

# L&Q Service Charges & Sinking Fund Policy

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# 1 Purpose and Scope

## 1.1 Purpose

- 1.1.1 We are committed to providing safe, well-maintained homes and estates where our residents can thrive. Service charges help us to recover the cost of providing essential services that maintain your building and local area.
- 1.1.2 This policy sets out our approach to calculating, apportioning, and recovering service charges in a fair, reasonable, and transparent manner. We aim to ensure value for money, clear communication, and compliance with all legal and regulatory requirements.
- 1.1.3 We recognise that service charges are an important part of housing costs. We are committed to managing them responsibly, consulting residents where appropriate, and supporting those who may face difficulties in paying.

## 1.2 Scope

- 1.2.1 This policy applies to all L&Q residents who pay service charges, including:
- Tenants (where service charges apply as part of their tenancy)
  - Leaseholders
  - Shared owners
  - Freeholders (as applicable)
- 1.2.2 **Fixed service charges** apply to most tenants within L&Q but there are some legacy tenancies where variable service charges apply, mainly for East Thames & Trafford. An estimate is provided at the start of the year, and any surpluses or deficits are absorbed by L&Q.
- 1.2.3 **Variable service charges** apply to leaseholders and shared owners and some tenants as indicated above. An estimate is provided at the start of the year, and actual costs are reconciled at year-end. Any difference results in a credit or additional charge.
- 1.2.4 Where we manage properties on behalf of a third party (such as a freeholder or management company), this policy applies to the extent permitted by the management agreement or lease.
- 1.2.5 This policy does not cover rent setting, major works consultation (covered in our Major Works and Planned Maintenance Policy), or debt recovery (covered in our Income Collection Policy).

## 2 Legislation and Regulation

- 2.1 We comply with all relevant legislation and regulation, including but not limited to:
- **Landlord and Tenant Act 1985 (as amended)** – sets out our obligations for service charge transparency, consultation, and reasonableness
  - **Commonhold and Leasehold Reform Act 2002** – includes Section 20 consultation requirements for qualifying works and long-term agreements
  - **Housing and Regeneration Act 2008** – establishes the Regulator of Social Housing and standards we must meet
  - **Leasehold and Freehold Reform Act 2024** – introduces additional protections for leaseholders and transparency requirements, which are subject to regulations yet to be enacted.
  - **Building Safety Act 2022** – requires transparency in service charges related to building safety costs
  - **Regulator of Social Housing Consumer Standards (2024)** – particularly the Transparency, Influence and Accountability Standard, and the Value for Money Standard
  - **Data Protection Act 2018 and UK GDPR** – governing how we handle personal information
  - **RICS Service Charge Residential Management Code (4th edition)** – which will apply to housing associations and will inform our approach to service charge management.
- 2.1.1 We also monitor and respond to emerging legislation, regulation, and codes of practice that may affect how we manage service charges. This includes the Shared Ownership Code developed by the Shared Ownership Council, to which L&Q is a signatory, and any future secondary legislation arising from the Leasehold and Freehold Reform Act 2024 as regulations are enacted.
- 2.2 We follow best practice guidance from the National Housing Federation, the Housing Ombudsman, the Property Institute, and sector peers to ensure our approach is fair and proportionate.
- 2.3 This policy will be reviewed whenever new legislation or regulation comes into force to ensure we remain fully compliant.

## 3 Definitions

- 3.1 **Service charge** – A charge payable by a tenant, leaseholder, or shared owner towards the costs of services, general maintenance, or repairs to communal areas, buildings, and estates. This can include management and administration costs where these are not recovered through rent.
- 3.2 **Fixed service charge** – A charge set at the beginning of the financial year and paid throughout the year. The customer pays the same amount regardless of actual costs. Any surpluses or deficits are absorbed by L&Q. This applies primarily to tenants.
- 3.3 **Variable service charge** – An estimated charge set at the beginning of the financial year. After year-end, actual costs are calculated and compared to the estimate. Any difference results in a credit or additional charge. This applies to leaseholders, shared owners, and some tenants.
- 3.4 **Sinking fund (or reserve fund)** – Money set aside to pay for future long-term maintenance and renewals, such as roof replacement or major repairs. Contributions spread the cost of expensive repairs over time, avoiding large one-off bills.
- 3.5 **Management and administration fee** – Costs associated with managing properties, administering service charge accounts, providing customer services, and overheads. These costs are apportioned fairly and transparently.
- 3.6 **Apportionment** – The method by which service charges are divided between residents. This is usually set out in a lease and ensures residents only pay for services they receive or benefit from.
- 3.7 **Section 20 consultation** – A statutory process under the Landlord and Tenant Act 1985 (as amended) requiring us to consult leaseholders before carrying out qualifying works costing more than £250 per leaseholder, or entering into long-term agreements costing more than £100 per leaseholder per year.
- 3.8 **Qualifying works** – Major works or long-term agreements that trigger Section 20 consultation requirements.
- 3.9 **Communal areas** – Shared spaces such as hallways, stairwells, lifts, gardens, car parks, and estate roads that benefit multiple residents.
- 3.10 **Estate** - A broad geographical area or large development that usually includes multiple blocks of flats, individual houses, and extensive shared outdoor spaces. Service charges at the estate level cover facilities that benefit everyone living in that wider area, such as private estate roads, estate-wide lighting, or large communal grounds.
- 3.11 **Scheme** - A specific development or collection of properties managed together as a single administrative or financial unit. A scheme can consist of a single block, a mix

of blocks and houses, or an entire estate. Service charges at this level cover shared services provided specifically to the residents of that development.

- 3.12 **Block** - A single, distinct physical building containing multiple individual homes (flats or apartments). Service charges at the block level cover the costs of maintaining the shared internal spaces and the physical structure of that specific building, such as the roof, lifts, internal stairwells, and communal hallway cleaning.

## 4 Calculating and Setting Service Charges

### 4.1 Our Approach

4.1.1 We calculate service charges annually to recover our costs in providing services to blocks, and estates. We only charge for services and work specific to your scheme.

4.1.2 We aim to:

- Set realistic and fair charges that reflect actual costs
- Ensure value for money through competitive procurement and regular review
- Minimise year-on-year fluctuations wherever possible
- Recover 100% of eligible costs from all applicable residents to ensure fair apportionment, preventing tenants from subsidising leaseholders, and vice versa.
- Recover only the actual costs of providing services — service charges are not used to generate a profit or surplus for L&Q

4.1.3 Service charges are calculated at estate, scheme, or block level, and allocated appropriately to ensure residents are only charged for services they receive.

### 4.2 What We Charge For

4.2.1 We currently follow the National Housing Federation's standard list of chargeable items to ensure consistency and fairness. Services typically include:

- Communal cleaning and caretaking
- Grounds maintenance (grass cutting, hedge trimming, seasonal planting)
- Communal repairs and maintenance
- Lift maintenance and servicing
- Door entry systems and CCTV
- Lighting and heating in communal areas
- Water and sewerage (where supplied communally)

- Building insurance (for leaseholders and shared owners)
- Estate management and administration
- Sinking fund contributions (where applicable)
- Component replacement costs (for tenants, where applicable as part of a service charge)

4.2.2 We record costs at estate, scheme or block level to ensure accuracy and fairness.

4.2.3 Management fees cover our administrative costs. To provide certainty, these fees are generally fixed and banded, meaning you pay a set rate depending on the range of services your estate receives.

4.2.4 For more information about which tasks are carried out in your block and how often, please check your local estate notice boards or contact your usual L&Q contact.

### **4.3 Annual Review and Budget Setting**

4.3.1 Each year, we review actual costs and prepare estimates for the coming year as part of our annual budget-setting process. Estimates are based on:

- Previous years' actual costs (typically a three-year average for variable items such as repairs)
- Current contract prices and anticipated inflation
- Known changes to services or contracts
- Energy price forecasts (for heating and lighting)
- The latest budget available and an inflationary uplift, where services are provided by a third party

### **4.4 Managing cost increases**

4.4.1 We recognise that significant increases in service charges can cause financial hardship. We will:

- Communicate clearly and in advance about expected increases and the reasons for them
- Explore opportunities to reduce costs through procurement, efficiency improvements, and value-for-money reviews
- Consider phasing increases where appropriate and feasible
- Provide support and payment options for residents experiencing financial difficulty (see section 9)

- 4.4.2 Where costs are driven by factors outside our control (such as energy price rises, regulatory requirements, insurance costs, or emergency repairs), we will explain this clearly to residents.

## 5 Sinking Funds

### 5.1 Purpose and Operation

- 5.1.1 Sinking funds (also called reserve funds) are used to save money for future long-term maintenance and renewals, such as roof replacement, lift renewal, or external redecoration. This spreads the cost over time and avoids large one-off bills.
- 5.1.2 We currently operate sinking funds for shared owners and leaseholders, and some freeholders who contribute to the maintenance of communal estate areas (as set out in their transfer or lease agreements).
- 5.1.3 Funds are allocated by block or scheme where sinking fund contributions are taken on behalf of leaseholders and shared owners.
- 5.1.4 Sinking fund contributions are calculated based on:
- The lifecycle costs of major components (roofs, lifts, windows, etc.)
  - Planned major works programmes (see our Major Works and Planned Maintenance Policy)
  - Regular reviews to ensure the fund remains adequate
- 5.1.5 To keep your monthly contributions affordable, we focus the fund on the top five most costly items likely to need replacing: lifts, windows, roofs, fire protection systems, and cyclical decorations. For schemes set up after October 2019, we currently apply a subsidy to reduce the monthly contribution collection, ensuring bills remain manageable today while still building a reserve for tomorrow.

### 5.2 How Sinking Funds are Calculated

- 5.2.1 How your sinking fund is calculated depends on when your scheme was built or set up:
- **Schemes set up prior to October 2019:** Contributions are generally calculated based on the lifecycle costs of a wider range of building components. Some of these schemes pay a full sinking fund, while others may have historical reductions applied.
  - **Schemes set up from October 2019 onwards:** To keep monthly contributions affordable, the fund focuses strictly on the five most costly components: lifts, windows, roofs, fire protection systems, and cyclical decorations. For these schemes, we currently apply a subsidy to reduce the monthly contribution

collected, ensuring bills remain manageable today while still building a reserve for tomorrow.

- 5.2.2 We cannot use sinking funds for routine repairs or day-to-day maintenance. These costs are covered by your annual service charges.

### **5.3 Transparency and Information**

- 5.3.1 We will provide clear information to contributors about the purpose of the fund, annual contribution amounts, the current balance allocated to their block, and when major works are expected to take place.
- 5.3.2 Before using the sinking fund for major works, we are required by law to carry out a Section 20 consultation if the works cost more than £250 per unit.
- 5.3.3 During this consultation, we will advise you of the current state of your sinking fund. If there are insufficient funds to cover the full cost of the works, the remaining shortfall will be apportioned to contributors and invoiced separately once the works are completed.

### **5.4 Sales**

- 5.4.1 Sinking fund contributions are strictly non-refundable. When a property is sold, the sinking fund balance collected to date remains with the property to benefit the block and is automatically transferred to the new owner.

## **6 Apportionment and Transparency**

### **6.1 Fair & Reasonable Apportionment**

- 6.1.1 Service charges are apportioned (divided) between residents in accordance with the terms of their lease. Apportionment methods vary depending on the service and the property type, but common approaches include:

- **Equal division** – each property pays an equal share
- **Floor area** – charges are divided based on the size of each property

- 6.1.2 Apportionment methods are set out in lease. If the agreement does not specify a method, we will apply a fair and reasonable approach and explain this to residents.

### **6.2 Transparency and Clarity**

- 6.2.1 We are committed to making service charges clear and easy to understand. We will aim to:

- Provide detailed breakdowns of charges by service
- Explain how charges are apportioned

- Use consistent itemisation and categorisation year-on-year
- Explain significant changes in charges and the reasons for them

6.2.2 Where there are changes to the way we categorise or present charges, we will explain this clearly and help residents understand the comparability between old and new formats.

## 7 Annual Statements and Communication

### 7.1 For Variable Service Charges payers

7.1.1 They will receive an estimated service charge prior to the start of each financial year (1 April). This estimate is based on expected costs for the coming year.

7.1.2 Within six months of the financial year ending (by 30 September), we will usually send an actual service charge statement for the previous financial year.. This statement will:

- Show the actual costs incurred for each service during the previous financial year
- Compare actual costs to the estimated charge
- Explain any significant differences
- Confirm whether there is a credit (refund) or additional charge due

Where this is not possible we will issue a S20B Notice which will advise of costs incurred and advising they will be requested at a later date, along with reasons for the delay

### 7.2 Overpayments and underpayments

7.2.1 How we handle the difference between your estimated and actual costs depends on your agreement with us:

- Homeowners (Leaseholders and Shared Owners): If there is an overpayment, we will apply the credit to your account within 14 days. If there is an underpayment, the remaining balance will be due within one month.
- Tenants: If there is an overpayment, the credit will be carried forward to April of the following year. If there is an underpayment, the balance will be spread out over the following 12 months, starting from April.

### 7.3 Clear and Accessible Information

7.3.1 We will ensure that service charge information is:

- Written in plain English, avoiding jargon wherever possible
- Clearly laid out with costs broken down by service

- Consistent and comparable year-on-year
  - Accompanied by explanations for significant changes
- 7.3.2 We will provide service charge information in accessible formats (such as large print, Braille, or translated versions) on request, in line with our Supporting Residents with Additional Needs Policy.

## 8 Consultation and New Services

### 8.1 Consulting Residents

8.1.1 We value resident input and will consult with you on significant changes to services or service charges where appropriate. This may include:

- Introducing a new service
- Significantly changing an existing service
- Major changes to contract arrangements or service providers

8.1.2 Consultation may take the form of letters, emails, online surveys, resident meetings, or focus groups, depending on the nature and scale of the change.

### 8.2 Section 20 Consultation (Variable Service Charge Payers)

8.2.1 Under Section 20 of the Landlord and Tenant Act 1985, we must consult variable service charge payers before:

- Carrying out qualifying works that will cost any one leaseholder more than £250 (leaseholders and shared owners)
- Entering into a long-term agreement (lasting more than 12 months) that will cost any one variable service charge payer more than £100 per year

### 8.3 New Services and Changes

8.3.1 Where we propose to introduce a new service that will result in a service charge, we will notify residents in advance and, where required, consult with them.

8.3.2 If consultation has not taken place, new charges will only apply to new residents at re-let or resale.

8.3.3 Where services are changed or improved (for example, moving to a more frequent cleaning schedule), we will explain the reasons for the change and the impact on costs.

## 9 Payment and Collection

### 9.1 Payment Methods and Terms

- 9.1.1 **Tenants** pay service charges weekly as part of their rent, by the payment method they have chosen (e.g., direct debit, standing order, or payment card).
- 9.1.2 **Homeowners (Shared owners and Leaseholders)** generally pay their estimated service charge monthly in advance.
- 9.1.3 We offer a range of payment methods, including direct debit, standing order, online payments, telephone payments, and payment by post. Direct debit is the easiest and most reliable way to pay.

### 9.2 Support for Residents

- 9.2.1 We understand that paying service charges can be challenging, particularly during times of financial difficulty. If you are struggling to pay, please contact us as soon as possible. We will work with you to:
- Understand your circumstances and offer appropriate support
  - Signpost you to independent advice services (such as Citizens Advice)
  - Explore payment plans or other arrangements
  - Refer you to our Tenancy Sustainment services if needed
- 9.2.2 We will handle all cases with sensitivity and compassion.
- 9.2.3 Where residents are in receipt of Universal Credit or Housing Benefit, we will work with the Department for Work and Pensions and local authorities to ensure service charges are paid directly where eligible.

### 9.3 Debt Recovery

- 9.3.1 Where service charges remain unpaid and no arrangement has been made, we will take recovery action in line with our Income Collection Policy. This may include legal action to recover the debt, as permitted by the lease or tenancy agreement.
- 9.3.2 We will always seek to support residents before taking enforcement action and will consider individual circumstances, including vulnerability and financial hardship.

## 10 Queries, Disputes and Support

### 10.1 Raising Queries

- 10.1.1 If you have a question or concern about your service charge, please contact us as soon as possible. We are here to help and will do our best to resolve your query quickly.
- 10.1.2 You can contact us by:
- **Phone:** 0300 456 9996 (London and the South East) or 0300 777 7777 (North West)
  - **Email:** [contact@lqgroup.org.uk](mailto:contact@lqgroup.org.uk) (or your usual L&Q contact email)
  - **Post:** L&Q, 29-35 West Ham Lane, Stratford, London, E15 4PH
  - **Online:** Through your My L&Q account or our website
- 10.1.3 We aim to provide a response to service charge queries within 10 working days. Complex cases may take longer, and we will keep you informed of progress.
- 10.1.4 If we identify an error in your service charge, we will correct it. How this is applied depends on your charge type:
- **Variable service charges (estimates):** If an error is found on an estimated charge, we will correct the estimate. However, a physical refund is not usually issued immediately; instead, the correction will be factored into your end-of-year reconciliation, as there may be offsetting variances in other service areas.
  - **Fixed service charges:** We will correct the error promptly and apply a credit to your account or arrange a refund where applicable.

## 10.2 Complaints

- 10.2.1 If you are unhappy with your service charge or how we have handled a query, you can make a complaint in line with our Complaints Policy. We will investigate your concerns thoroughly and respond within the timescales set out in that policy.
- 10.2.2 We treat complaints as an opportunity to learn and improve. Where we have made a mistake, we will acknowledge it, apologise, and put things right.

## 10.3 Independent Dispute Resolution

- 10.3.1 Leaseholders and shared owners have the right to challenge their service charge through the First-tier Tribunal (Property Chamber). The Tribunal is an independent body that can determine whether:
- Costs were reasonably incurred
  - Works or services are of a reasonable standard
  - The amount payable is reasonable
  - Costs are payable under the lease

- 10.3.2 There is a fee to apply to the Tribunal. We will always seek to resolve disputes without the need for formal proceedings wherever possible.
- 10.3.3 **Tenants and leaseholders** can also complain to the **Housing Ombudsman** if they are not satisfied with our response to a complaint. The Ombudsman is an independent service that investigates disputes between landlords and residents. Contact details are provided in our Complaints Policy.
- 10.3.4 **Leaseholders and shared owners** can also contact the **Leasehold Advisory Service (LEASE)**, a free, independent advice service funded by the government. LEASE can help with understanding service charges and lease terms. More information is available at [www.lease-advice.org](http://www.lease-advice.org)

## 11 Monitoring and Controls

### 11.1 Performance and Quality Assurance

- 11.1.1 We monitor the effectiveness of this policy through:
- **Key performance indicators (KPIs)** - resident satisfaction with service charge information and estimate and final error percentage.
  - **Internal reviews** – quality checks on service charge calculations, apportionment methods, and communication
- 11.1.2 We report on service charge performance regularly to our Resident Services Board
- 11.1.3 We use feedback from complaints, queries, and resident surveys to identify areas for improvement and make changes where needed.

### 11.2 Compliance and Assurance

- 11.2.1 We maintain comprehensive records of:
- Service charge calculations and apportionments
  - Annual estimates and actual costs
  - Consultation and communication with residents
  - Queries, complaints, and resolutions
- 11.2.2 These records allow us to demonstrate compliance with legislation, regulation, and this policy, and to respond effectively to queries and disputes.
- 11.2.3 We will review this policy regularly (at least every three years) to ensure it remains up-to-date with changes in legislation, regulation, and best practice.

## 12 Equality, Diversity and Inclusion

- 12.1 We are committed to treating all residents fairly and with respect, in line with the Equality Act 2010 and our own values.
- 12.2 An Equality Impact Assessment has been carried out in developing this policy. We are confident that this policy does not discriminate against any resident on the basis of protected characteristics (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, or sexual orientation).
- 12.3 We recognise that some residents may have additional needs or face barriers in understanding or managing their service charges. We will make reasonable adjustments where needed, including:
- Providing information in accessible formats (large print, Braille, audio, Easy Read, translations)
  - Offering support through interpreters
  - Allowing extra time for responses or payments
  - Providing face-to-face support or home visits where appropriate
- 12.4 If you need any adjustments or support, please let us know.
- 12.5 We will monitor the impact of this policy on different groups of residents and take action to address any unintended consequences or barriers.

## 13 Communication

- 13.1 This policy will be published on the L&Q website and made available to all residents on request.
- 13.2 We will notify residents about this policy through our newsletters, online communications, and in service charge correspondence.
- 13.3 We will provide clear guidance and information to support this policy, including:
- Explanatory guides on service charges and sinking funds
  - FAQs on common queries
  - Information on how to challenge or query service charges
  - Links to independent advice services

- 13.4 This policy and supporting procedures will be made available to all L&Q colleagues through our intranet. We will provide training and briefings to ensure colleagues understand their responsibilities and can support residents effectively.
- 13.5 Complaints about the application of this policy should be raised through our Complaints Policy.

## 14 Policy Controls Sheet

**Date of approval:** 7<sup>th</sup> May 2026

**Effective date:** 7<sup>th</sup> May 2026

**Next Review date:** 7<sup>th</sup> May 2029

**Policy owned by:** Head of Rent and Service Charges

**Associated documents:** Major Works and Planned Maintenance Policy; Income Collection Policy; Complaints Policy; Compensation Policy; Supporting Residents with Additional Needs Policy; Section 20 Leaseholder Consultation Guidance (available on L&Q website)

### Main Changes from Previous to New Service Charges & Sinking Fund Policy

Main Change	Key Points
<b>New consolidated policy</b>	Merges the previous standalone Service Charge Policy and Sinking Fund Policy into a single framework.
<b>Updated legislative framework</b>	Adds the Landlord & Tenant Act 1985 (as amended), Building Safety Act 2022, RSH Consumer Standards 2024, and UK GDPR - reflecting the significantly changed regulatory landscape.
<b>Sinking fund fully integrated</b>	Replaces the separate sinking fund policy with a dedicated section covering calculation methodology, the pre/post October 2019 scheme distinction, transparency requirements, and treatment of funds on sale.
<b>Resident financial hardship support</b>	New provisions covering payment plans, signposting to independent advice (Citizens Advice), tenancy sustainment referrals, and liaison with DWP/local authorities for Universal Credit and Housing Benefit claimants.
<b>Dispute resolution pathways</b>	Explicitly sets out residents' rights to escalate via the First-tier Tribunal, Housing Ombudsman, and Leasehold Advisory Service (LEASE).

<b>Clearer overpayment/underpayment timescales</b>	Leaseholders and shared owners receive credits within 14 days and have one month to settle underpayments. Tenant deficits are now spread over 12 monthly instalments rather than 52 weekly ones.
<b>Formal performance monitoring</b>	Introduces KPIs, regular reporting to the Resident Services Board, and a structured assurance and audit framework.

**Reviewed by:** Policy Team

**Approved by:** Customer Group