

The Money – Service Charges & Ground Rent

Ground Rent

When you purchase a leasehold flat, you purchase the right to live there for a given number of years (“the term”). Ground Rent is charged by the freeholder as rent for the land on which the block is built.

The amount of Ground Rent payable, will be set out in the lease. It may only be a nominal amount sometimes referred to as ‘peppercorn’ or it may be something reasonably substantial.

The lease will also set out how the Ground Rent is to be increased over the period of the term. These increases are called rent reviews. The rent reviews may set an exact amount for the increased rent or may set out some mechanism for agreeing the level of increase.

How often Ground Rent is charged will again be set out in the lease. It may be annually, half yearly or quarterly and will be demanded by the Freeholder using a prescribed form of words.

Service Charges

Service charges are monies collected to maintain the structure of the building and common parts and cover the cost of any services provided. These include; repairs, cleaning, lift servicing, gardening, on-site staff, utilities, buildings insurance, managing agent’s fees, in fact any service that is provided under the lease.

The lease will dictate what service charges cover, when they are requested and how they are accounted for. Under legislation, the money is held in trust by the Managing Agent or Landlord for the benefit of the building. Except for the management fee, the money does not belong to the managing agent or landlord and must be accounted for separately.

Most leases state that a budget should be produced at the start of the service charge year. This is an estimate of what is likely to be spent during the course of the year and is prepared by the Managing Agent, Residents’ Management Company or landlord; depending on the lease. The amounts you pay will be a proportion of the total. The lease will set out what percentage you are responsible for and the frequency of payments. At the end of the service charge year, accounts should be produced to show how the money has been spent and whether it is higher or lower than the budget estimate. The lease will say how any underspend/overspend is to be dealt with.

Other Guides:

- Glossary
- What is a Lease?
- Who is who in a block of leasehold flats?
- Who has responsibility for what?
- Carrying out alterations or improvements
- What costs will I have to pay each year?
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- Reserve & sinking funds
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- Your leasehold home – making a complaint

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If you are unhappy with the amount of service charges you are being asked to pay or the level of service that is being delivered, a leaseholder has a legal right to challenge the Service Charges in the First Tier Tribunal (Property).

Reserve Funds/Sinking Funds

This is money collected regularly towards major works which will be due over the years, for example, external redecoration or lift replacement. It is collected over several years so that there is not a huge spike in the amount needed in the year when the works are carried out. All reserve / sinking fund money must be kept in a trust account. The lease will set out whether the landlord can set up a reserve / sinking fund and what the money can be spent on. It is best practice for the landlord to have a five or ten year major works plan (for larger developments this may cover a much longer period) against which contributions are collected.

Read your lease, it sets out all of the rights and obligations of each party in detail.

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