

Briefing Note: Landlord's Introduction to Service Charges

An Introduction to the Briefing Note

Legislation protects residential tenants from excessive service charges. Before entering into contracts to provide services or carry out works relating to residential properties, you should consider whether you need to consult with your tenants. If you fail to consult when required, you will only be able to recoup the statutory maximum, without dispensation from the Leasehold Valuation Tribunal (LVT). This briefing note sets out some basic information on the subject but should not be relied upon as legal advice. You should contact us for advice on your specific circumstances.

What is a service charge?

A service charge is an amount payable:

- By your tenant as part of, or in addition to, their rent.
- Directly or indirectly for:
 - services;
 - repairs;
 - maintenance;
 - insurance; or
 - management costs.

Service charges may vary according to the costs or estimated costs incurred in connection with the matters for which the service charge is payable.

Service charges must be reasonable

You can request that your tenant pays you a service charge for costs you incur for:

- Services.
- Repairs.
- Maintenance.
- Insurance.
- Management.

However, the costs must be reasonably incurred and the work or services must be of a good standard.

Your tenant can challenge service charge costs

Your tenant can challenge service charge costs by asking the LVT to determine whether:

- The service charge costs were reasonably incurred.
- The services or works are of a good standard.
- An estimated service charge, payable before costs are incurred, is reasonable.

Briefing Note

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Summary:

This short guide explains the basic principles on the subject of the recovery of service charges.

For detailed advice on all commercial litigation matters please contact:

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When is a consultation required?

You must consult with your tenants if either:

- The amount payable by any one tenant for services to be provided under a qualifying long term agreement (QLTA) will exceed £100 in any one year. A QLTA is an agreement entered into by you or a superior landlord, for a term of more than 12 months.
- The cost of work on the building or other premises will exceed £250 for any one tenant.

What are the consultation requirements?

You must:

- Give notice to your tenants and to any recognised tenants' association (RTA), explaining why the proposed works are necessary. You must invite written observations on the proposals and take note of any responses.
- Obtain estimates. Your tenants and the RTA have a right to nominate alternative contractors and you are obliged to ask for an estimate from the nominated alternative contractors.
- Issue a statement setting out the estimated costs from at least two of the estimates with a summary of the written observations you received and your responses to them.
- Provide a notice:
 - Setting out when and where all the estimates can be inspected; and
 - Inviting written observations on the estimates within 30 days of the date of the notice.You must take note of any written observations provided.
- Give reasons for selecting the successful contractor.

The LVT has the power to dispense with the consultation requirements if it is satisfied it is reasonable to do so.

What are the penalties for failing to comply with the consultation requirements?

If you do not comply with the consultation requirements, and the LVT does not decide to dispense with the requirements, your ability to pass on costs to your tenant will be limited. The **maximum** that you will be able to recover is:

- £100 for each tenant for each year for QLTA's.
- £250 for each tenant for qualifying works.

If you would like to know more about this topic or our other legal services, please contact Jeremy Laws on 01323 435900 or by email jpl@gabyhardwicke.co.uk

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