



UNDERSTANDING SERVICE CHARGES

Service charge estimate

When understanding service charges it has to be clear that service charge estimates are compiled in view of estimated likely invoices to be received/receivable (depending on whether they actually get paid or an accrual is made in the year end accounts).

A service charge estimate is therefore at best only a guess as to what expenditure may be incurred in a certain year.

Service charge estimates are then later replaced by a set of service charge accounts which clarify the actual expenditure for the year and the over-spend (deficit) or under-spend (surplus).

Deficits & the problems they can create

If there is a deficit it is customary for this deficit to be charged out to all Lessees by way of a collection based on the year-end accounts. If there is a surplus it is customary for the surplus to be transferred to reserves, to accrue to future year's expenditure.

This is important as any incoming leaseholder will inherit the bill for any deficit which is recharged. A competent solicitor will therefore ascertain the position of the last years accounts, whether there was a deficit, whether any deficit has been recharged and whether there is likely to be a deficit in the current year.

Debtors position & the problems

The service charge accounts also show the debtor's position as at the date of the accounts. This is important for two reasons

- (a) any incoming leaseholder will inherit the debtor position of the flat they are buying.
- (b) a poor debtors position naturally frustrates day to day cash flow, provision of services and the effectiveness of management.

How to know whether to expect a deficit in the current year

This can be deduced by analysing known expenditure in the current service charge year against the current years service charge estimate.

This when reconciled against the service charge estimates shows the actual expenditure against the service charge estimate and deductions can therefore be made as to which items have been incurred to date or not.

Accruals

Are an accounting custom where a bill is expected for services provided in the year but is often not received until afterwards. Typical heads of expenditure in this respect in property management include: audit & accountancy fees, insurance renewal premiums.....

If I buy a property part way through the year - how should the buyer and seller apportion service charges

At Ringley we deal with many thousands of properties and many hundreds of sales per year. "Apportionment of service charge" is entirely a matter between the vendor and the purchaser's solicitors to agree. Customarily along the basis of the Solicitors' standard conditions of sale a day's in occupation/ownership basis is applied.