

BLOCK MANAGEMENT DIVISION

FREQUENTLY ASKED QUESTIONS

The management of leasehold flats and freeholds is not easy to understand. To anyone who is new to this field and the associated terminology, we suggest you read the following questions and answers in the order in which they are presented:

Summary of Questions Covered:

What is a Freeholder?

What is a Leasholder?

What is a Block Management Agent?

From whom does the Block Management Agent take instruction?

What is Service Charge?

What is a Sinking Fund?

What type of services will a Block Management Agent carry out on behalf of the Freeholder and specifically what do my Service Charge payments cover?

How is my Service Charge calculated and apportioned?

When do I have to pay my Service Charge?

I am selling my property. Do I still have to pay my Service Charge?

Can I withhold payment of Service Charge if I am not happy with the way the estate or block of flats is being managed?

How do I make a complaint if I am not happy with the service my Managing Agent is providing?

Where is my Service Charge banked?

How can I see what my Service Charge has been spent on?

The Adderstone Group is a group of businesses under common ownership linked together for practical and marketing purposes. The main trading business is Adderstone Group Ltd, which comprises the following Divisions:

Development Division

E: development@adderstonegroup.com

Construction Division

E: construction@adderstonegroup.com

Property Management Division

E: propertymanagement@adderstonegroup.com

Block Management

E: blockmanagement@adderstonegroup.com

Trading Division

E: trading@adderstonegroup.com

General Enquiries

E: office@adderstonegroup.com

What type of problems should I report to my Block Management Agent?

What is Ground Rent?

What happens if I don't pay my Ground Rent?

Q: What is a Freeholder?

A: The person or company who owns the land on which your house or flat was built.

The person could be:

- A private individual who invests in Freeholds
- A property investment company that owns a portfolio of Freeholds
- The developer who has retained the Freehold as an investment after selling all flats or houses or (in the case of flats only)
- A non-trading Management Company that acquired the Freehold from the developer on completion of the last flat sale, whose shares are owned by the flat owners.

In theory, the Freeholder does not just own this land but everything underneath it (down to the centre of the earth) and also the airspace above it (up into space).

The Freeholder owns this volume of land and air, 'subject to' the lease you have bought over the portion of airspace that your house or flat occupies. Because the Freehold is 'encumbered' by your lease and other leases (ie cannot be sold without the leases), its value is nominal in comparison to the value of the leases. The Freeholder is really only entitled to collect ground rents, however, the value of the Freehold increases slowly and slightly as your lease gets closer to ending.

House owners can in theory own the Freehold as there is not another house above or below their house. Flat owners cannot own the Freehold to their flat. Sometimes flat owners acquire shares in the non trading company that owns their Freehold when they buy their flat.

In legal documents and leases, the Freeholder is sometimes referred to as the Landlord. This can be misleading as Leaseholders or owners of Leasehold flats or houses are often referred to as Landlords also.

Q: What is a Leaseholder?

A: A Leaseholder is the person who owns a long lease (as opposed to a short lease or tenancy) over a house or a flat. In legal documents, Leaseholders are sometimes referred to as Lessees.

Q: What is a Block Management Agent?

A: A Block Management Agent is instructed to manage the common parts and structure of an estate or block of flats. Your Block Managing Agent is Adderstone Group's Block Management Division.

A normal managing agent lets and manages tenants. A Leaseholder intending to let their flat out on a shorter term basis to tenants would deal with Adderstone Group's Property Management Division.

Q: Who does the Block Management Agent take instruction from?

A: The agent is instructed by the Freeholder (client) who may be a private investor, a property company or a Residents Management Company, which is a company owned by the Leaseholders. Sometimes the Freeholder is a company or business unconnected to the Leaseholders. Although we owe a duty of care to the Leaseholders, they are not our client and we do not take instructions from them.

Q: What is Service Charge?

A: The Freeholder has certain responsibilities (broadly speaking to maintain, keep safe and insure a building or buildings) under the leases granted to Leaseholders. The Freehold is typically of nominal value when compared to the cumulative value of the Leaseholds. Leases enable the Freeholder to ensure that the Leaseholders cover the costs incurred in maintaining, keeping safe and insuring the building or buildings as a whole.

The leases allow the Freeholder to collect money on account or in advance from the Leaseholders. Block Management or Estate Management can be complex and most Freeholders employ the services of a specialist Block Management Agent such as Adderstone to manage the maintenance, safety and insurance of the block or estate.

Also, the law affords Leaseholders significant protection from unscrupulous Freeholders. For this reason as well, Freeholders normally prefer to enlist the services of a reputable Block Management Agent. The professional body that regulates and monitors reputable Block Management Agents is known as the Association of Residential Managing Agents (ARMA) [[link to website](#)]. Membership is not yet compulsory so it is important to be particularly cautious if engaging an Agent that is not a member of ARMA or an equivalent professional body. Adderstone Group Limited is a member of ARMA.

The Service Charge is made up of money collected on account from Leaseholders. As such, it is important that this money is well managed and protected. The Agent must ensure that best value is obtained for the Freeholder (and so in turn the Leaseholders who ultimately foot the bill). The Agent must ensure that the Service Charge funds are protected or 'ring-fenced' in case the Freeholder or Agent goes bankrupt/or is wound up, for example. The Agent should hold the funds in an account known as a Client Account. It is important for all to understand that when a Leaseholder pays Service Charge this money is not taken as income by either the Freeholder or the Block Management Agent. The Service Charge contribution sits in the Client Account until the Agent has a need to spend it in a reasonable and professional manner.

The Freeholder is normally obliged under the terms of the lease to provide all Leaseholders with independently audited accounts to prove that the money paid on account by Leaseholders has been spent wisely. If a Block Management Agent is instructed by the Landlord, they will discharge the Freeholders obligations in this regard.

The Agent must also ensure that there are sufficient funds in the Service Charge account to maintain and keep safe and insure the building or buildings. The Agent must also ensure that there is sufficient money in the account to react to urgent or extraordinary maintenance requirements.

A good Block Management Agent can maintain and even enhance the value of flats or houses in a block or estate by managing and utilising Service Charge funds efficiently and professionally.

Q: What is a Sinking Fund?

A: It is important for the Freeholder or its/his/her Block Management Agent to plan ahead for major planned maintenance. This is a relatively specialist area and involves analysis of the economic life of various elements of the building.

Except perhaps on very new or smaller buildings, a portion of the Service Charge fund should be set aside with a view to building a Sinking Fund. Without an adequate Sinking Fund, Leaseholders may become exposed to demands for extraordinary expenditure that could become necessary.

An inadequate Sinking Fund, particularly on an older building can affect the market value or sale-ability of leasehold flats.

Q: What type of services will a Block Management Agent carry out on behalf of the Freeholder and specifically what do my Service Charge payments cover?

A: Services include:

Contractual Works

- Cleaning of the common parts
- Window cleaning
- Landscaping/gardening
- Car park management and maintenance
- Lift maintenance
- Fire alarm maintenance
- Security and access systems
- Refuse management
- Caretaking
- Boiler maintenance (where communal boilers exist)
- Water system maintenance
- Drainage
- Roof repairs
- Electrical issues
- General repairs and maintenance
- Decorating (long term maintenance)
- Carpet replacements (long term maintenance)
- Window replacements (long term maintenance)
- Appointing and managing contractual staff to undertake the above

Service Charges

- Drawing up Service Charge budgets to cover the cost of the above works and reviewing these on an annual basis
- Issuing Service Charge notifications and answering any questions from residents
- Managing payments received and payments made eg to contractors
- Following up unpaid Service Charges and appointing debt collectors and solicitors if necessary
- Providing reports on all aspects of Service Charge collection and associated payments
- Transferring a proportion of annual Service Charges into a Sinking Fund for the building (except perhaps in the case of very new or smaller buildings)

Financial

- Preparing year end accounts and tax returns

Buildings Insurance

- Organising buildings insurance including valuations
- Implementing claims when necessary and handling all associated paperwork
- Supervising major repairs covered by the buildings insurance policy

Site Inspections

- Carrying out regular site inspections
- Holding on-site meetings with residents and contractors when necessary

Legal

- Liaising with solicitors on any legal issue relating to the building
- Dealing with individual residents and landlords if the terms of a lease have not been followed
- Assisting with the enforcement of the terms of a lease and if required, instructing solicitors if a lease is continually breached
- Dealing with solicitors' enquiries regarding any sales and providing all requisite paperwork

General

- Providing regular reports including minutes of any meetings to Freeholders and Management Companies
- Undertaking risk assessments for communal areas to comply with Health and Safety legislation
- Dealing with all residents' queries
- Handling any complaints such as noise pollution from adjacent buildings

Q: How is my Service Charge calculated and apportioned?

A:

Calculation of Service Charges

The Agent prepares a Schedule of Service Charges, which is sometimes referred to as a Service Charge Matrix. This requires considerable experience and expertise as no two buildings are the same and some buildings can be extremely complex.

One way of categorising the various elements of a Schedule of Service Charges for the purposes of explanation is as follows:

- A Planned maintenance (short, medium and long term elements)
- B Reactive maintenance
- C Insurance
- D Agents fee

It is also often helpful to examine the previous year's expenditure when setting a Schedule of Service Charges. In the case of new developments where there is no previous year information to consult, the developer (or his or her Managing Agent) estimates the Service Charges based on the age, structure and location of the building in addition to which of the services set out above, are to be provided. A good estimate of these costs can be obtained by comparing services offered at other properties by similar contractors. It is important to note however that in the case of new developments, Service Charges can go up in the second year and the change in cost can sometimes be substantial. This is usually as a result of equipment warranties expiring and maintenance contracts being required.

For smaller buildings, the Schedule of Service Charges may comprise only half a dozen items and can be straight-forward to compile. For larger buildings, a Schedule of Service Charges could comprise in excess of 50 items, take into account the economic life of sophisticated plant or materials and must also factor in interest rates and inflation.

Agents' fees do not necessarily increase with the size and complexity of the building and, as such, Leaseholders in larger buildings would tend to benefit from various economies of scale.

Apportionment of Service Charges

Service Charges are apportioned between Leaseholders in accordance with the terms of the lease. Some examples are as follows:

- A fraction, for example 1/8th where there are 8 equally sized apartments in a block. The fractions in leases on a development should always add up to 1!
- As a percentage of the total floor area. Some developments may consist of a number of differently sized apartments. In such cases a cost per square foot or metre is calculated and then each leaseholder pays the relevant amount, based on the overall size of their apartment

It is possible on developments that comprise of more than one block of flats, that Service Charges between separate blocks are different. This difference is usually based on services provided in addition to fractions or percentage calculations. An example would be where some blocks of flats have lifts and

others do not. It is common for those who have a lift to pay a higher Service Charge than those Leaseholders who do not.

Q: When do I have to pay my Service Charge?

A: Payment of Service Charge is specific to the lease to which you are party.

Terms of payment vary but standard terms tend to be half-yearly in advance or quarterly in advance. You should check your lease or check with your solicitor who acted for you in the purchase of your property to see when your Service Charge is due for payment.

Q: I am selling my property. Do I still have to pay my Service Charge?

A: Yes. Service Charges are payable in accordance with the terms of your lease, regardless of whether you are selling your property or not.

If you are concerned that you will be paying Service Charges when you will not receive the service itself due to sale of the property, you should contact your solicitor who can reclaim a proportion of the costs on your behalf from the purchaser on completion.

Q: Can I withhold payment of my Service Charge if I am not happy with the way the estate or block of flats is being managed?

A: Often one of the main reasons an estate or block of flats is not being managed properly is that there are insufficient sums in the Service Charge bank account.

A good Agent must therefore ensure that this does not happen so that it can, at all times, maintain, keep safe and insure the building or buildings under its jurisdiction. The Agent must also ensure that there is sufficient money in the account to react to urgent or extraordinary maintenance requirements. As such, for everyone's benefit, arrears cannot and will not be tolerated.

Although you may choose not to pay a builder or other service provider if you are not happy with the service they are providing, you cannot withhold Service Charge contributions. Without an adequate balance in the Service Charge account, it is impossible to keep the building safe and for this reason the Courts would almost always find against the defaulter. You must pay your Service Charge and raise the query or complaint you may have in the correct manner. Ultimately, with a reputable Agent you should always have the sanction of a Complaints Procedure and recourse to their professional body.

In extreme circumstances, the Freeholder can forfeit your lease for persistent non-payment of Service Charge. More normally, failure to pay Service Charge results in the offending Leaseholder having to cover the costs incurred by the Freeholder or its/his/her or Block Management Agent for pursuing the arrears or serving notices in pursuance of the arrears.

Q: How do I make a complaint if I am not happy with the service my Managing Agent is providing?

A: As an Association of Residential Managing Agents (ARMA) registered agent, we have a formal complaints procedure in place.

Q: Where is my Service Charge banked?

A: The Service Charge is made up of money collected on account from Leaseholders and, as such, it is important that it is well managed and protected. The Agent must ensure that best value is obtained for the Freeholder (and so in turn the Leaseholders who ultimately foot the bill). The Agent must ensure that the Service Charge funds are protected or 'ring-fenced' in case the Landlord or Agent goes bankrupt/or is wound up, for example. The Agent should hold the funds in an account known as a Client Account. It is important for all to understand that when a Leaseholder pays Service Charge this money is not taken as income by either the Freeholder or the Block Management Agent. The Service Charge contribution sits in the Client Account until the Agent has a need to spend it in a reasonable and professional manner.

Q: How can I see what my Service Charge has been spent on?

A: The Freeholder is normally obliged under the terms of the lease to provide all Leaseholders with independently audited accounts to prove that the money paid on account by Leaseholders has been spent wisely. If a Block Management Agent is instructed by the Freeholder, they will discharge the Freeholders obligations in this regard.

The audited accounts should provide sufficient details for Leaseholders to see what their money has been spent on. If not, Leaseholders have a right to inspect other records.

Q: What type of problems should I report to the Block Management Agent?

A: Your Block Management Agent is not responsible for all problems you have with your building. Before contacting us with a maintenance request, please check first against the following guide to see whether or not you should be a) dealing with the problem yourself or b) for newer buildings contacting the developer or his/her insurer or the solicitor who acted for you in the purchase if you no longer have contact details.

Q: What is Ground Rent?

A: Under most leases a relatively small amount of rent is due to the Freeholder. Without the entitlement to receive this rent, the Freeholder would have little incentive to maintain its/his/her asset.

The Freeholder will often (but not always) instruct the Block Management Agent to collect this rent on its/his/her behalf.

Q: What happens if I don't pay my Ground Rent?

A: It is imperative that the Ground Rent is paid. Ultimately and only in extreme circumstances, the Freeholder can forfeit your lease for persistent non-payment of Ground Rent. More normally, failure to pay Ground Rent results in Leaseholders having to cover the costs incurred by the Freeholder or its/his/her or Block Management Agent for pursuing the arrears or serving notices in pursuance of the arrears.