



## **Sinking / Reserve Funds**

Newark and Sherwood Homes would like to establish if leaseholders would be interested in paying their service charges in advance, by way of a sinking / reserve fund. This document aims to provide basic information on the pros and cons of sinking / reserve funds and aims to help you decide if this is an option you may like to pursue. Please read it carefully, if you have any questions please contact our Leasehold Officer.

### **What are Sinking / Reserve Funds?**

Sinking / reserve funds enable landlords to spread the cost of major works so that leaseholders do not face sudden, large bills.

A **sinking fund** is a fund that a landlord aims to build up, over time by contribution from leaseholders to pay for repair and replacement of major items that fall within the landlord's responsibility.

A **reserve fund** is a fund paid into by contribution from leaseholders that aim to equalise expenditure in respect of regularly occurring expenditure each year, they can also include major works and services including cyclical maintenance.

The estimates for calculating leaseholders contributions should provide realistic assessments of how long component parts should last. This may not be an easy task and is something you would need to trust your landlord or their surveyor to calculate accurately.

It may be possible to agree directly which elements of the building should be included in the fund and which elements should remain as a direct service charge so there may be some flexibility.

Examples of what the fund may cover are listed below:

- The repair and maintenance of the fabric of the building
- Common parts (eg paths and walkways)
- Cyclical maintenance (eg external redecorations)
- Equipment (eg lighting, door entry systems etc)
- Additional costs such as professional fees.

### **Things to Consider**

- Buildings vary considerably and depending on when your flat was purchased, it is possible that individual contributions could vary significantly – it may be difficult to establish a date from which funds should run.
- Administrative costs for setting up, surveying the building and maintaining individual accounts are likely to add to the overall cost of managing the building and therefore your service charges will increase.

- Local authorities / ALMO's do not generally plan their repairs programme over a long period and are dependant on borrowing – this is determined by central government.
- Where there is more than one leaseholder in the building, there may be a contrary view from those wishing to keep charges as low as possible and those who appreciate the long-term asset management issues - future repairs to older buildings can be very expensive.
- You could appoint your own surveyor who could provide guidance on current condition and future liability and you could then shop around for savings accounts with the best rates of interest and in effect set up your own fund.
- You may face both immediate costs and higher annual charges which may benefit some future owner of your property, however, it may be possible for us to consider repayment terms that may go some way to help address this issue.
- There may be an advantage of selling a property with a sinking fund in that the value of the fund may pass to the purchaser thus holding the value of the property.
- Our Finance Directorate are in the process of formalising our policy on payment options with a view to offering instalment plans for large service charge bills. Depending on your circumstances, this may be a more financially beneficial option.

### **Can We Operate a Sinking / Reserve Fund for Your Property?**

Services provided must be paid for in the way set out in your lease. The standard lease does not allow for the operation of sinking / reserve funds and therefore, if you would like us to operate such a fund then it must be by formal agreement - it cannot be imposed on any leaseholder unless the lease allows it.

Leases can be varied to accommodate these requirements but each building will need to be managed in the same way and therefore all relevant parties must be in agreement in order for us to be able to offer this facility.

If you would like to discuss the feasibility of implementing a sinking / reserve fund for your property, please contact our Leasehold Officer who will be pleased to help.

**February 2008**

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**If you would like this document in another language or format, or if you require the services of an interpreter, please contact us.**

જો તમને આ દસ્તાવેજ બીજી ભાષા અથવા રચનામાં જોઈતો હોય, અથવા જો તમને ઇન્ટરપ્રિટરની સેવાઓ જોઈતી હોય તો, કૃપા કરી અમારો સંપર્ક સાધો.

(Gujarati)

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(Mandarin)

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(Portuguese)



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