

Are your service charges too high?



Sebastian Church FCA

I recently read an article in “News on The block” (By David Goldberg of Chesterton Humberts) asking this question and thought it would be interesting to address this issue from the perspective of Remus’ customers.

It is easy to moan about how much your managing agent is charging, but have you considered what your service charge goes towards?

Some Residents get confused about what Remus is charging and what Remus is collecting on behalf of the property. Service Charges are not the amount you are paying Remus to look after your development. Our fee is a small part of the Service Charge, normally about £150 per year (put another way less than £3 pounds a week or about the same as a pint of Beer) per flat. The bulk of the annual service charge pays for the upkeep of the communal areas and services at your property. Not forgetting that 20% of just about everything goes directly to the Government as VAT and Insurance Premium Tax (IPT).

So why does it cost so much to live in a block of flats?

Your lease details what you are paying money for and when, whether you (or for that matter Remus) like it or not! For example, you may be paying towards a lift despite living on the ground floor because it is written in your lease.

It’s the Insurance?

Usually the largest single item (that is paid every year as opposed to major repairs and redecorations that are carried out every 5-10 years) is the Building’s Insurance. This has to be a shared expense. If the second floor flat forgot to get its insurance and then had a fire it would have an effect on the all the flats above it, with no insurance everyone would be in trouble. Therefore the building must have one global policy for the whole building, the cost of which is the shared amongst the residents.

Transfers to Reserves?

Your lease will also describe the frequency of cyclical maintenance (major repairs and redecorations that are carried out every 5-10 years). Unlike owning a self contained freehold property, you cannot delay works because you don’t have the money. There is an obligation to carry out the work and your annual service charges should include a reserve fund (if allowed) to enable funds to accumulate to meet many future requirements.

Age of Your Building

For some new build flats initial service charge fees are unlikely to reflect the full ongoing cost of maintenance once the warranties run out and the facilities start to age. A new building is anyway cheaper to run during its first decade than in any future decade as lift repairs and roof repairs start to become inevitable.

Red Tape and Bureaucracy

There are many mandatory requirements you would not think about in a private freehold property (or have to comply with), but they have a direct impact on cost. For example health and safety compliance, maintenance required by insurers, maintenance of an Asbestos Register, maintenance of Fire Risk assessments, compliance with Working at high regulations, compliance with Disability legislation, employment law, statements of rights and responsibilities in respect of service charge demands (in English and Welsh) and all sorts of compliance with Public Liability insurance in order to stop the ambulance chasers bankrupting either you or us.

The methods required for residential block maintenance mean managing agents cannot always use the same contractors as a private freehold properties might. Managing agents have a duty to ensure contractors have proper insurance, comply with health and safety and have the knowledge and expertise to carry out the work, especially when working at height along with money laundering regulations to ensure they are pay their taxes / VAT if relevant.

I know at my home I often get quoted a different price for cash, Remus cannot take advantage of these types of deals.

What can be done to help bring the costs down?

Much of the controllable expenditure occurs on minor repairs and maintenance that could be avoided if residents took more care. The bill for reactive repairs cannot be accurately predicted when budgets are set and will also be the thing most likely to create an extra bill at the year end.

Lights in Common Parts

Theft of light bulbs from the common hall ways, for instance, is a constant problem. For Health and Safety Reasons as well and residents need to have properly lit corridors we have to replace them as soon as possible (once we are aware) this will mean calling out a local contractor and though the light bulb may only cost £5, call out and travel charges may mean it ends up cost £30 to change a light bulb.

Bin Stores and Refuse Areas

Bin Stores are another area of issue, it only takes 1 resident being careless with their rubbish and pretty soon the bin store can be a maggot infested stinking mess. This will result in professional cleaners needing to be called in. The residents could cut this cost by taking care of their waste in the first place. But even allowing for some less charming neighbours, if you pitch in and sort out the waste (before it becomes maggot infested) that has not been properly disposed of you will be saving everyone a small fortune as well as making a nicer environment.

Residents need to act like a House Owner would

Residents need to take some responsibility. When I walk down a drive or path and see a weed I pull it out, yet many residents seem not to notice, right up to the point when they start complaining about the charges for removing the weeds. How about a residents' rota to do the gardening, a residents' association is a brilliant group for organising such works. What about someone taking responsibility to remove the pizza adverts and other junk mail and put it in the recycling rather than just stepping over it.

Planning, a stitch in time saves 9

Regular, preventative maintenance is the best way of keeping unexpected costs at bay. For example, regular maintenance of equipment can prolong its useful life and limit expensive call outs when they do fail.

Spreading Costs and Scheduling Works

Spread the costs of large scale projects evenly over the years via reserve/sinking funds (if your lease allows). In addition why not use rolling schedules of works, so rather than doing all of the internal painting in one year you could do the top floor one year the middle floor the next and so on. You could be even more creative with, the entrance floor is used by all flat, but the top floor will only be used by the flats on that floor, so why not do the downstairs redecoration more regularly than the upstairs to get the most bang for your buck.

If you don't have a reserve/sinking fund in your lease why not create one. Unfortunately voluntary ones do not work people move and then want their share back or don't contribute and cannot be chased for their contributions. But you can always apply to the LVT to have your leases varied to include a reserve. As long as everyone support the idea it is pretty easy to do and your property manager can certainly sort this out.

Communication

Finally, talk to your property manager! Flat living is about a partnership. Remus need to know when things go wrong, as they don't live on site and may only visit on a monthly (or quarterly for smaller blocks) basis. The faster issues are reported, the easier and cheaper they are to fix, reducing the impact for everyone involved. Your input is also vital so we know what is important to you. In smaller blocks this is often best done by everyone getting together in a meeting (what about a lunch time conference call – many of us have better things to do in the evenings and this could save a lot of time) for larger blocks a Residents Association is a great forum for decision making (the forms to set one up are available on our website (www.Remus.uk.com)).