Setting the service charge budget

How to build an annual budget that covers what the building needs, can be explained to every leaseholder and stands up to challenge.

The service charge budget is the most important financial document in a leasehold building. It is the basis for every demand, and for most of the questions residents ask. A good one is complete, based on evidence, and written so that a non-accountant can follow it.

Start with the lease

Check what the lease says can be charged, how it is apportioned between flats, the accounting year, when payments are due and whether on-account payments are allowed. A cost that the lease does not cover cannot normally be recovered from leaseholders, however sensible it seems.

Build from last year's actuals

Take the actual costs for the last full year, line by line, and adjust for known changes: contract renewals, inflation, insurance, work completed or planned. Show last year's budget, last year's actual and next year's budget side by side.

Cover the main headings

- **Insurance.** Often the largest item. Use a current quote, not last year's figure.
- **Cleaning and gardening.**
- **Repairs and maintenance:** routine and an allowance for the unexpected.
- **Lifts, fire systems and other plant.**
- **Utilities** for the common parts.
- **Professional fees:** accounts, company secretarial work, legal and any management help.
- **Reserve fund contribution.** See our reserve fund guide.
- **Company costs:** filings, bank charges and directors' insurance.

Be realistic, not optimistic

A budget that is set too low leads to a shortfall, a mid-year demand and an angry meeting. One that is far too high ties up residents' money and invites challenge. Aim for a figure you can defend line by line.

Explain it

Send each leaseholder the budget with a short note saying what has changed and why. Show the amount payable for their flat and the due dates. Offer to answer questions.

Issue demands properly

A demand for service charge must meet legal requirements, including the landlord's name and address and a summary of leaseholders' rights and obligations. A demand that does not may not be payable until it is corrected. Take advice or use a template that has been checked.

Monitor during the year

Compare actual spending with the budget regularly, and tell the board early if there is a problem. Where a significant overspend looks likely, discuss options before it happens.

> Remember the time limit. There are limits on recovering costs that were incurred long before they were demanded. Keep the demands up to date, and take advice on the current rule.

Next steps

1. Gather last year's actuals and current quotes.
2. Draft the budget and check it against the lease.
3. Agree it at a board meeting.
4. Send it, with a covering explanation, before the new year starts.

General information, not advice on your circumstances. Leasehold law is detailed and changes: check the current position and take advice before acting. Leasehold Clarity is provided by Leasehold Clarity Limited (company no. 16963931), with management and professional services from Murphy Thompson Moore LLP (LLP No. OC314041).