

FIRSTPORT

RESIDENTIAL PROPERTY MANAGEMENT

SERVICE CHARGES EXPLAINED

Transparency matters to us. We want you to know what your service charge covers and exactly where and how your money is being spent.





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KEY ROLES IN PROPERTY MANAGEMENT



Freeholder / Landlord

A company that owns the building outright and the land it occupies. Its responsibilities often include the structure and common parts of the building and complying with relevant property laws.



Freeholder (individual homeowner)

A person (or joint individuals) who owns the freehold title to a property or land in their own name, rather than through a company. They hold the legal rights and responsibilities for the property. All decisions about their home are made personally.



Landlord (property owner)

An individual that owns a specific property. For example, a leasehold flat they rent out. They are the landlord in relation to their tenants, responsible for repairs inside the property, safety compliance, and handling tenancy agreements.



Leaseholder

A leaseholder typically purchases their home and signs a contract which grants them the right to occupy the property for a fixed number of years (long term tenancy), but the land and building are owned by the freeholder who is also likely to be the landlord.



Managing agent

The property management company instructed by the client (landlord, freeholder, developer or Residents' Management Company) through a formal arrangement known as Management Agreement to supervise and manage buildings and/or estates on their behalf.



Private tenant

A person that rents a property from its owner (leaseholder or freeholder) for a set period, in exchange for regular payments. A tenant is accountable to their landlord (property owner) under the terms of a rental or tenancy agreement.



Residents' Association (RA)

A group formed by people living in the same development to represent the views and interests of all members. It gives them a collective voice to raise concerns, share ideas, and work with the landlord or managing agent on topics such as repairs, service charges, or how communal areas are looked after.



Residents' Management Company (RMC)

A company set up by the developer to support the interests of those who share private communal areas with their neighbours and to give residents more say in how their development is cared for. The RMC is responsible for managing the shared areas of the development, either on behalf of the freeholder or landlord or as set out in the lease or transfer document.



Right to manage (RTM)

If at least 50% of the leaseholders in a block of flats agree to join an RTM company, The Commonhold and Leasehold Reform Act 2002 allows them to take over the management of their building. The landlord still owns the building, but the leaseholders gain more control over how it's managed by taking responsibility for things like maintenance, service charge or communal areas.



UNDERSTANDING SERVICE CHARGES

What is the service charge?

The service charge is the money you pay to help cover the costs of maintaining and managing your development, including communal areas like hallways, gardens and parks, as set out in your Lease or Transfer in England or Wales, or your Deed of Conditions in Scotland.

In this guide, the term 'service charge' refers to the costs associated with maintaining a building or estate. The service charge might be referred to by other names, such as variable rent charge, depending on the context or provider.

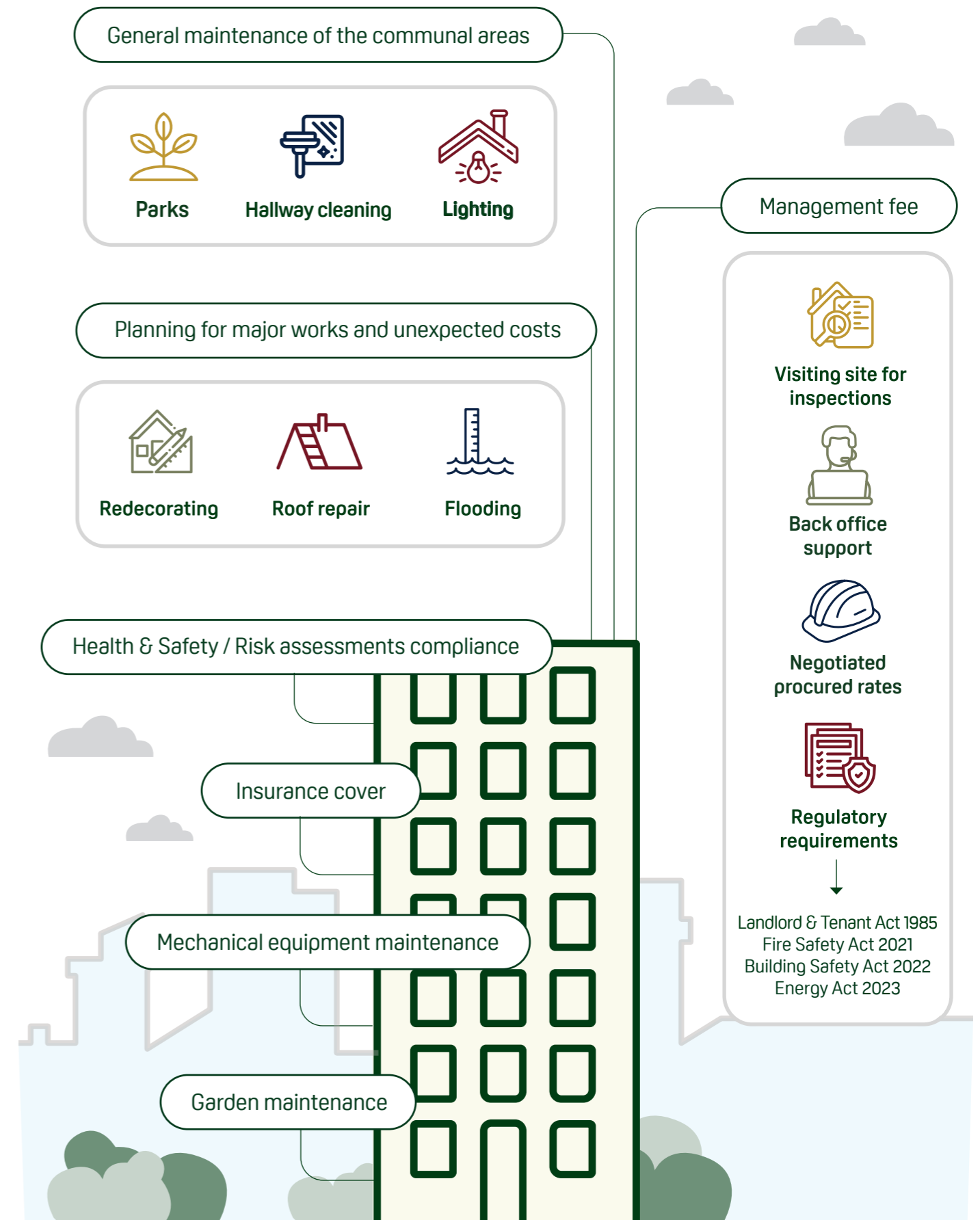
What is ground rent?

If you live in a leasehold property in England or Wales, this is the money you pay to your landlord, annually or in instalments, for the land your property is built on.

Sometimes we collect this payment on the landlord's behalf, but more often the landlord will send you the invoice directly (information about your ground rent will be included in your lease). If we do collect it, you will receive an additional invoice from us as this will be due as a separate payment to your service charge.

What does the service charge cover?

The service charge includes the cost of a range of activities we carry out to efficiently manage your development, such as:



How is the service charge calculated?

While every development we manage is unique, our approach to calculating your service charge is the same. We start by identifying all necessary tasks for the year ahead to ensure your development remains safe, well-maintained and in line with current regulations and your lease or transfer document. We then estimate the costs required to complete this work.

The service charge for the upcoming year is based on estimated costs. We make every attempt to make sure this is as accurate and as close as possible to actual costs.

For new build developments, service charge costs may phase in and could be lower in the early months, or even the first couple of years, as we might not be providing all services until all parts of the development are built and occupied.

For established developments, the cost estimate is based on historic information, our knowledge of the development, and anticipated costs for the year ahead. We work hard to obtain competitive prices and negotiate cost savings for utility providers and maintenance contracts through our bulk purchasing power to get the best possible prices for you.

The estimate covers all obligations specified in your lease or transfer document. This includes essential services such as insurance, audited accounts, Company Secretary duties, health and safety compliance, and other legal requirements.

The total cost is then converted into a service charge amount and shared fairly between all properties, depending on the individual shares or principles, set out in each lease or transfer document.

When is the service charge paid?

This depends on your Lease or Transfer in England or Wales, or your Deed of Conditions in Scotland. You may be required to pay your service charge, once a year, twice a year (usually every six months), quarterly or occasionally in monthly instalments.

Why has my service charge increased?

The service charge is an estimate for the costs required for the running and maintenance of your development over 12 months, not a fixed cost, so your contribution will change from year-to-year.

In recent years, service charges have increased, driven by external factors such as stricter health and safety regulations, increases in energy prices and supplier costs for maintenance services, and rising labour costs in line with strong wage growth.

How do I know how my service charge has been spent?

Following the end of your development’s financial year, the annual service charge accounts will be prepared and then reviewed by an independent accountant.

We’ll always be transparent about what’s been spent, and you will receive an itemised set of accounts - including explanations for any significant differences where expenditure hasn’t been in line with our estimate - so you can see exactly what’s been done and how much it all cost.

Where is the service charge held?

When you and your neighbours pay your service charges, the money is held in a bank account under what’s called a statutory trust. This means that should anything happen to FirstPort, your money is kept safe.

The account is held completely separate from all other FirstPort accounts and the money you pay, along with any interest earned, can only be used for your development.

All our bank accounts are protected by the UK regulator, the Financial Services Authority (FSA) and the Financial Services Compensation Scheme (FSCS).

I moved in during the financial year. How are the service charges shared between me and the previous owner?

When you buy a property, your legal representative and the seller’s legal representative are responsible for agreeing, as part of the sale, how the service charge is shared between you and the previous owner. This includes any service charges credits or invoices for periods before you owned the property – even if those charges come in after you’ve moved in. This is often known as a retention fee.

As we’re not involved in the sale process, we’re unable to assist with service charge queries for the period before your ownership began. A few helpful points to keep in mind:

- We can only issue service charge invoices once we’ve received formal notice of the change in ownership, so sometimes there may be a short delay before your first bill arrives. The period shown on your first invoice may be longer than your actual ownership but you should only be charged for the portion that applies to your time as the owner, as agreed between your legal representative and the seller’s legal representative.
- A formal change of notice is issued by your legal representative. If this hasn’t happened, please prompt them to do so.
- After the annual accounts are completed, you may receive an invoice for a service charge deficit or a credit note for a service charge surplus from the previous year - even if you didn’t own the property at that time. If there is a deficit, as the current legal owner, you’ll be responsible for this payment. However, your legal representative may have arranged a retention fee during the purchase to cover such costs.

We recommend contacting them to check whether this was done, and to understand the process if there is a surplus on the account related to service charge payments made before the purchase.

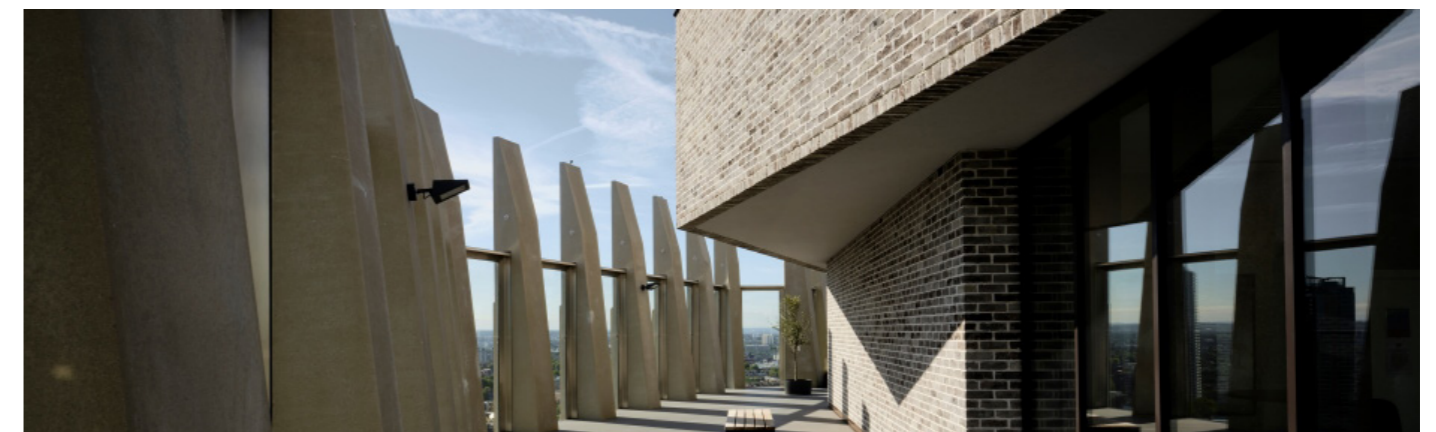
I am a freehold homeowner. Why do I have to pay a service charge?

As you own the property outright and the land it occupies, there is no lease or landlord so typically you do not pay ground rent or a service charge. However, if your freehold property is on a private estate with shared communal areas, such as roads and green open spaces, you are responsible for contributing to a service or estate charge to cover maintenance costs for shared spaces and services as set out in your lease or transfer document.

Why is my service charge different from my neighbour’s?

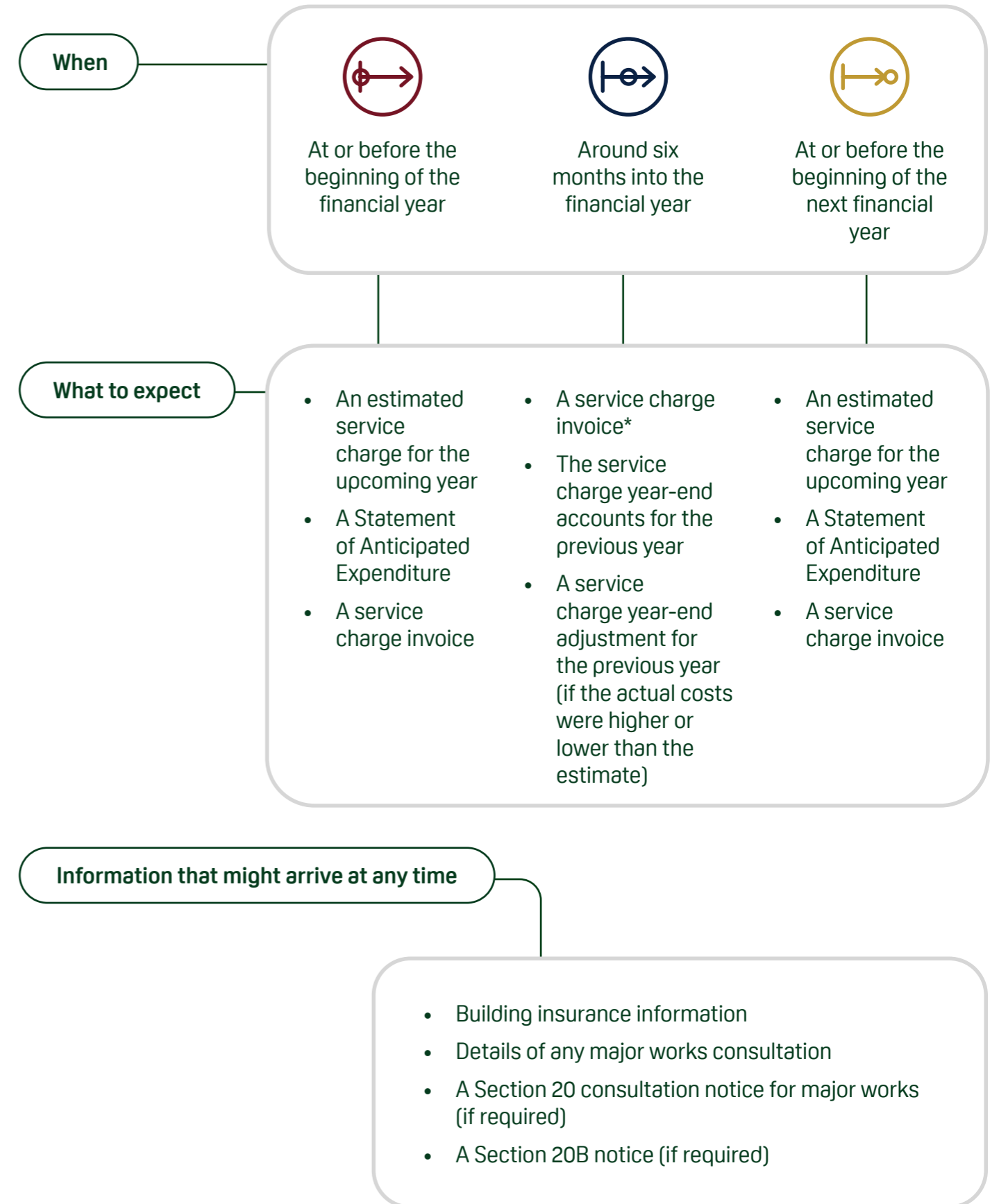
Service charges are shared fairly between all properties, but the amount each homeowner pays can vary depending on your individual share (apportionment) set out in your lease or transfer document. Factors like the size of your property or access to extra facilities (like parking or a garden) can affect how much you pay. So, if your home is larger or includes more shared services, your service charge may be slightly higher than your neighbour’s.

The date you complete your property purchase can also affect the amount of service charge you pay in your first year. For example, if your financial year runs from the beginning of April to the end of March and you move in June, you may be responsible for around 10 months of service charge, whereas someone moving in January would pay closer to 3 months.





THE SERVICE CHARGE PROCESS



* The timing of when invoices are issued will depend on the terms of your lease or transfer document.



YOUR SERVICE CHARGE DOCUMENTS

Each year, you will receive an Estimated Service Charge at the beginning of the development's financial year and Service Charge Year-End Accounts after the year ends, which enables you to see exactly how much has been spent and on what.

ESTIMATED SERVICE CHARGE

What is it?

At the beginning of each financial year (usually determined by your lease or transfer), we prepare an estimate of what we believe we will spend on the day-to-day running costs of your development such as building insurance, upkeep of communal areas or repairs.

Why does this happen?

Service charges are usually paid in advance to ensure that there are enough funds to cover the costs of maintaining and managing your development.

How does this work?

The estimated service charge is based on known costs, like building insurance or planned maintenance. For areas where costs aren't known yet, we look at past spending and adjust for inflation to provide a realistic estimate.

How is this communicated?

We usually start this process 4 or 5 months before the financial year starts and you will typically receive the finished estimate about a month before.

Your Estimated Service Charge pack includes:

- A covering letter
- Your Statement of Anticipated Expenditure outlining your share of the estimated costs
- Your service charge invoice
- A service charges Summary of Tenant's Rights and Obligations (only applicable to leaseholders)

A detailed breakdown of the overall estimated service charge by schedule will also be available on My Home, our online customer account.

How is this handled?

Your lease or transfer document set out how much you must contribute to the service charge. This is sometimes a fixed percentage, or fair and reasonable share, often determined by the size of your home and the services you receive. For example, if the service charge for your block is £20,000 and you pay 5%, your individual contribution is £1,000.

What does it mean to you?

The service charge invoices will be issued in accordance with your lease or transfer document. These can be annually, bi-annually, quarterly or monthly.

SERVICE CHARGE YEAR-END ACCOUNTS

What is it?

At the end of each financial year, we carefully review the actual service charge costs and compare them with what you've already paid (Estimated Service Charge).

We also analyse any outstanding debits or credits to produce the annual accounts, which give a clear view of your development's overall financial position at that point in time.

Why does this happen?

Because the service charge is based on estimated costs, the actual amount spent during the year may be higher or lower than expected due to the actual cost of services required.

The year-end reconciliation makes sure everything is allocated to the areas, so you only pay your fair share, and any outstanding financial matters are properly addressed and reported.

How does this work?

To ensure accuracy, the final accounts are thoroughly reviewed by an internal accountant, your Property Manager, and an independent external accountant.

How is this communicated?

We aim to send your Service Charge Year-End Accounts within six months of the end of the financial year.

Your Service Charge Year-End Accounts include:

- A covering letter
- Your service charge year-end adjustment invoice

The complete accounts pack will also be available on My Home, our online customer account.

If you have a leasehold home and, for any reason, we're unable to meet this timeframe and there's a deficit in your development's account, we'll issue a Section 20B notice to inform you of the costs that have been incurred.

How is this handled?

If the final costs are higher than the estimate, there will be a deficit, and you will be invoiced for your share of the additional amount. If the final costs are lower than the estimate, there will be a surplus that will be credited to your account.

What does it mean to you?

If your account is in debit, an invoice will be sent to you for the balance due and you'll have 30 days to make payment. If your account is in credit, the surplus will be automatically added to your account and deducted from your next service charge payment.

Because of the way costs are allocated across some developments (as set out in the lease, transfer or deed of conditions), some schedules may show a surplus even if the overall development accounts are in deficit - and the other way around too.



SECTION 20B NOTICE (LEASEHOLD HOMES ONLY)

What is it?

Section 20B of the Landlord and Tenant Act 1985 is an England and Wales law that gives landlords up to 18 months to ask for payment of service charges after the cost has been incurred.

A Section 20B notice is a legal requirement that ensures that you can still be asked to contribute to certain costs, even if you receive the Service Charge Year-End Accounts after the usual 18 months in which the accounts are produced.

Why does this happen?

The service charge costs for your development have exceeded the service charge estimate, but due to delays in accounts, legal processes or project finalisation, we will not be able to issue your year-end adjustment within the usual timeframe.

How does this work?

If we cannot issue your Service Charge Year-End Adjustment Invoice within the 18 month window of the costs being incurred, we are required to send you a Section 20B notice flagging that there is an excess and you will need to pay your share in due course.

Our accountants will review your development's spending for the year to determine if the costs exceeded the estimate. If it has, they will prepare a draft expenditure statement for the Section 20B notice to give you an estimate of the development's total costs for the year, so you'll have an idea in advance of what the final amount is likely to be. This will not show your individual share, which will be confirmed once the accounts are finalised.

How is this communicated?

You will receive a Section 20B notice from us. This formal communication informs you that the costs for your property have exceeded the Service Charge Estimate for the period, but we will not be able to send your Service Charge Year-End Adjustment Invoice within the usual 18 months timeframe.

What does it mean to you?

Although your Service Charge Year-End Adjustment Invoice will be delayed, the costs related to the management and upkeep of your property will have been incurred and you will be required to pay your share of the final costs in due course in accordance with your lease.



SERVICE CHARGE INVOICES

Service charges are usually paid in advance to ensure that there are enough funds to cover the costs of maintaining and managing your development. The service charge invoices will be issued in accordance with your Lease or Transfer document - annually, bi-annually, quarterly or monthly.

At the end of the financial year, you will also receive a service charge year-end adjustment invoice (if the final costs are higher than the estimate) or a credit note (if the final costs are lower than the estimate).

Invoice
Your address

| Description | For period | Payment due | Amount |
|--|-----------------------|-------------|-----------|
| Administration Charge DD Lease Adjustment | 1 Oct 24 to 30 Sep 25 | 12 Oct 24 | £24.00 |
| Service Charge | 1 Oct 24 to 31 Mar 25 | 12 Oct 24 | £1,223.80 |

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Your details

Account no: [redacted]
Invoice no: 68610130
Date: 12th September 2024

↑ This is your financial year (set by the lease or transfer document for your property).

↑ This is the deadline for you to make the payment. If you miss this date, you may incur late fees.

Invoice total: £1,247.80
(£378.00)

Previous balance: [redacted]

Account balance: £869.80

↓ This is the amount you owe on your account.

Your balance

£869.80
To view your full account statement, log in to My Home

Introducing My Home

Managing your property is now quicker and easier with My Home.

- ✓ Make a payment without making a call, easily and securely online
- ✓ Don't rely on the post to stay up to date with your bills
- ✓ Notify us immediately of any maintenance issues and track the status in real-time
- ✓ Access all your important documents
- ✓ And much more...

↓ This is a unique reference linked to your property that help us to locate your details when you speak with us.

This is the amount already on your account at the point you are invoiced. If your account is in credit, this will be shown in brackets and deducted from the total amount due on your invoice. If your account is in debit, this will be added to the total amount due on your invoice.



GLOSSARY OF TERMS



Account balance

The amount of money in your account after all the debits and credits have been calculated.



Block

A multi-unit building with individual flats owned by leaseholders but shared communal spaces and responsibilities. All the units within the block will have individual leases.



Actual

Calculated at the year-end, this is the actual amount spent on all services and maintenance activities during the service charge period.



Credit

If your account is in credit, it means you have paid more than you owe.



Administration charge

Fee that helps to cover the costs of handling the behind-the-scenes work required to manage your account, such as processing paperwork or updating your records. This could apply to a direct debit administration fee or a late payment fee. For example, we apply an administration charge to cover the additional tasks required to calculate and distribute payment plans where they are outside the terms of the lease or transfer document.



Debit

If your account is in debit, it means you owe money (you have underpaid or charges have exceeded your payments).



Apportionment

This refers to the allocation of service charge costs among multiple leaseholders. Your apportionment determines how much you pay and is defined in your lease or transfer document. Your share (or apportionment) can be based on the size of your individual property, the access to different services and facilities or simply split evenly among all properties.

For example, if the total service charge for your development is £20,000 and your apportionment is 10%, your individual contribution is £2,000.



Deficit

This means that your estimated service charge was not sufficient to cover the actual spend, resulting in a shortfall (underpayment). If you have a deficit, you will be invoiced for an additional amount to settle your account balance and given 30 days to pay.

 **Estimated Service Charge**

At the beginning of each financial year (set by the lease or transfer document for your property), we prepare an estimated service charge of what we believe we will spend on the day-to-day running costs of your development such as building insurance, upkeep of communal areas or repairs. We calculate this based on previous years actuals, adjusting for inflation, known additional costs and planned improvements.

 **Expenditure**

The total amount of money that has been spent to manage and maintain your development.

 **Financial year**

Accounting period often determined by the lease or transfer document for your home. We send you a service charge estimate for the financial year ahead, and the service charge year end accounts (reviewed by an independent accountant) after the year has finished.

 **Income and Expenditure**

A statement included in your year-end accounts that shows the amount of money collected and the amount spent per schedule during the financial year.

 **Invoice**

A formal payment request for the services provided to manage and maintain your development. It shows the charges you owe, when the payment is due and the different ways to pay.

 **Invoice number**

This is related to a specific payment request and should be referenced when you have a query about your invoice.

 **Legal review fee**

This is charged when we need to work with an external legal team or debt collection agency to assess and manage outstanding payments. It covers the cost of reviewing the situation and ensuring we follow the necessary steps to recover any overdue service charges and fees in a fair and legal way.

 **Previous balance**

The amount already on your account at the point you are invoiced. If your account is in credit, this will be shown in brackets and deducted from the total amount due on your invoice. If your account is in debit, this will be added to the total amount due on your invoice.

 **Reserve fund**

Also commonly referred to as a **contingency fund**, this is money collected within the service charge to contribute towards the cost of planned major works to keep your building in good condition, such as a roof replacement, as well as setting funds aside for any unexpected expenditure.

 **Reversal of administration charge**

Accounting method commonly used to reflect a refund or cancel a previous charge on your account that should not have occurred. This will be deducted from the total amount due on your invoice.

 **Schedule**

The service charge is broken down into schedules that show which costs apply to the different parts of a development and who is responsible for paying them. For example, one schedule might cover shared building costs, while another covers parking or garden areas. Each homeowner only contributes to the schedules that apply to their property, ensuring service charges are fair and transparent.

 **Service Charge Year-End Accounts**

A document we send you each financial year to show the total costs actually incurred to manage and maintain your development versus the original estimate.

 **Service Charge Year-End Adjustment**

After the service charge year end accounts have been produced, if the final costs are higher than the estimate there will be a deficit, and you will be invoiced for the additional amount to settle your account balance. If the final costs are lower than the estimate there will be a surplus that will be credited to your account balance and deducted from your next invoice.

 **Statement of Anticipated Service Charge Expenditure**

The estimated service charge for your property at the start of the year, based on the actual costs from previous years, adjusted for inflation and planned improvements.

It shows the schedules you contribute to, their main costs and your contribution to each one, based on what's outlined in your lease or transfer document.

 **Surplus**

This means your estimated service charge was higher than the actual spend, resulting in an excess (overpayment). If you have a surplus, this will be added as a credit to your balance and deducted from the total amount due on your next invoice.



RESERVE FUND AND MAJOR WORKS

What is a reserve or contingency fund?

This is money collected every year within the service charge to build up funds that can contribute towards the cost of unexpected expenditure or any future planned major works, such as large scale internal and external redecorations, access way repairs or replacing communal carpeting.

The reserve fund accumulates over time and is held in a trust account in addition to the service charge money, meaning it can only be spent on your development.

The service charge estimate sets out how much is being collected in the year, and the year-end accounts include a statement of the overall amount available.

What are major works?

Large-scale or substantial projects carried out as part of an ongoing maintenance programme to keep your development looking good and working correctly.

These projects are normally planned in advance and include things like resurfacing parking areas, replacing lifts or upgrading fire alarms but occasionally, major works can also involve emergencies that cannot be planned for, such as urgent tree works.

How are major works paid for?

Major works projects are paid for from the service charge, but the reserve fund can be used to offset some or all of the cost of the projects.

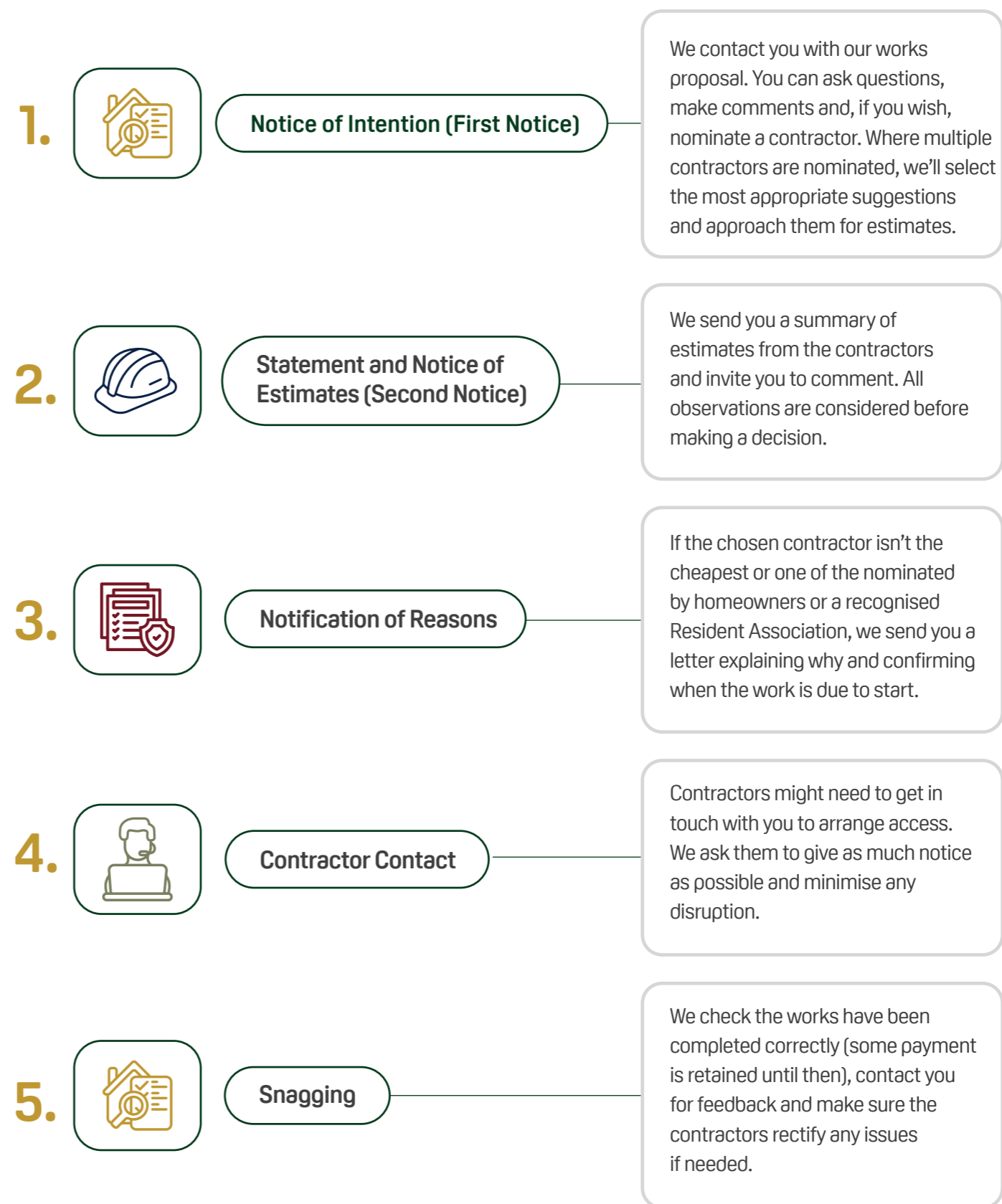
If you are a leaseholder, and your contribution to a project is more than £250 (which can sometimes be case), we will begin a formal consultation process. This means you will be kept fully informed about what work is planned, when it will happen, and the expected costs. If the reserve fund doesn't cover the full amount, we will contact you directly with details of any additional contribution needed as soon as the costs are confirmed.

We are only required to do this by law for leasehold homes, but we aim to follow a similar process as a matter of good practice for freehold homes too.

How are major works projects communicated?

To ensure that the works run smoothly, and that we comply with legislation and best practice, we use a specific consultation and communication process. This means that you will know what is happening and what the next steps are.

This is called a 'Section 20' consultation, and it is drawn from the Landlord & Tenant Act 1985. Because the Act lays down what we say, the language in these communications can often seem very formal and legal, but these are the main steps of the consultation process:



firstport.co.uk

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