

Leasehold Policy	Policy Section:	
	Service Charge Methodology	
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Abbreviations used in the policy		
LBTH	London Borough of Tower Hamlets	
THH	Tower Hamlets Homes	
GRV	Gross Rateable Value	

Contents

Introduction to the policy	2
Background to the Policy	2
Legislative references	2
Policy	2
1. Policy Context	2
3. Value for money	3
4. Division of costs between tenants and leaseholders	4
5. Service Charge Methodology broken down by heading	4
6. Management Fee: Day to day services	5
7. Administration Charge: Day to day services	6

Introduction to the policy

The purpose of this Policy is to set out the basis by which service charge bills to leaseholders and freeholders will be calculated.

Background to the Policy

This policy applies both to leaseholders on long lease agreements and freeholders with properties within LBTH/THH estates on whom service charges are levied. Throughout the document the term leaseholder is used to cover all leaseholders and freeholders.

Legislative references

- Law of Property Act 1925
- Housing Act 1980
- Housing Act 1985
- Landlord and Tenant Act 1985 as amended by the Landlord & Tenant Act 1987
- Landlord & Tenant Act 1987
- Consumer Protection Act 1987
- Property Misdescriptions Act 1991
- Leasehold Reform, Housing and Urban Development Act 1993
- Housing Act 1996
- Arbitration Act 1996
- Commonhold and Leasehold Reform Act 2002
- Housing Act 2004

Policy

1. Policy Context

- 1.1. LBTH recognises that it manages blocks and estates that contain a mixture of tenants, leaseholders and freeholders. LBTH also recognises the need to strike an appropriate balance between the needs of tenants, leaseholders and freeholders.
- 1.2. The most significant factors shaping the way that service charges are calculated are:
 - The terms of the leases and deeds that describe the terms of the agreement made by each leaseholder at the time of their original purchase from LBTH.
 - The legislative framework: the calculation needs to operate in a way which is legal.
 - Good practice: the calculation needs to operate in a way that reflects good practice within the housing sector.

- A strong priority has been given to creating a simple and transparent methodology.

2. Two types of lease

- 2.1. LBTH has approximately 9,000 leases in existence. Due to the origins of the estates there are two forms of lease:- a GLC lease and a LBTH lease. The Lease sets out each leaseholder's separate contractual relationship with the council. The terms of that relationship are governed by the terms of the lease.
- 2.2. It is in the interests of all parties that the services delivered to residents on LBTH estates are of high quality and represent good value. One way in which costs can be reduced is by minimising the amount and the complexity of the administration required. To help to minimise cost and to help simplify and improve service delivery we apply one service charge calculation methodology to all the leases.
- 2.3. If we were to run 2 separate calculation methodologies then the amount of work to administer the calculations would more than double because there would be work to administer each calculation plus work to assemble to the results of both calculations into an overall budget.
- 2.4. Using one calculation also simplifies the task for staff who only need to know one method. This creates opportunities for improved focus on service delivery.
- 2.5. Due to the wording of the leases, legally it is permissible to have one methodology across both types of lease
- 2.6. LBTH/THH will prepare timely and accurate information about the cost of services for which service charges are due. It will make available to Leaseholders a copy of the audited annual accounts for management services within six months of the end of the accounting period. Leaseholders will be provided with an estimate of the following year's charges once a budget for that year's expenditure has been agreed, in accordance with the requirements of Leaseholder's lease and in accordance with this policy.

3. Value for money

- 3.1. Achieving good value for money is of key importance to tenants and leaseholders. LBTH/THH will work in ways designed to maximise value for money in the way that services are delivered day to day and in the way that services are reviewed, improved and re-procured.
- 3.2. LBTH/THH will focus on driving down costs and maximising efficiency and effectiveness.

4. Division of costs between tenants and leaseholders

- 4.1. The law and individual leases are quite clear with regard to which items LBTH/THH can charge leaseholders for.
- 4.2. The total cost of providing services to groups of customers is almost entirely met from one of three sources, tenants (rent and service charge), leaseholders (service charge) and Housing Revenue Account Subsidy. While always seeking to minimise the amount of each charge (see 3. above) LBTH/THH will also seek to ensure that the appropriate share of all possible items of charge are charged to the appropriate service user where it is legally possible to do so. If items that could be charged are not charged to leaseholders and freeholders it is tenants who pick up the cost that is not charged and this is neither fair nor legal.
- 4.3. More detail about the Service Charge Calculation including an explanation of the apportionment between tenants and leaseholders can be found in Appendix 1 and in THH procedures.
- 4.4. In addition there are a number of items of work that are charged directly to individual leaseholders. These are charges to recover costs that arise due to requests from individual leaseholders, for example requesting permission for an alteration, providing resale packs.
- 4.5. There is reference within the Policy Statement to the use of Gross Rateable Value (GRV) within the service charge calculation. Individual properties were allocated their GRV's by the Inland Revenue's Valuation Office using a methodology in place at the time they were built. The purpose of the methodology was to establish a rateable value for domestic rates (the system in place before the Council Tax). The Valuation Office no longer deals with or uses the methodology for setting GRV's .
- 4.6. However some of our leases use the term GRV and therefore we have to continue to use GRV when calculating service charge bills. It is worth noting that the only way that we use GRV's is to calculate how big a share of a cost will be borne by an individual leaseholder.

Here is an example.

Leaseholders GRV (for 1 property) = £350

Total GRV for the block: £13,800

Leaseholders share of a £3,000 cost = £76.09

$3000 \div 13,800 \times 350 = 76.09$

5. Service Charge Methodology broken down by heading

- 5.1. Each individual lease describes the items that will form part of the Service Charge for that dwelling. We have created a single service charge methodology that enables cost reduction. Running multiple methodologies increases the costs of administering service charges without bringing any benefits to those paying the costs. It also creates a lack of transparency for those who pay the service charges. A single service charge methodology means that all service charge payers will be clear about how their charges are calculated. This approach has been approved by our legal team and has also been tested over the course of a number of

cases before the Leasehold Valuation Tribunal.

- 5.2. In the table at Appendix 1 we have set out the 16 headings which cover all of the possible items that could appear on a Service Charge Bill. For each heading we have explained the principles of how the item will be calculated. All of these methods have been considered by our legal team in the context of the two types of lease and we have been advised that each of the methods described can be considered fair and reasonable.
- 5.3. Appendix 1 describes the key principles of the Service Charge Calculation. Appendix 1 is supported by THH procedures which are reviewed annually and which set out the mechanics which translate the principles of this policy into a working service charge calculation and generate the amounts billed to leaseholders on service charge invoices.
- 5.4. The governance required for changes to this calculation will depend on the extent of the change. If the changes are proposed to the THH Procedures for calculating costs and after the changes the method will still fall within the principles described in this policy statement then the governance required is as for changes to procedure. If the change(s) involve changes to the principles described in this policy then the governance required will be that for changes to policies.

6. Management Fee: Day to day services

- 6.1. This section deals with the Management Fees that are raised on your annual service charge invoices. There is a separate section on Management Fees relating to Major Works within the Policy Statement on Major Works.
- 6.2. In the past there have been criticisms of the way in which management fees were charged so in this policy document LBTH is trying to make the way it shows Management Fees as clear and transparent as possible.
- 6.3. Wherever possible Management Fees will be calculated using the actual costs to deliver the service to a particular group of properties. Where this is not possible costs will be worked out using structured and transparent calculations.
- 6.4. LBTH/THH are committed to moving to the use actual costing in all service areas where it is cost effective to do so.
- 6.5. Where possible a Management Fee is shown against the individual Service Charge bill heading (for example: Estate Cleaning). Within the heading the Costs and the Management Fee are shown separately.
- 6.6. Those Management Fees which can not be broken down within individual Service Charge items are grouped together under the heading of 'Management Fee.'
- 6.7. Rather than charging the overhead costs to everyone Management Fees will include a fair proportion of additional costs incurred in delivering the particular element of the service. Examples of these additional costs are: support provided by Human Resources, ICT costs and office rental costs.

6.8. Within THH Procedures there will be definitions that set out how the Management Fee will be calculated. These definitions ensure that each cost is only levied once.

7. Administration Charge: Day to day services

7.1. This section deals with the Administration Charge that is raised on your annual service charge invoices.

7.2. There is a separate section within the 'Various' Policy Statement that deals with the Administration Fees that are payable when a leaseholder asks for additional services.

7.3. The Administration Charge recovers those costs allowable under your lease arising from work carried out by staff within Leasehold Services.

7.4. Examples of work charged under this heading are: leasehold enquiries, leasehold calculations, leasehold surgeries, leasehold publications, leasehold collection. In addition human resources, ICT support, office premises, and ICT system costs for that element of staff's work will be included.

7.5. The basis of the Administration Charge will be the actual costs incurred by staff in the Leasehold Services Team. The Administration Charge will also include a fair proportion of additional costs incurred in delivering the service. Examples of these additional costs are: support provided by Human Resources, ICT costs and office rental costs.

7.6. Within THH Procedures there will be definitions that set out how the Administration Charge will be calculated. These definitions ensure that every cost is only levied once.

Appendix 1: Table explaining more about each Service Charge Bill Heading

The following general points apply to all of the headings below:

- This document sets out in a table the policy principles of the service charge calculation and is supported by THH Procedures. (THH Comment accepted)
- Where a cost is apportioned by GRV but the GRV is not known the floor area is used to enable an apportionment equivalent to that which would have been achieved using GRV. The way that this is achieved is described in the THH Management and Administration Model for calculating costs.
- On Service Charge Estimates and Bills whenever possible Management Fees will be shown against the detailed heading (for example Estate Cleaning or Block Repairs). The charges under the general heading of 'Management Fee' will be only those charges that can not be allocated under a detailed heading. The exact definition of the split for any given year will be found in THH Procedures and will change over time as it becomes possible to allocate more costs under individual headings rather than under the general heading. The definition within THH Procedures will ensure that every Management Fee cost occurs only once under one heading.
- Some of the services described here are delivered under contracts or Service Level Agreements. All appropriate procurement and consultation procedures will be followed in procuring and delivering services under these contracts.
- Normally leaseholders will pay a proportion of the costs of goods and services provided under contract . However there are legal limits on the amount that can be recharged to leaseholders if the correct consultation has not been carried out in procuring goods and services. The current legal limits are £100 for routine services and £250 for major works .
- For repair and maintenance services this policy relates to all items that are not subject to Major Works consultation. The subject of Major Works is covered in a separate policy statement.
- There is reference within the document to Mapsites. Mapsites group together properties and the land that surrounds them. A Mapsite will typically be smaller than an estate and will contain a number of blocks. This reflects the fact that residents of a number of blocks share the utility offered by the land that surrounds them. Mapsites are used in calculating costs relating to Estate Cleaning, Estate Maintenance, Bulk Refuse Clearance, Horticultural Maintenance. Each property and each area of shared space will be in only 1 Mapsite.

Service Charge Bill Heading	What Costs are captured How are they captured	How costs are divided
Management Fee	<p>This heading captures the cost of time spent by operational staff outside of the Leasehold Services Team delivering services that are chargeable. Individual leases describe the types of service delivery that are chargeable and LBTH/THH will always ensure that only costs that fall within these definitions are charged.</p> <p>Examples of work charged under this heading are: for Area Housing Officers - A proportion of staffs costs relating to work carried out for leaseholders, the element of which is extracted from any leasehold and/or communal activities undertaken such as estate management, estate visits and inspections, enquiries undertaken, repairs ordering, chasing, co-ordinating services, development of strategy on estates, quality control.</p> <p>Only day to day service provision is charged under this heading. Management of Major Works is charged separately. Where possible the Management Fee for an individual heading is reported under that heading and shown as a separate item on the service charge bill. This improves the transparency of the service charge calculation.</p> <p>Relevant staff work out how much time they are spending on issues that are chargeable by completing timesheets.</p> <p>The timesheets are used to calculate a %age of time spent on chargeable work.</p>	<p>Costs are held at the level of All Stock.</p> <p>The costs are split between tenants and leaseholders using the total GRV of all residents against individual GRVs.</p> <p>Freeholders who pay a service charge are charged 10% of a full equivalent management fee in recognition of the lesser volume of service they receive.</p>

Service Charge Bill Heading	What Costs are captured How are they captured	How costs are divided
	<p>The Management Fee will include a fair proportion of additional costs incurred in delivering the service. Examples of these additional costs are: support provided by Human Resources, ICT costs and office rental costs.</p> <p>The total chargeable cost is calculated using salaries, the relevant %age of time spent and adding on-costs.</p>	
Administration Charge	<p>This heading captures the cost of time spent by operational and support staff within the Leasehold Services Team delivering services that are chargeable. Individual leases describe the types of service delivery that are chargeable and LBTH/THH will always ensure that only costs that fall within these definitions are charged.</p> <p>Examples of work charged under this heading are: leasehold enquiries, leasehold calculations, leasehold surgeries, leasehold publications, leasehold collection, human resources, ICT support, office premises, ICT system costs.</p> <p>Relevant staff work out how much time they are spending on issues that are chargeable by completing timesheets.</p> <p>The timesheets are used to calculate a %age of time spent on chargeable work.</p> <p>The Administration Fee will include a fair proportion of additional costs incurred in delivering the service. Examples of these additional costs are: support provided by Human Resources, ICT costs and office rental costs.</p> <p>T</p>	<p>Costs are held at the level of All Stock</p> <p>Total costs are apportioned on a flat rate basis. The total cost is divided equally between all leaseholders.</p> <p>Freeholders who pay a service charge are charged 10% of a full equivalent administration fee in recognition of the lesser volume of service that they receive.</p>

Service Charge Bill Heading	What Costs are captured How are they captured	How costs are divided
	<p>The total chargeable cost is calculated using salaries, the relevant %age of time spent, other costs and adding on-costs.</p>	
Estate Cleaning	<p>Cost of providing qualifying scheduled cleaning services to relevant sites are captured using cleaning schedules that specify average hours and minutes spent cleaning each area.</p> <p>Where possible chargeable costs will be derived from records of time spent on-site plus costs of equipment and supplies.</p> <p>Where this is not possible estate cleaning costs are based on a proportion of total caretaker costs (because Caretakers time is split across a number of activities) apportioned to each mapsite based on weekly cleaning schedules which quantify the number of each type of site (eg communal hard area, estate road etc) and the time needed for each type of site. The total costs include equipment and supplies and additional cleans</p>	<p>Costs are held at Mapsite Level.</p> <p>The service applies to all residents. The costs are split equally between tenants and leaseholders using the total GRV of all residents in the mapsite area against individual GRVs.</p> <p>Freeholders are charged on the same basis as tenants and leaseholders.</p>
Block Cleaning	<p>The cost of providing qualifying cleaning services to blocks.</p> <p>Where possible chargeable costs will be derived from records of time spent on-site plus costs of equipment and supplies.</p> <p>Where this is not possible block cleaning costs are based on a proportion of total caretaker costs (because Caretakers time is split across a number of activities) apportioned to each mapsite based on weekly cleaning schedules which quantify the number of each type of site (eg entrance lobby, bin chamber) and the time needed for each type of site. The total costs include equipment and supplies and additional cleans.</p>	<p>Costs are held at Block level.</p> <p>The service applies to all residents. The costs are split between tenants and leaseholders using the total GRV of all residents in the block against individual GRVs.</p>

Service Charge Bill Heading	What Costs are captured How are they captured	How costs are divided
TV Aerial Maintenance	<p>All costs of providing and maintaining communal TV/Satellite/other communication aerials.</p> <p>The cost of each job is determined by the contract between LBTH and the supplier.</p> <p>The total chargeable amount is determined by the cost of the work and adding the appropriate on-cost.</p>	<p>Costs are held at Block level (or a combination of blocks where one aerial serves more than one block).</p> <p>The service applies to all residents who can be served by the communal aerial. The costs are split between tenants and leaseholders using the total GRV of all residents in the block against individual GRVs.</p>
Door Entry Maintenance	<p>Costs of provision and maintenance of Door Entry Systems.</p> <p>The cost of each job is determined by the contract between LBTH and the supplier.</p> <p>The total chargeable amount is determined by the cost of the work and adding the appropriate on-cost.</p>	<p>Costs are held at Block level (or a combination of blocks where one entry systems serves more than one block).</p> <p>The service applies to all residents within the block (or combination of blocks). The costs are split between tenants and leaseholders using the total GRV of all residents in the block against individual GRVs.</p>
Block Repairs	<p>Those costs of repair and maintenance to individual blocks.</p> <p>The cost of each job is determined by the contract between LBTH and the supplier.</p> <p>The total chargeable amount is determined by the cost of the work and adding the appropriate on-cost.</p>	<p>Costs are held at Block level.</p> <p>The service applies to all residents. The costs are split between tenants and leaseholders using the total GRV of all residents in the block against individual GRVs.</p>

Service Charge Bill Heading	What Costs are captured How are they captured	How costs are divided
Estate Repairs	<p>Costs of repair and maintenance to estate.</p> <p>The cost of each job is determined by the contract between LBTH and the supplier.</p> <p>The total chargeable amount is determined by the cost of the work and adding the appropriate on-cost.</p>	<p>Costs are held at Mapsite Level.</p> <p>The service applies to all residents. The costs are split equally between tenants and leaseholders using the total GRV of all residents in the mapsite area against individual GRVs.</p> <p>Freeholders are charged on the same basis as tenants and leaseholders.</p>
Boiler Maintenance	<p>Costs of repair and maintenance of communal boiler systems.</p> <p>The cost of each job is determined by the contract between LBTH and the supplier.</p> <p>The total chargeable amount is determined by the cost of the work and adding the appropriate on-cost.</p>	<p>Costs are held at Communal Heating System Level (this means that all the customers served by the same communal heating system will be grouped together)</p> <p>The service applies to all residents. The costs are split between tenants and leaseholders using the total GRV of all residents who are connected to the communal heating system against individual GRVs.</p>
Lift Maintenance	<p>Costs of repair and maintenance of lifts.</p> <p>The chargeable costs are determined by the contract between LBTH and the supplier.</p> <p>The total chargeable amount is determined by the cost of the work and adding the appropriate on-cost.</p>	<p>Costs are held at Block level.</p> <p>The service applies to all residents. The costs are split between tenants and leaseholders using the total GRV of all residents in the block against individual GRVs.</p>

Service Charge Bill Heading	What Costs are captured How are they captured	How costs are divided
Refuse Containers	<p>Costs of bin hire.</p> <p>The costs are determined by the terms of the Service Level Agreement with the provider of bins and adding appropriate on-costs.</p> <p>This heading does not include the cost of emptying the bins.</p>	<p>Costs are held at Block level.</p> <p>The service applies to all residents. The costs are split between tenants and leaseholders using the total GRV of all residents in the block against individual GRVs.</p>
Bulk Refuse Clearance	<p>Costs of bulk waste removal.</p> <p>The costs are determined by the terms of the Service Level Agreement with the provider of refuse removal services and adding appropriate on-costs.</p>	<p>Costs are held at Mapsite Level.</p> <p>The costs are split between tenants and leaseholders using the total GRV of all residents in the block against individual GRVs.</p>
Horticultural Maintenance	<p>Cost of horticultural maintenance including trees</p> <p>Mapsites define the location of different types of area (lawn, flower bed, types of flower bed, trees etc).</p> <p>Horticultural contracts and schedules specify the rate charged for maintaining each type of area, the frequency of the work and rates for ad-hoc work.</p> <p>The total costs are determined by combining the elements listed above and adding on-costs.</p>	<p>Costs are held at Mapsite Level.</p> <p>The costs are split between tenants and leaseholders using the total GRV of all residents in the block against individual GRVs.</p> <p>Freeholders are charged on the same basis as tenants and leaseholders.</p>

Service Charge Bill Heading	What Costs are captured How are they captured	How costs are divided
Communal Energy	<p>Costs of energy supplied to components in communal areas including (but not limited to) communal lighting, lifts and door entry systems.</p> <p>Cost per unit is determined by the rate agreed within LBTH's bulk buying of energy.</p> <p>Number of units consumed is calculated using meter readings</p> <p>The total costs are determined by combining the elements listed above and adding on-costs.</p>	<p>Costs are held at Block level.</p> <p>The service applies to all residents. The costs are split between tenants and leaseholders using the total GRV of all residents in the block against individual GRVs.</p>
Boiler Fuel	<p>The cost of fuel for communal boiler systems.</p> <p>Cost of fuel per unit is determined by the outcome of LBTH's procurement of fuel.</p> <p>Total volume purchased is determined by demand.</p> <p>Total cost is units purchased x unit price plus on-costs.</p>	<p>Costs are held at Communal Heating System Level (this means that all the customers served by the same communal heating system will be grouped together)</p> <p>The service applies to all residents. The costs are split between tenants and leaseholders using Boiler Points. Alternatively where a scheme has been approved the calculation will be by an alternative method that does not alter the split of costs between tenants and leaseholders but does split costs more equitably with reference to the actual or estimated usage per dwelling.</p>
Concierge Service	<p>The total cost of the Concierge service will be the actual cost of the concierge service (including items such as dog patrols) plus any on-costs</p>	<p>Costs are held at the level of the Concierge Service Group. This means that all the properties being served by one concierge or team of concierges will be grouped together.</p> <p>The service applies to all residents. The costs are split between tenants and leaseholders using the total GRV of all residents in the block against individual GRVs.</p>

