

ARHM GOOD PRACTICE NOTE

Management Fees

ARHM Code

The Code states that all leaseholders should be made aware of the duties that the manager will undertake, and the cost of the management fees and any other charges that the manager may receive for those duties.

The code requires that the manager produces a statement of duties that every leaseholder and other contributor towards the service charges should be able to access. This should also be available on any website and be part of a Leaseholders' Handbook.

Where a change of manager occurs or the duties of the existing manager change, a new statement of duties should be provided.

The statement should include the following:

- A list of the duties that the manager will provide for leaseholders in return for the management fee
- A list of other duties that the manager will provide relating to services required under the terms of the lease but for which an additional fee may be chargeable
- A list of other charges that may be payable by leaseholders and the amount where they are not related to the service charge parts of the leases
- How and when the management fees and other charges may be reviewed
- The term of any management agreement or contract entered into
- A declaration of the amounts of any commissions or other profits being taken by the manager arising from the duties carried out, including insurance commissions.

The 'core' duties that should be provided for within the management fee as outlined in the Code are set out below. This is not a comprehensive list and other duties may be added where appropriate and reasonable to do so and if agreed with the landlord.

- Opening and administering bank accounts
- Preparing and distributing service charge budgets/estimates
- Collecting service charges
- Accounting for service charges prior to examination by an independent accountant
- Providing information to auditors for the production of annual accounts
- Collecting routine service charge arrears
- Providing management and service charge information to residents
- Liaising with residents' associations
- Providing professional indemnity insurance for the manager
- Employing management staff (excluding scheme-based staff)
- Inspecting the property regularly (period to be explicitly agreed with the landlord and made known to leaseholders) to check condition and deal with any necessary repairs

- Periodic health and
- safety checks but not specialist checks and tests
- Holding regular (at least annual) meetings with residents
- Regular visits to supervise scheme managers
- Recruiting and training of scheme managers but not the cost of advertising or agency fees
- Keeping records of residents and tenancy details
- Keeping landlords advised on management policy when working as an agent
- Preparing specifications for minor works and services
- Providing information to advice agencies and ombudsman services.

Examples of other management services are listed below. The landlord/managing agent may agree that these are included in the core management fee, or may agree on a separate charge to each leaseholder for this service.

- Administering buildings and other insurance
- Preparing replacement cost assessments on buildings and landlords contents for insurance purposes
- Entering into and managing maintenance contracts
- Carrying out consultation on management matters, major works and long term agreements
- Drawing up and reviewing risk assessment plans
- Preparing specifications, obtaining tenders and supervising major works
- Fees for specialist advice in assessment of major repairs and decoration
- Negotiating with local and statutory authorities regarding operation or amendment or improvement to communal services
- Providing copy documents including insurance policies
- Employing and working with advisers of a specialist nature where required
- Recovery of unpaid service charge or ground rents or non-compliance with leases, including instructing solicitors.

A statement of additional charges, outside of the core management fee, should be provided to all leaseholders. This should also be available on a website and should also be part of a Leaseholders' Handbook.

Calculating the Management Fee

The annual management fee should cover the cost of the basic management service that each and every leaseholder in the development receives in that year.

The total charge for these should be as close as possible to the actual cost of providing the service. It should also be reasonable. A management fee should not be based on a percentage of the services charged unless this is specified in the leases.

Fees should be based on direct costs, such as property managers (but not estate-based staff) and the office budget, as well as indirect costs which may include a finance team dealing with the service charge accounts across all tenures, so you'll need to work out how much of their time is spent on leasehold accounts. You may also need to apportion the costs of a contact centre taking calls, and an arrears team deal dealing with income recovery, as well as the overheads of being part of a larger organisation.

You also need to consider how your costs of providing a service differ. It is acceptable to have different management charges for different developments as some are more time-consuming than others to manage, due to there being more services to manage.

The management fee should be calculated on an average cost per unit for the development in question. The per unit cost should then be multiplied by the number of units and added to the total annual service charge. The total annual charge should then be apportioned in line with the lease requirements.

Costs should be fair, reasonable and comparable. Management Fees can be challenged at a First-Tier Tribunal.

Management Fee Caps for Registered Providers

Registered Providers are subject to a management fee cap for retirement housing built using public subsidy.

Whilst management fees should still reflect actual costs, as outlined above these must not exceed the figure published annually by Homes England.

Calculating additional charges

Additional administration fees are generally charged for a service that is not provided to each and every leaseholder on a development every year. The leaseholder using the service is paying for it at source.

Again, consideration should be given to the cost of providing the service and how you'll pass this on to the leaseholder. When setting fees, it is important to look at the extent to which different members of staff are involved in dealing with a request, their hourly rates, and the time it would usually take them to complete the task or deliver the service. Take a view on the cost of stationery and postage, as well as overheads, and arrive at a price for each of the services on a 'menu'.

Additional fees should be reviewed annually in line with the change in the costs of delivering the service, such as pay rises and inflation.

Administration fees can also be challenged at a First-Tier Tribunal, so charges must be reasonable and comparable.

A notice of rights and responsibilities (admin charges) must be served with each invoice for fees. Without this the charge cannot legally be collected.

General

ARHM requires that management fees are predictable, and not reliant on a structure so sensitive that it could produce large swings from year to year.

ARHM also requires the fees are calculated in a way that encourages accessibility of services, avoiding discouraging leaseholders from using services, or conflict between leaseholders about the cost of services

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