

Service Charges Setting and Review Policy

1.0 Policy statement

1.1 Stonewater sets service charges that:

- comply with legal, regulatory, and contractual requirements, including any specific terms set in tenancy agreements or leases
- are based on the true cost of the provision of services
- have affordability at the heart.
- deliver value for money for our customers
- are transparent, easily explained and accountable to customers

1.2 With continuing pressures from the rising cost of living and the challenges this places on our customers, it is vitally important that Stonewater is able to continue to provide an affordable option of housing to the open market.

1.3 As service and estate charges make up a significant part of customers' overall housing costs, the provision of services to our homes and wider schemes and the charges associated with these play a key role in helping Stonewater provide value for money.

1.4 As a not-for-profit organisation, Stonewater does not make a penny of profit from service charges. We must ensure that we are able to recover the full costs incurred in the delivery and management of services provided to enable us to continue to deliver these to our homes.

1.5 This policy supports the delivery of service charges in an accurate and transparent way for customers, ensuring we are able to communicate effectively with customers and key stakeholders.

1.6 In this policy, the term “leaseholder” is used where the matter only applies to leaseholders, and “shared owner” is used where the matter only applies to shared owners. The term “homeowner” is used where the matter applies to shared owners, leaseholders or freeholders.

1.7 The term “service charge” is used throughout. In the case of freeholders, the more common term used is “estate charge”; any reference to “service charge” is synonymous with “estate charge”.

1.8 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 these documents will take precedence over this policy.

2.0 Policy scope and objectives

2.1 This policy sets out how we set, review and manage our approach to services delivered to, and paid for through service charges on intermediate rent, social rent, leasehold, Shared Ownership, freehold, and commercial properties owned by Stonewater.

- 2.2 This policy does not apply to properties let at Rent to Buy, market rent or affordable rent where service charges are included in the rent.
- 2.3 This policy covers the application of both fixed and variable service charges.
- 2.4 It applies to all tenancies, leases and transfers of properties owned and directly managed by Stonewater where the occupancy agreement specifies a requirement for payment of a service charge.
- 2.5 This policy covers the application of estate and service charges for all residential homes, including general family and sheltered rented accommodation; supported housing, Shared Ownership and other leasehold/freehold homes and also properties under our commercial portfolio including commercial units.
- 2.6 The key objectives of this policy are:
- To ensure that the services we provide are required, affordable and provide value for money to customers whilst ensuring we are meeting the overall service need, and our legal and regulatory obligations.
 - To adopt a consistent approach to the calculation, apportionment and recovery of service costs from all homes and customers within the scope of this policy, subject to the requirements of individual occupancy agreements.
 - Where possible, to minimise year-on-year fluctuations in the level of service charges, providing customers with security of long-term tenancy sustainability.
 - To ensure that service costs and charges meet necessary legal requirements.
 - To consult with customers, where appropriate, in determining what services are provided, the standards they are provided to, and where possible how they are provided and by whom.
 - To regularly assess the quality, effectiveness and cost of the services provided. To keep customers informed about our performance against the agreed standards and how they can work with us to improve standards where we fall short.
 - To ensure that service charges meet all reasonable costs incurred in the provision of services.

3.0 Regulatory and legal considerations

3.1 This policy takes into account the following legislation:

- 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 Policy Statement on Rents for Social Housing 2019 (updated 2022) and the Rent Standard
- Affordable Housing Programme 2021 – 26

3.2 The policy takes account of the Government’s Policy Statement on Rents for Social Housing (updated December 2022) and the Rent Standard. This includes the following expectations: that Registered Providers set reasonable and transparent service charges which reflect the service being provided to tenants and that Tenants should be supplied with clear information on how service charges are set. For social rent properties, service charges should be identified separately from the rent charge.

3.3 The policy also takes account of the following:

- Universal Credit Regulations 2013. This defines what is meant by a service charge for the purposes of benefits paid under Universal Credit.
- Affordable Homes Programme 2021-26 this includes the Right to Shared Ownership and the revised model lease for Shared Ownership which sets out clearer information about service charges.
- Fire Safety Act 2021 and the Fire Safety (England) Regulations 2022 which 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.

4.0 Policy details

4.1 Overview

4.1.1 Service charges cover the cost of all legally eligible expenditure attributable to an estate, scheme or block for additional services and facilities we provide to customers which are not deemed to be covered by the rent, under the tenancy agreement or lease. The services may be related to the specific communal facilities associated with the property or the wider scheme/estate on which is it located.

- 4.1.2 The additional services enable us to look after the areas of the building or estate we're responsible for. The services can include but are not limited to repair, maintenance, servicing, insurance and the general management of buildings, estates, and communal areas.
- 4.1.3 Service charges are strictly limited to covering the cost of providing the services. In the case of home ownership homes, the cost of providing services may also include a management charge.
- 4.1.4 In most cases what Stonewater is able to do in relation to service charges is prescribed by legislation, regulation and customers' tenancy agreements or leases. Sometimes it may also be in a condition of funding from the Government or local authorities. Most of our service charges for tenants, including most tenanted customers are 'fixed'. However, freeholders, leaseholders and shared owners are "variable" and some rented customers on legacy agreements are 'variable'.
- 4.1.5 We will account for the cost of all service chargeable services provided to the properties. We will do this at estate, scheme, or block level as appropriate, and then allocate the cost between the properties that receive the service.

4.2 How we set charges

4.2.1 Service charges calculations

- 4.2.1.1 Service charges will be calculated annually, in line with the terms of the occupancy agreements. In doing so, we will ensure the amount is reasonable.
- 4.2.1.2 Service charges will be based on known scheme or development costs, and where estimates or projections are required, these will be based on existing developments of a similar size and service charge profile.
- 4.2.1.3 Annual budgets will be set for service charge costs and income and expenditure, at scheme or development level where possible. Alternatively, a reasonable distribution of costs will be applied based on the likely proportion of costs attributable.
- 4.2.1.4 We will set fixed service charges in accordance with the relevant terms of the tenancy agreement, and where applicable, Section 13 and Section 14 of Housing Act 1988. Once the charge has been set, any variation between the actual cost and the estimated cost at the end of the year is absorbed by Stonewater.
- 4.2.1.5 We will set variable service charges in line with the Landlord and Tenant Act 1985, at the beginning of the scheme's accounting year and will send customers a service charge estimate. The estimate for the year is usually applied to customer accounts in twelve monthly amounts but this may differ depending upon specific lease or transfer documents.

4.2.2 Variable service charge

- 4.2.2.1 We will meet the requirements of the Landlord and Tenant Act 1985, as amended, if the service charges are variable.

- 4.2.2.2 At the beginning of the scheme's accounting year, we will send customers a service charge estimate. As soon as practical, after the accounting period has ended, we will review the accounts to perform a reconciliation, comparing the estimated cost to the actual cost of services provided.
- 4.2.2.3 Stonewater will meet legal requirements by providing all customers a breakdown of the costs incurred in the previous accounting period and the revised service charge budget.
- 4.2.2.4 Any under or over recovery will be applied to the customer account. Stonewater will work with customers under the terms of their individual agreement terms and their personal circumstances to agree a repayment period for any amount outstanding. Refunds to tenants will be made if there is a large credit on the account.
- 4.2.2.5 Where required under the terms of the lease or legislation Stonewater will also provide audited accounts.

4.2.3 Homeowners and shared owners charges

- 4.2.3.1 There are some additional charges which are borne by homeowners only which include account audit or certification charges (where they are provided). Homeowners also pay costs associated with repairing the fabric of the building such as roofs and windows.
- 4.2.3.2 For new Shared Ownership properties developed under the Affordable Homes Programme 2021 to 2026, for a period of 10 years, we will meet the cost of certain building repairs which are not normally 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.
- 4.2.3.3 For leaseholders and shared owners, the cost of service charges also includes the cost of buildings insurance.

4.2.4 Sinking funds

- 4.2.4.1 Sinking funds are a provision for replacing, or sometimes repairing, high value items so that customers do not have to pay out a large lump sum in one go. Sinking funds are also referred to as "reserve" funds.
- 4.2.4.2 Relevant items may include roofs, lifts, and window replacements. Where the lease requires us to do so, we will include an amount to be placed in a sinking fund to contribute towards the cost of future major works, or whatever the lease specifies as permitted expenditure.
- 4.2.4.3 Some tenancies also require sinking fund contributions.
- 4.2.4.4 The calculation of any necessary sinking fund or provision for future maintenance will reflect the actual costs anticipated for the development, taking account of anticipated remaining lifespans and will be reviewed on a 5-year cyclical basis or time frame appropriate for the assets of the scheme.

4.2.4.5 Where the actual cost of major works is included in the service charge, the cost will be offset by the sinking fund contributions in the first instance where it is available, and it is appropriate to do so. Any remaining balance of costs will be passed onto customers through their reconciliation.

4.2.4.6 All monies held under a Sinking fund, are held in a separate interest-bearing account which is accounted for to customers annually as part of their overall Service Charge Review pack.

4.2.5 Apportionments

4.2.5.1 We will apportion costs between homes on an estate, or in a scheme or block, as set out in the tenancy agreement or lease or otherwise on a fair basis. In doing so, we will ensure the amount set is reasonable, as required by the Landlord and Tenant Act 1985.

4.2.5.2 The apportioned amount will represent a fair and proper proportion of the costs incurred. Customers on new developments and resold Shared Ownership properties will be given a service charge apportionment schedule as required under the funding agreement.

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

4.2.5.4 Apportionments of costs are attributed to each customer whether or not customers choose to make use of the facility to which the service and associated charge applies because that facility is maintained for their benefit and available to them to use if they choose to.

4.3 Affordability

4.3.1 Ensuring affordable charges

4.3.2 We aim to set service charges that are affordable and provide long term sustainable tenancies. We will do this through the following actions.

4.3.3 Designing new homes

4.3.3.1 Stonewater will only build new homes where any services that are provided and charged for are within the scope of the objectives of this policy.

4.3.3.2 In constructing homes, Stonewater's specification and design requirements will place an emphasis on 'designing out' unnecessary chargeable services. Where chargeable services are necessary to provide sustainable homes there will be a focus on ensuring long term affordability and providing value for money. This may include the review of what charges are passed onto customers or how Stonewater may contribute to costs, for example for homes provided off of mains grid water and utility supply.

4.3.3.3 Our scheme and service design will take into account environmental factors providing the most environmentally sustainable options wherever practically possible in terms of design and cost.

4.3.4 Procurement of services

- 4.3.4.1 Services paid for by service charges will be procured in compliance with the Sustainable Procurement Policy.
- 4.3.4.2 We will ensure that customers paying service charges are actively involved in the procurement arrangements for their scheme or development, and that the customer voice is taken into account when deciding the standards to which the contractor or service provider should be working.
- 4.3.4.3 We will aim to utilise economies of scale to deliver value for money by bulk buying services where we are able to do so.

4.3.5 Subsidisation of services

- 4.3.5.1 Stonewater is committed to providing homes across a wide geographical area. Noting the need for affordable housing in rural areas, many schemes that Stonewater owns, and continues to develop will be in areas which are unable to be connected to mains water and sewerage services.
- 4.3.5.2 Where this is the case, Stonewater will provide sewerage systems & supplies, the cost of which will be charged back through service charges. We will ensure that no rented customer is put at a disadvantage of an 'off grid' sewerage supply by setting charges at a fixed rate in line with the national average of mains water supply for the size of the home. This charge matrix will be reviewed annually.
- 4.3.5.3 For variable rented service charge customers, the charge levied will be the lower of the fixed rate charge and the actual cost of service delivery.

4.3.6 External market pressures

- 4.3.6.1 We will aim to provide realistic estimates on the charges expected to be incurred, including accounting for any inflationary uplifts we anticipate and seek to manage potential cost increases appropriately so that customers are clear on their likely ongoing costs.
- 4.3.6.2 In exceptional circumstances, Stonewater's Board may consider the recalculation of service charge estimates for both fixed and variable service charges where external market pressures result in a significant variation in cost which may otherwise result in a substantial over or under recovery by Stonewater.

4.3.7 Customer service charge account management

- 4.3.7.1 Stonewater will assist customers to manage their own service charge account by:
 - Giving customers at least one month's notice in writing before collecting the new service charge amount.
 - Providing online access to accounts and statements when requested so that customers may closely monitor their account level.

- Refunding promptly overpayments upon request so that customers are not paying more than they should.
- 4.3.7.2 Where customers may face hardship due in part to service charge increases, we will work with them to support them on an individual basis assisting them to review their finances, signposting them to support through organisations such as Longleigh, Cleanslate and StepChange and in exceptional circumstances entering into a flexible payment plan.
- 4.3.7.3 Arrears of service charge
 - 4.3.7.3.1 Stonewater will ensure that customers understand the importance of regular service charge payments, and wherever possible work with them to avoid the escalation of debt, in accordance with the Income Management Policy.
 - 4.3.7.3.2 Where required to do so we will liaise with mortgage lenders to comply with the Shared Ownership model lease mortgage protection clause.
 - 4.3.7.3.3 Where a customer makes a partial payment of the total rent and service charge due this will be apportioned to rent and service due as Stonewater sees fit.
- 4.3.8 Migration of variable service charges to fixed service charges
 - 4.3.8.1 We understand that with the continuing cost of living challenges, it is important that our customers have access to security of costs and assurance of budgeting. As such Stonewater may permit the migration of all social and intermediate rent tenants at a scheme sharing a variable service charge account to move to fixed service charge accounts following consultation and where necessary a new signed agreement or deed of variation.
 - 4.3.8.2 The migration to fixed service charges is to ensure consistency and to enable us to better estimate expected income from this revenue stream as well as provide customers with long term budgeting.
 - 4.3.8.3 All new tenancies will be let with fixed service charge covenants inserted into tenancy agreements where legally possible and appropriate.
- 4.4 Customer involvement
 - 4.4.1 Stonewater is committed to involving all customers in the decisions and choices about which services are provided, the way that they are provided and the standards that should be met. Within the framework of the Voice of the Customer Strategy, we will work to agree both national and local standards.
 - 4.4.2 In particular:
 - We will involve customers in setting and reviewing standards.
 - We will involve customers in the monitoring of service standards, actively collect information from them as to their satisfaction with the services provided and use the information to improve the quality and value of the services provided in the future.

- We will provide customers with clear, easily understood information about the services being delivered.
- 4.4.3 If we seek to add a new service that we have a statutory obligation to provide and time restrictions do not permit full consultation, we may limit our consultation with customers who may be potentially affected. This includes, but is not limited to, fire safety work. Instead, we will engage and communicate with those customers if, and in the way, it is most suitable and reasonable to do so.
- 4.4.4 Where we identify any customer(s) significantly impacted by the annual increase in service charge costs we will look to engage with them, to help them understand the reasons for the increase, their views, the impact on them and how Stonewater may support them. We will also seek their views about achieving value for money and on the level and quality of services provided.
- 4.5 Section 20 consultation
- 4.5.1 We will normally consult tenants and homeowners on service charges whenever the anticipated cost of service chargeable services or works meets the relevant cost threshold set by the government. This is in compliance with the requirements set out in Section 20 Landlord and Tenant Act 1985 as amended by Section 151 Commonhold & Leasehold Reform Act 2002.
- 4.5.2 We will also consult all customers who may potentially be affected whenever a proposal is made to seek changes to services provided. This includes where we seek to introduce new services or extend existing services, and an additional charge needs to be made. This also includes where we propose to reduce or remove an existing service.
- 4.5.3 Where Stonewater is unable to carry out the full procedure of consultation detailed in Section 20, for example due to emergency works, we will consult with customers as much as possible and either apply for dispensation to charge full costs or cap the charge applied to the maximum allowed under the relevant works type.
- 4.6 Customer information
- 4.6.1 New customers
- 4.6.1.1 All new Stonewater customers will be advised of the estimated service charge costs as part of the information pack provided for the home at the earliest stage possible to ensure they have all the information required to make an informed decision. This will be clearly identified separately to any rent charge.
- 4.6.1.2 Where the customer is moving to a rented home, this service charge cost will normally be 'fixed'. Where the customer is moving to a Shared Ownership, leasehold or freehold home this service charge costs will be 'Variable'. Customers will be provided with a guide detailing the type of service charge they have and how this is calculated and reviewed annually.
- 4.6.1.3 Where Stonewater acquires new homes with existing customers from other Landlords, we will continue to use the same service charge regime that the

customer is paying under their agreement with the previous provider. We may move the home onto a 'fixed' service charge when the property is re-let to a new tenant even if the previous tenant was paying a variable service charge under the legacy provider. This is what is typically stipulated under our current standard tenancy agreement.

4.6.2 Existing customers

4.6.2.1 All customers will be provided with a service charge review letter annually. This will include the cost of service chargeable items for their home, apportioned to the individual property to which the letter refers. For variable rented customers, this will also include details of the overall costs for the estate, scheme or block.

4.6.2.2 Customers are provided with a range of supporting documents, including a guide to their appropriate service charge type, frequently asked questions and help with money financial assistance overview.

4.6.2.3 Stonewater will work with any customers who require support with the calculation of their service charge. We will provide customers paying variable service charges access to relevant records if they wish to inspect these. We will do so in accordance with Section 22 of the Landlord and Tenant Act 1985.

4.7 Failures in service delivery

4.7.1 We will regularly monitor contractor and service provider performance and their compliance with agreed specifications using customer involvement.

4.7.2 We will take prompt action where a contractor or service provider fails to perform to the contract standards and specifications. Where we can, we will impose financial penalties for non-compliance, unless in the view of Stonewater there are extenuating circumstances to be considered. In instances of repeated and proven under performance we will seek to terminate contracts.

4.7.3 Stonewater may look to compensate customers where there is sustainable non-delivery or under performance by a contractor or service provider, for which they pay a service charge, resulting in a material impact on the customer and how they are able to use their home or wider scheme. This may equate to compensation to the value of the service charge paid for the period over which the service has not been delivered to the standard required. Full details are outlined in our Compensation Policy.

4.8 Complaints

4.8.1 Complaints from customers made about service charges are dealt with in accordance with our Complaints Policy.

4.8.2 We will try to resolve service charge queries and issues as quickly as possible, although complex enquiries may take longer. Where we get something wrong, we will apologise, correct any errors, and credit service charge accounts as required. We will refund amounts in accordance with the individual customer's tenancy agreement or lease with us. Where this will

result in a large credit on a rent account, we will proactively work with customers to withdraw funds.

- 4.8.3 In exceptional circumstances we may review other remedies to resolve the issue.
- 4.8.4 Customers may have the right to complain to the Housing Ombudsman Service or First Tier Tribunal (FTT) depending on their agreement type, who have the authority to deal with some complaints regarding service charges. We will signpost customers to the appropriate governing body if the matter is outside of the jurisdiction of our complaints process.
- 4.8.5 The Housing Ombudsman is able to deal with some, but not all service charge complaints. The service charge complaints they can deal with include dissatisfaction or disputes about how service charges are set or managed, the collection of service charges, their calculation and how the information was communicated.
- 4.8.6 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 the 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 – for some assured periodic tenancies, the FTT has jurisdiction to set the service charge at the market rate. The FTT also has jurisdiction for setting fixed service charges at the market rate for Fair Rent tenancies

5.0 Service standards

- 5.1 Compliance with this policy and the relevant Service Charge legislation and regulations will be monitored by the Chief Officers Group.
- 5.2 Service Charge Analysts are responsible for the calculation of Service Charges, creating new service charges and the peer review, quality checking and approval of service charges prior to issue.
- 5.3 Due to the complexity and specialised nature of certain schemes the Director of Wellbeing will be consulted on finalised accounts before they are approved for issue.
- 5.4 Stonewater will undertake external auditing of accounts for those required to do so under the terms of the lease, details of the compliance and certification will be provided to customers.
- 5.5 Stonewater will undertake independent service charge sample auditing as required to afford assurance of compliance on a range of tenure types annually.
- 5.6 Stonewater will monitor the impact of service charge recovery and setting and provide an annual report to the Board for consideration in the setting of charges, including a review of any substantial over or under recovery.

5.7 Stonewater's Board will approve the parameters used to calculate service charges annually, including any decision to limit the full costs being recovered.

6.0 Equality, diversity and inclusion

6.1 We will apply our residential service charges policy consistently and fairly and will not discriminate against any person on grounds of their age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation or any other matter that may cause a person to be treated with injustice.

6.2 The needs of vulnerable customers where their vulnerability affects their ability to make payments will be considered in accordance with the Pre-Action Protocol for possession based on rent arrears and the Equality Act 2010.

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