Service Charge Policy

Introduction

1. This policy details how we set, review, and manage service charges on social rented, leasehold, shared ownership, freehold, and commercial properties owned or leased by The Guinness Partnership Ltd, Guinness Housing Association Ltd, and Guinness Homes Ltd ("Guinness").
2. The policy does not apply to properties let at an Affordable Rent, Intermediate Rent (Including London Living Rent), or Market Rent, unless indicated otherwise, because their service charges are included in the rent and are not calculated separately. The policy does however fully apply to London Affordable Rent because their service charges are calculated separately, even though they are included in the rent.
3. In general, we use the word "resident" to describe people who live in Guinness homes. However, because this policy covers a broader group including commercial leaseholders as well as tenants, residential leaseholders, and shared owners, it uses the term "resident" in most places. The term "homeowner" is used where the matter applies to shared owners and leaseholders.
4. If the information contained in the tenancy agreement, lease, covenant, or deed of transfer is different from the information in this policy, the information contained in those documents will take precedence over this policy.
5. The policy supports the delivery of our strategic objective to meet our legal and regulatory requirements.
6. An explanation of technical terms is set out in Annex 1.

The Guinness Policy

7. Our policy is that:

- We will set service charges which:
  - Comply with legal, regulatory, and contractual requirements, including the terms of tenancy agreements and leases;
  - Are based on the reasonable cost of providing services;
  - Seek to deliver value for money;
  - Are typically affordable; and
  - Can be clearly explained to residents. We will engage, consult, and communicate with residents in a way which is clear, transparent, timely and which meets our legal obligations (including specifically in relation to decisions about the provision of chargeable services and "Section 20" consultation).

Background

8. Service charges cover the cost of additional services and facilities we provide to residents which are not normally covered by the rent, and which are permitted under the tenancy agreement or lease. The additional services enable us to look after the areas of the building or estate we are responsible for.
9. The services can include, but are not limited to, repair, maintenance, servicing and the general management of buildings, estates and communal areas, and cover those items which are provided under the tenancy agreement or lease that are not covered by the rent as well as other items following consultation with residents.
10. Service charges are strictly limited to covering the cost of providing the services, including management costs. In the case of shared ownership and leasehold homes, service charges can additionally include, but are not restricted to, the cost of redecoration, improvement works, ground rent where applicable and building insurance (homeowner flats only).
11. In most cases what we do in relation to service charges is prescribed by legislation, regulation and the tenancy agreement or lease. Sometimes it is a condition of funding from the Government or local authorities. Most of our service charges are "variable." However, for some tenants, service charges are "fixed." The meaning of these terms is explained at paragraphs 14 -17. The type of service charge a property attracts is set out in tenancy and lease agreements.

12. The policy takes account of The Government's Policy Statement on Rents for Social Housing (updated December 2022) and The Regulator of Social Housing's Rent Standard 2020 (updated March 2024). This includes the following expectations, that:

- Registered Providers set reasonable and transparent service charges which reflect the service being provided to tenants;
- Tenants should be supplied with clear information on how service charges are set;
- For Social Rent properties, service charges are identified separately from the rent charge.

13. Properties charged an Affordable Rent or an Intermediate Rent, including London Affordable Rent and London Living Rent, will meet Government requirements in that they include that the service charge must be included in the rent and the overall amount charged must be limited to 80% of the market rent.

- The policy also complies with, and takes account of, the following: The Housing Benefit Regulations 2006. This sets out ineligible service charges for the purpose of benefit paid under Housing Benefit.
- Universal Credit Regulations 2013. This defines what is meant by a service charge for the purposes of benefits paid under Universal Credit.
- The Homes England Affordable Homes Programme 2021 - 26 and the Greater London Authority Affordable Homes Programme 2021-26. They include the Right to Shared Ownership and the revised model lease for shared ownership which sets out clearer information about service charges. The GLA Affordable Homes Programme includes details of London Affordable Rent (LAR) which is based on benchmarks set by the GLA.
- The Fire Safety Act 2021 and the Fire Safety (England) Regulations 2022. This requires landlords to undertake certain specific works which are rechargeable under the service charge. This may affect the charges we apply to some leaseholders who own their home outright and shared owners.
- The Building Safety Act 2022. This contains restrictions on the costs landlords can recharge to homeowners. There is more information on this in Annex 2.
- The Leasehold and Freehold Reform Act 2024. This contains enhanced rights for leaseholders in mixed use buildings to manage their scheme.

Further Detail

Types of service charge

14. There are two types of service charge, as set out below.

Variable service charges

15. All homeowners and most Guinness tenants are charged a variable service charge. The definition of a variable service charge is set out in the Landlord and Tenant Act 1985 (as amended). We set service charge payments as outlined in paragraphs 31-34. Then at the end of the year, we will compare the estimated cost to the actual cost of services provided for each scheme. We will issue year-end accounts which set out whether there is an annual surplus or deficit. The treatment of surpluses and deficits is set out below in paragraphs 47-52.

Fixed service charges

16. Some Guinness tenants pay a fixed service charge because their tenancy agreement stipulates this. Where this is the case, we will set the initial service charge as outlined in paragraphs 31-34.

17. Once the service charge has been set, the amount paid by tenants is fixed regardless of the actual cost (subject to consultation on changes to actual services provided). Therefore, any variation between the actual cost and the estimated cost at the end of the year resulting in an underpayment or overpayment is absorbed by Guinness.

Costs included in the service charge

18. Our service charges include the cost of all legally eligible expenditure attributable to an estate, scheme or block where the costs are not deemed under the tenancy agreement or lease to be included within the rent paid.

19. We will account for the cost at estate, scheme or block level as appropriate, and then allocate the cost between the properties that are provided with the service. See paragraph 33-34 for further information.

20. Typical costs within a service charge are set out below.

Goods and services

21. Goods and services are provided to operate and maintain our blocks and estates. They may include, but are not restricted to:

- The maintenance of external communal areas e.g. gardens, window cleaning
- The cost of facilities and services in internal communal areas e.g. lifts, door-entry systems and communal lighting,
- The maintenance of internal communal areas e.g. cleaning
- Health and safety charges e.g. testing communal water tanks for legionella bacteria; and
- Management fees.

22. There are some additional types of chargeable goods and services which are received by homeowners only. They include but are not restricted to account audit or certification charges (where they are provided), insurance and surveyors' fees. Subject to paragraph 18, homeowners also pay costs associated with repairing the fabric and structural parts of the building such as roofs and windows.

23. For new shared ownership properties developed under the Homes England Affordable Homes Programme 2021 to 2026, and the Greater London Authority Affordable Homes Programme 2021-26, for a period of 10 years, we will meet the full cost of certain building repairs which are not the responsibility of the landlord under the lease. The relevant homes will be sold using the new form of shared ownership lease issued by Homes England. These costs will not be included in the service charge calculation provided that the shared owner complies with the landlord notification procedure and meets all specified requirements.

Sinking funds and usage charges

24. Sinking funds are a provision for contributing towards or meeting the cost of replacing or repairing eligible higher value items to reduce the risk that residents have to pay out a large lump sum in one go. They are sometimes referred to as "reserve" funds.

25. We will establish sinking funds for buildings occupied by our residents where required to do so by the tenancy agreement or lease. Leases usually permit sinking fund expenditure towards the cost of works which are not expected to arise in each and every year. Examples include roof overhaul, lift upgrades and window replacements. Leases may also permit sinking fund expenditure on cyclical redecorations. Some tenancy agreements also require sinking fund contributions. These could be for items such as door-entry systems, lift upgrades, CCTV (if applicable) and communal TV aerials.

26. We will periodically review relevant high value items within a scheme to calculate the remaining lifespan and determine how much the replacement will cost. We will use this information as a guide to the level of contributions required. We will do so to minimise unaffordable sinking fund contributions in the future.

27. We include sinking fund contribution levels with the annual service charge estimates, and account for income, interest and expenditure within these funds when we issue the annual year-end accounts.

28. If the cost of major works is included in the service charge, and where the tenancy agreement/lease allows us to do so, the cost will be offset by any available sinking fund balance.

29. Some of our tenants pay a usage charge. A usage charge is an alternative means of meeting the cost of eligible future works or the replacement of a high value component (for example a lift, or CCTV, or a door entry system). These costs are depreciated over the lifetime of the asset. This means that tenants contribute to these costs as they use the asset. We calculate the usage charge based on the lifespan of the component and divide the annual cost between the tenants that may benefit from the provision of the component.

30. We hold the monies paid into a sinking fund in a separate interest-bearing account.

Setting the service charge

31. We will set and review service charges to cover the costs set out in the section above, in accordance with the terms set out in the tenancy agreement or lease. We will base the initial service charges on our estimated or expected costs of services provided or in line with the tenancy agreement or lease if that is different.

32. If the service charges are variable, we will meet the requirements of the Landlord and Tenant Act 1985 (as amended) by s151 Commonhold & Leasehold Reform Act 2002 and s14 Housing Act 1988.

Apportionment of service charges

33. We will apportion costs between homes on an estate, or in a scheme or block, as set out in the tenancy agreement or lease. If a basis of apportionment is not specified in the tenancy agreement or lease, we will use a fair and reasonable method to apportion costs. This may be through an equal division of costs between the number of homes or based on the size of each home such as the number of bedrooms, or the floor area.

34. The apportioned amount will represent a fair and proper proportion of the costs incurred. Homeowners moving into new developments and resold shared ownership properties will be given a service charge apportionment schedule as required under the funding agreement.

Minimising costs

Value for money

35. We will always seek to achieve value for money when procuring works and services. This applies to all our properties where services are provided whether the service charge is calculated separately from the rent or not. We will utilise economies of scale to deliver value for money by bulk buying services where we are able to do so.

36. The price of goods and services is subject to market conditions which are influenced by world events and general economic conditions. Some of the goods and services we procure are outside those typically included in the calculation of inflation under the Consumer Price Index (CPI). This means that whilst we will always endeavour to secure the best price for goods and services, increases in costs may sometimes differ from and potentially exceed headline CPI.

Reasonableness

37. In setting and reviewing variable service charges, we must ensure the amount charged is reasonable (as defined by s19 Landlord and Tenant Act 1985), so that it is:

- Reasonably incurred (i.e. the works or service are not excessive in terms of what is required); and
- Incurred on works or services of a reasonable standard.

Affordability

38. We aim to set service charges that are generally affordable to most of our residents. To help achieve this we will:

- Where we are able to do so, add clauses to contracts for services to help manage the effects of inflation.
- Closely monitor contracts for services to ensure prices remain reasonable throughout the life of the contract.
- Aim to provide realistic estimates on the charges we expect to incur.
- Seek to manage potential cost increases appropriately, so that residents are clear on their likely ongoing costs.
- Always aim to set service charges that are reasonable.
- Engage with residents about options for reducing costs, including reducing services or service levels and thereby costs where they tell us that increases are unaffordable.

39. In exceptional circumstances, we will consider whether to limit a service charge beyond our normal affordability criteria. Where residents face hardship due in part to service charge increases, we will support them by helping to review their finances, or by signposting them to organisations providing additional support.

Reviewing service charges

40. In most cases, we will review service charges annually. Any change will be subject to legal and regulatory requirements.

41. We will charge the new service charge from the service charge review date stated in the tenancy agreement or lease (or the amended date where this is agreed). This is usually in April.

42. We will not adjust a service charge if the resident or some residents decide that they do not want to use a service or communal facility which has been provided under the tenancy agreement or lease. However, we may consult with all potentially affected residents about whether to amend or remove the service in order to reduce the service charge. We may do so if it is a reasonable request, there is sufficient demand, and we are legally able to do so.

43. If a reasonable request is made by Guinness or residents to add to, or remove services provided, and we are legally able to do so, we will first consult all potentially affected residents. We will take the feedback into account when we make the decision. If some, but not all residents agree to the changes concerning the introduction of a new service or the removal of a service, we may consider whether to apply to the First-tier Tribunal (Property chamber) to vary tenancy agreements under section 37 Landlord and Tenant Act 1987. Where the decision is made that we are able to make the change, we will amend a service charge accordingly when the change is implemented.

44. We will review service charges in one of two different ways, depending on what is stated in the tenancy agreement or lease.

Annual increases set according to the formula in the tenancy agreement

45. This applies to some fixed service charge tenancies only, where explicitly specified by the tenancy agreement. If the tenancy agreement includes a formula by which service charges may be increased, we will increase service charges in line with the tenancy agreement.

Annually estimated charges

46. This applies to all variable service charges and to fixed service charges where the tenancy agreement is silent on how the service charges should be reviewed. We estimate how much the services may cost and then split the amount between the individual homes that benefit from the service. We will split the amount in accordance with the tenancy agreement or lease, or by any other fair method if those documents are silent. We will increase the service charge where appropriate to reflect increases in estimated and known costs.

Dealing with surpluses

47. If there is a surplus on a variable service charge account (for example, because the cost of providing the service is less than that charged under a variable service charge), we will credit back each resident’s share to their service charge account and the amount will be used to offset future charges.

48. We will refund excessive surpluses to tenants in line with the tenancy agreement, subject to our policy for dealing with large credits on accounts and the service charge remaining affordable in the coming year.

49. Homeowner refunds for overpayments will be made in line with the terms of the lease, subject to the checks set out in our policy for dealing with large credits on accounts.

50. If there is a surplus on a fixed service charge, the surplus is retained by Guinness.

Dealing with deficits

51. If there is a deficit on a variable service charge account, the way we treat deficits depends on whether the resident is a tenant or a homeowner:

    - For tenants, the deficit is added to their service charge account for the following year.
    - For homeowners, we will issue an excess payment demand for their property’s share of the deficit in line with the terms of their lease.

52. If there is a deficit on a fixed service charge, the deficit is met by Guinness.

Setting and reviewing service charges in other scenarios

Newly acquired tenanted homes

53. When we acquire tenanted homes from other landlords, we will continue to use the same service charge regime that the existing tenant is paying under their tenancy agreement i.e. a fixed service charge or a variable service charge, and set and review service charges accordingly. We will engage with or consult tenants as appropriate if we seek to introduce any differences in services provided by their former landlord.

54. We may charge a different regime (e.g. moving from fixed to variable) when the property is re-let to a new tenant.

Properties leased by Guinness from a third party and sub-let to residents

55. The service charges for these properties are set by the owner of the building or their managing agent and passed on to Guinness. We will review payment demands for service charges and ensure they comply with the lease and relevant legislation. We will set our resident's service charge to collect the amount requested by the building owner insofar as it is in line with our resident's tenancy agreement or lease.

56. We will use reasonable endeavors to ensure that services are delivered to our sub leaseholders and sub tenants in accordance with the lease

57. We will pay service charge demands to the third-party freeholder (superior landlord), in accordance with the lease we hold with them

58. We will exercise our right to inspect documents related to year-end accounts on a sample basis or where concern has been registered, or delegate such authority to sub-lessees if appropriate.

59. We will challenge any costs or charges from the third-party freeholder if we believe there are grounds to do so and if we assess such a challenge to be feasible having considered all risks.

60. We will procure that any superior landlord complies with their covenants if instructed to do so and indemnified by a sub-lessee in accordance with their enforcement provisions in their lease.

61. We will ensure that service charge demands to our residents are compliant with legislation, relevant regulations, tenancies and leases.

Formal consultation on services and decisions

62. We will consult homeowners and tenants paying a variable service charge if we propose to enter into an agreement for services or works that they will be required to contribute to under their service charge and the anticipated cost meets the relevant cost threshold set by the government. The thresholds are currently £250 for qualifying works and £100 for qualifying long term service agreements. This is set out in Section 20 Landlord and Tenant Act 1985 (as amended).

63. We will also consult residents who may be affected whenever we propose to seek significant changes to services provided. This includes:
    - Where we propose to add a new service or significantly extend existing services, and an additional charge would need to be made; or
    - Where we propose to remove or significantly reduce an existing service.

64. We will not consult residents where we intend to provide a new chargeable service that we have a statutory obligation to provide. This includes, but is not limited to, some types of fire safety and other landlord health and safety inspections or work. We will however engage and communicate with those residents (when and how it is most suitable and reasonable to do so).

65. In accordance with our Resident Consultation & Engagement Policy, we will additionally consult residents where it is appropriate to do so.

66. We will have due regard to residents' views when we decide on the appropriate level of sinking fund contributions.

Resident information, consultation, and engagement

Providing residents with information before signing a tenancy or lease

67. We will provide clear service charge information to prospective residents before they sign the tenancy agreement or lease. This includes providing details of services provided to the property

and the current service charge amount. For tenants paying a Social Rent and shared owners, the service charge will be separately identified from the rent charge.

68. We will continue to work to improve the quality of the information we provide and ensure that our charges are accurate and transparent, and it is clear what services they apply to.

69. We will provide residents paying variable service charges with access to relevant records if they wish to inspect these. We will do so in accordance with s22 of the Landlord and Tenant Act 1985.

Communicating the outcome of annual service charge reviews

i. Variable service charge estimates

70. We will communicate service charges in accordance with the specific requirements of s13 Housing Act 1988. This applies to assured periodic tenancies only, and requires us to:

- Use a prescribed form of wording;
- Provide a specific amount of notice; and
- Refrain from increasing rents (including fixed service charges) until at least 52 weeks after the previous increase. This is subject to clauses in the tenancy agreement or lease concerning the first year.

71. We will provide residents with their service charge estimate at least one month before the beginning of the relevant financial year. The estimate will list all the services provided and their estimated cost at estate, scheme, or block level for the forthcoming year. It will include the total amounts apportioned to their individual property and the total amount to be paid weekly/monthly.

72. Where applicable, the estimate will include surpluses and deficits that are deducted from / added to charges. We will include a formal increase notice, and:

- Summary of tenants' rights and obligations in relation to variable service charges, and
- "Your service charges explained" booklet.

73. We will provide this information in order to meet our legal obligations for variable service charges and to provide information about service charges and their relevant costs.

ii. Variable service charges year-end statement

74. Within six months after the end of the accounting period, we will send residents paying a variable service charge an end-of-year statement. The statement will set out the:

- Total actual cost of services provided to the scheme during the accounting year
- Estimated and actual cost of each service charged to the resident during the accounting year, and the
- Difference between the estimated and actual cost to be added to or debited from the resident's account.

75. With the statement, we will include the information detailed in the bullet point list at paragraph 72, together with a copy of the audited accounts or accountant's letter, as determined by the lease.

iii. Fixed service charges

76. We will provide a service charge increase notice setting out the new cost of services provided at the scheme, the contribution required from each resident, and the date the increase takes effect.

Providing information to help residents manage their service charge accounts

77. We will help residents manage their service charge accounts by:

- Giving residents at least one month's notice in writing before we start collecting the new amount, and
- Providing statements when requested so that residents may closely monitor their account.

Involving residents in decisions about the services they are paying for and what they are charged

Engagement

78. We will engage with residents to understand their views when the increase in estimated or expected costs, including sinking fund requirements, require significant increases in their contributions. We will particularly seek their views about achieving value for money and on the level and quality of services provided.

79. We will additionally engage with residents to identify specific issues within Guinness communal areas and spaces shared with other landlords. We will do this to help improve the social, environmental, and economic well-being of our residents. This information will be set out in a local neighbourhood plan.

Receiving, responding to, and resolving complaints

80. Complaints about service charges are dealt with in accordance with our Complaints Policy.

81. We will try to resolve service charge queries and issues as quickly as possible, although complex complaints may take longer. Where we get something wrong, we will apologise, correct any errors, and where appropriate, credit service charge accounts. Other remedies may additionally apply.

82. When we receive a complaint, we will make residents aware of the Housing Ombudsman Service to which they have a right to access in the first instance and, for homeowners, the First-tier Tribunal (Property Chamber) (FTT).

83. The Housing Ombudsman is able to deal with some, but not all, service charge complaints. Examples of the complaints they may deal with include:

- The communications in respect of service charges
- Complaints that the resident has not received the service/benefit they are paying for, or the service provided has been of a poor standard, or
- Complaints that the landlord has not followed the correct process in respect of service charges.

84. If the complaint is outside the Housing Ombudsman's jurisdiction, the Housing Ombudsman will refer the complainant to the FTT. The exact nature of the FTT's jurisdiction depends upon the type of tenancy and type of service charge being paid.

- Variable service charges – the FTT has jurisdiction on liability to pay a service charge, and the reasonableness of the amount being charged.
- Fixed service charges - in specific instances, the FTT has jurisdiction to set the service charge at the market rate for assured (periodic) tenancies only. The FTT also has jurisdiction for setting fixed service charges at the market rate for secure tenancies.

Period of review

85. Our review programme is driven by risk, service improvement initiatives, changes to legislation, regulation, practice or as a result of feedback from residents and other key stakeholders. We will review this policy annually.

Key legal and regulatory references

- Landlord and Tenant Act 1985
- Housing and Planning Act 1986
- Landlord and Tenant Act 1987
- Housing Act 1988
- Housing Act 1996
- Commonhold and Leasehold Reform Act 2002
- Service Charges (Consultation Requirements) (England) Regulations 2003
- The Housing Benefit Regulations 2006
- The Service Charges (Summary of Rights and Obligations, and Transitional Provision) (England) Regulations 2007
- The Universal Credit Regulations 2013
- The Heat Network (Metering and Billing) Regulations 2014
- Fire Safety Act 2021
- Homes England Affordable Homes Programme 2021 – 26
- GLA Affordable Homes Programme 2021 -26
- Building Safety Act 2022
- Fire Safety (England) Regulations 2022
- The Policy Statement on Rents for Social Housing (updated 2022)
- Rent Standard 2023

- Social Housing (Regulation) Act 2023
- Leasehold and Freehold Reform Act 2024.

Related policies

- Allocations Policy
- Arrears Policy
- Compensation Policy
- Complaints Policy
- Diversity and Inclusion Policy
- Estate and Neighbourhood Management Policy
- Fire Safety Policy
- Mutual Exchange Policy
- Rent Policy
- Resident Consultation and Engagement Policy
- Responsive Repairs Policy
- Right to Acquire and Right to Buy Policy.

Version number		6.0
Policy approved by		Executive Team
Policy approval date		1 April 2025
Policy effective from		1 April 2025
Policy review date		April 2026
Equality analysis approval date		1 April 2025
Policy author		Darren Collings, Head of Policy & Training
Lead director		Scott Morrison, Group Director of Customer Contact and Repairs
Policy owner		Scott Morrison, Group Director of Customer Contact and Repairs
Version history		
Version number	**Review trigger**	**Brief description of the main changes**
1.0	New policy	This is the first version of the policy.
2.0	Cyclical review	The policy was reviewed to reflect current practice. It clarifies the type of costs included, how costs are shared and a commitment to achieving value for money.
3.0	Cyclical review	The policy includes new regulatory requirements arising from the Government's Policy Statement on Rents 2019 and the Affordable Homes Programme 2021–26. The policy principles now state that we will set service charges that are affordable. The revised policy reflects the decision to engage with residents where anticipated costs are significantly high. The policy provides additional information to improve transparency and clarity. In particular: • The service charge regime to be used when additional properties are acquired is included; and • When the Housing Ombudsman and First-tier Tribunal may be used.
4.0	Cyclical review	The main changes include the following: • Inclusion of reference to affordability • Inclusion of information about consultation and engagement

		• Inclusion of commercial properties • Addition of hyperlinks to key documents • Additional information about sinking funds • Section on new shared owner properties • Additional information about fixed and variable service charges • Complaints section expanded to provide additional information about First-tier Tribunal (Property Chamber) complaints.
5.0	Cyclical review	New information: • SBHA included as a member of The Guinness Partnership Group • London Living Rent and London Affordable Rent • Properties leased to Guinness and sublet to residents • Management discretion and • Usage charge. Additional information provided to improve transparency and clarity about: • Minimising costs, • Reviewing service charges • Communicating the outcome of service charge reviews, and • Addition of links to relevant information sources.
6.0	Cyclical review	Key changes include: • Additional information setting out our approach to managing the service charges of properties where Guinness is not the private freeholder. • Inclusion of a new section on Right to Manage, and • Additional detail added to explain the consultation process for changes to services provided.

Annex 1: Definitions

Term	Description
First-tier Tribunal (Property chamber)	The First-tier Tribunal is an independent body which has the power to settle legal disputes concerning rented or leasehold land or property, and the power to award costs. Appeals are referred to the Upper-tier Tribunal. It was formerly called the Leasehold Valuation Tribunal.
Fixed service charge	A fixed service charge is a set amount to cover the cost of services provided that is based on a best assessment of the likely costs and estimates received. Over and under recovery of the actual cost is not added to the renter's account for the following year. Over recovery benefits the landlord and under recovery benefits the renter. It is not defined in law, however, there is an expectation that the charge closely reflects the cost of provision.
Homeowners	This term is used in this policy to describe shared owners and leaseholders who own their home and commercial leaseholders.
Management fee	This is a fee to recover the reasonable business costs incurred by Guinness in providing service chargeable services to the building and/or estate as set out in the tenancy agreement, lease, or transfer agreement.
Reasonable cost	"Reasonableness" is set out in the Landlord and Tenant Act 1985 and may be determined by a First-tier Tribunal. The cost must be relevant, reasonably incurred and the services or works must be of a reasonable standard. Landlords can only recover those costs that are reasonable.
Relevant cost	The relevant costs are the costs or estimated costs incurred or to be incurred by or on behalf of the landlord, or a superior landlord, in connection with the matters for which the service charge is payable. Costs include overheads and are relevant costs in relation to a service charge whether they are incurred, or to be incurred, in the period for which the service charge is payable or in an earlier or later period.
Service charge	In this policy, a service charge is an amount payable by a tenant, leaseholder, or freeholder as part of or in addition to the rent. It is payable directly or indirectly for services, facilities, and the landlord's cost of managing the provision of those services and facilities.
Sinking fund / Reserve fund	This is a fund that provides for service chargeable items which will require major expenditure in the future, e.g. lift replacement. Some tenancy agreements and leases allow us to request a contribution towards this fund via the service charge. It is typically called a "reserve fund" in leases.
Usage charge	This is a similar charge to sinking fund and reserve fund, in that it is a means of meeting the cost of high value items. The difference is that a usage charge spreads the replacement cost over the lifetime of the asset e.g. lift replacement. Residents pay either a sinking /reserve fund contribution or a usage charge.
Variable service charge	The legal definition of a variable service charge is set out in s18 of the Landlord and Tenant Act 1985. It is defined as: (1) "Service charge" means an amount payable by a tenant of a dwelling as part of or in addition to the rent – (a) which is payable, directly, or indirectly, for services, repairs, maintenance, improvements or insurance or the landlord's costs of management, and (b) the whole part of which varies or may vary according to the relevant costs.

	(2) The relevant costs are the costs or estimated costs incurred or to be incurred by or on behalf of the landlord, or a superior landlord, in connection with the matters for which the service charge is payable. (3) For this purpose – (a) “costs” include overheads, and (b) Costs are relevant costs in relation to a service charge whether they are incurred, or to be incurred, in the period for which the service charge is payable or in an earlier or later period.

Annex 2: Relevant defects under the Building Safety Act 2022

Subject to other additional criteria being satisfied, under the Act, landlords may only recharge for a building defect that arises as a result of anything done (or not done), or anything used (or not used) in connection with relevant works on a building that also causes a building safety risk. See section 120 Building Safety Act 2022.

For a defect within a building to be defined as a 'relevant defect', it must meet all of the following criteria:

a. it puts people's safety at risk from the spread of fire, or structural collapse
b. it has arisen from work done to a building, including the use of inappropriate or defective products, during its construction, or any later works (such as refurbishment or remediation)
c. it has been created in the 30 years prior to the leaseholder protections coming into force (meaning the defect had to be created from 28 June 1992 to 27 June 2022), and
d. it relates to at least one of the following types of works:

    - the initial construction of the building,
    - the conversion of a non-residential building into a residential building, or
    - any other works undertaken or commissioned by or on behalf of the building owner (the definition of 'building owner' can be found in What are my building owner's legal obligations?), or management company.

Defects that have arisen in relation to professional services are also covered by the definition of relevant defect. This would include, for example, if an architect or building designer specified the inappropriate use of flammable materials on a building and the contractor followed those designs.

This definition of relevant defect covers work needed to put right and ease historical building safety issues, but not, for example, wear and tear or routine maintenance.

Defects which may be recharged back to leaseholders in the service charge

If a defect within your building does not satisfy all of the criteria a, b, c and d (above), then it does not fit the definition of a relevant defect. This means that the defect does not qualify for leaseholder protections under the Act and so you could be asked to contribute to the costs associated with fixing the defect, depending on the terms of your lease.

This means that the following costs may be able to be passed on to leaseholders, up to a capped amount:

- Waking watch costs
- Remediation of non-cladding defects, for example:
    - Replacement of a fire door that has prematurely degraded and is no longer safe
    - Installation of missing fire compartmentation
    - Inadequate structural fire protections presenting an unacceptable risk of early collapse in fire scenarios
    - Inadequate structural design presenting an unacceptable risk of collapse (for example balcony design which presents an unacceptable risk of vertical fire spread)
- Professional services in relation to relevant works (for example surveys to determine relevant works.

Non-qualifying leaseholders:

Some leaseholders do not qualify for protection from the costs of historical safety remediation. Where this is the case, they are liable for remediation costs as per the terms of their lease, but not if the developer who built or refurbished the building is – or is associated with – the building owner.

See paragraphs 2 and 3 Qualifying lease guidance for further information.