

MEMORANDUM

To Woodberry Service Charge Workshop

From Berkeley Homes (NEL) Ltd **Reference**

Subject: Reserve Fund Memo

Further to our recent meeting, please find below information on the reserve fund;

Reserves (Sinking Funds)

Reserves and Sinking Funds are terms which are used interchangeably for the collection of a fund, held separately to the service charge, for large-scale and cyclical maintenance projects.

The private leases at Woodberry Down allow the landlord to collect a reserve, the purpose of which is to spread the costs of 'use and occupation' as evenly as possible throughout the life of the lease to prevent penalising leaseholders who happen to be in occupation at a particular moment when major expenditure occurs.

Major expenditure includes major works, cyclical works or replacing expensive plant such as lifts, CHP plant, communal boilers etc.

Collecting a reserve is considered good practice in accordance with the RICS Service Charge Residential Management Code and the Association of Residential Property Managing Agents (ARMA). It also limits large one-off bills for the leaseholder and provides greater financial security for the development and the tenant by spreading the cost over a number of years.

Where there are insufficient reserves in place, leaseholders will be charged the balance through the service charge, usually in advance as and when works are planned and considered required.

Contributions to the reserves must be reasonable and, because they are just like any other service charge item, the leaseholders have the same right to challenge them at the tribunal if they believe they are unreasonable.

The reserve fund contribution, along with the rest of the service charge budget is reviewed annually. To make sure reasonable reserves are collected a Capital Expenditure Report (CAPEX), or a Cyclical Maintenance Report, as carried out by a qualified surveyor or professional, is used to estimate the costs of replacements and renewals over their estimated life span. Typically, a CAPEX or Cyclical Maintenance Report is completed within the first three years of a development becoming live, in most cases the CAPEX is completed in year one and reserves are collected from the first service charge invoice.

Setting reasonable reserves is a balance between estimating what large expenditure is likely to occur and forecasting when it is likely to be required. Consideration also needs to be made with regards to what is a reasonable sum to charge leaseholders on an annual basis alongside the rest of their service charges.

To protect reserve funds Section 42 of the Landlord and Tenant Act 1987 states that reserves and sinking funds must be held in trust and in an interest earning account (interest accrued for the benefit of the service charge). Service charge payments must be ring-fenced and kept separate from the landlord and managing agent's own money and must only be used to meet the expenses for which they have been collected. Further, any expenditure using the reserve in any service charge year must be authorised by the landlord prior.