve fund should be in line with industry standards such as the Housing Association Property Mutual (HAPM) component life manual or, where appropriate, manufacturers' recommendations. Estimated costs for works that may be charged to the reserve/sinking funds should be based on typical costs to replace or repair the components that are either recognised industry average costs or reflect specific local cost or conditions, if these are expected to vary greatly from typical average costs.

Contributions to reserve/sinking funds may be made to build up reserves for the planned or major repairs and replacement of components, such as the following:

- Roof renewal
- External decorations
- Window and door replacement
- Replacement of gutters and downpipes
- Decoration of communal halls and stairways for blocks of flats
- Renewal of lifts, door entry systems and emergency alarm systems

The calculation of all reserve/sinking fund contributions will clearly define the elements included within the fund and contribution rates will be calculated on the following basis:

- Estimated life cycle
- Estimated cost of replacement
- Estimated inflationary figure for the life cycle
- Estimated interest rate earned on reserve fund balances

Where permitted in leases, the reserve/sinking funds can also allow for expenditure on improvements to the scheme.

The assumptions relating to the reserve/sinking funds and the level of contributions required for each fund should be reviewed approximately every five years to ensure that life cycles, estimated costs, estimated interest and inflationary figures are still reasonable.

In cases where there is a significant overpayment, and the customer requests a refund, we will carry this out provided they are not in arrears.

When expenditure to be charged to reserve/sinking funds is incurred, the appropriate project management fee will be applied to the costs of works, when incurred. This is separate from and does not duplicate the management fee charges on service charges.

4. Management of sinking/reserve and cyclical funds

Reserve/sinking e funds will be held by us in specially designated interest-bearing bank or building society accounts, which will be chosen with reasonable care and skill, acting in the interest of the customers that contribute to the funds.

Accounting for the reserve/sinking funds will enable the funds for each scheme or block, as appropriate, to be separately identifiable. The reserve funds are held in trust for the benefit of the customers but do not belong to the customers.

Statements of the reserve/sinking fund balances held will be provided annually together with the annual service charge statements, which may be independently reviewed and certified. Details included on the statements will include:

- Balance brought forward from the previous year
- Contributions collected towards the fund in the period
- Expenditure charged to the fund in the period
- Interest credited to the fund
- Balance carried forward at the end of the year

We will periodically review the bank accounts in which the funds are held with the aim of ensuring that the bank accounts remain suitable for the funds including earning a reasonable rate of interest.