



O'Dwyer Property Management Ltd.

# What Determines Service Charges in Private Residential Estates?

An ODPM Explanatory Guide

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## Introduction

The purpose of this guide is to explain, in general terms, how service charges are determined in private residential estates. Its aim is to address some of the more frequently asked questions from owners in this regard.

## What determines the cost of service charges?

Firstly, the quality of the design, materials used and the standard of workmanship all combine to affect maintenance costs during the life of a building. Secondly, features of the building such as the ratio of common areas to unit numbers can affect costs.

## What is the ideal building?

The ideal building is one designed and built to a high specification with an emphasis put on maintenance free upkeep and as a result requires minimum attention during its lifetime. For example, a building with:

Little internal common areas, no lifts, hard surfaces, limited windows, low energy consumption lighting, no parking areas and little or no landscape areas or boundaries.

## What is more realistic?

A more realistic building is one that is designed and built well, is attractive, sound, energy saving and is free of maintenance as is consistent with developers reasonable initial costs. Each decision made at the design stage has direct implications for the maintenance costs and it is in the interests of owners and occupiers that the correct balance is achieved.

## What is the service charge used for?

In the context of maintenance, the function of the service charge is to maintain the building to an appropriate and acceptable standard at a reasonable cost and with a minimum of inconvenience to the occupier.

## Who decides standard?

The standard maintenance will be laid down in the lease (title to the development) and this standard becomes the responsibility of the management company.

## Do the owners and the occupiers have a say?

Yes, the elected committee/board representing the owners may further determine the service charge by the essential services required and other services desired, relative to the owners willingness to pay.

## Is there a minimum/maximum standard?

There is no minimum/maximum but a minimum is set in Title. A building may be maintained beyond the standard set down in title and or is strictly necessary in order to create a more favourable appearance.

## When and how is the service charge rate determined?

The service charge rate is determined in advance in the form of a budget which includes an estimate of the years work/services required which is flexible enough to ensure that all essential work is done and unscheduled requirements are provided for.

## Who drafts the budget headings and costs?

The first management agent, having acquired a sound knowledge of the buildings planned maintenance proposal which takes into account the service requirements and standards set out in title. At the same time the agent will exercise his expertise in additional/alternative options providing the costs for consideration by the board of directors.

## What about painting and decorating that might not be needed every year?

(Periodic maintenance items are costed on an annual basis).  
Refurbishment work is too great a cost to be met from income in any one year. So if painting and decoration should occur every 5 years, then each year 20% or 1/5 of the cost will be provided in the budget so that there is a reasonable possibility of adequate funds becoming available before the work must be done...

### What is the role of the Management Agent?

Whilst all essential provisions will be covered by a budget proposal prepared by a professional Management Agent, it is important that the property manager at their earliest convenience acquaint himself/herself with the policy of his/her owners and with their expectations. He/She is then in a position to work out a long term plan with its financial implications for discussion with the client.

### What is a Sinking Fund?

A Sinking Fund is a fund which members pay a small amount of money into each year and this fund then acts as a reserve to cover the cost of future redecoration for e.g. carpet replacement or essential maintenance for e.g. lift modernisation. Having such a fund avoids the need to have a levy to carry out such big jobs within the year they are required.

### Is there a sinking fund fixed figure?

The sinking fund should be indicative and evolutionary rather than rigid or restrictive.

### When is the budget approved?

The budget should be approved in advance of the commencement of the financial year applicable to the estate.

### Can the service charge rate increase year on year?

Whilst it may be expected to allocate similar sum for maintenance each year, costs change over a period and it is difficult to forecast precisely. However, fluctuations positive and negative should be balanced out to avoid a deficit occurring.

### Can a deficit arise?

Yes, while every effort is made to avoid them, unexpected events such as 9/11 can and did cause insurance rates to escalate between 2001 and 2004, before reducing substantially again in 2005. Labour costs can have an impact on maintenance costs such as: Cleaning, ESB increases, Regulation Charges such as refuse/bin removal costs being charged to the estate and these can be enough to cause a substantial increase.

### What services/costs are included in the budget and service charge?

The cost can be broken down to include:

- Fixed maintenance contracts
- Variable maintenance and repairs
- Corporate administration charges
- Insurance
- Sinking Fund
- Professional Fees – Management; Auditors; Administration; Solicitors etc..

### Are there typical Service Charge rates?

There is no such thing as a standard/typical service charge rate and suggestions of it being equivalent to one months rent or 0.4% of the value of the property are unsubstantiated.

A rough guideline would be as follows:

1 bed	=	€1,500 – 2,500
2 bed	=	€2,000 – 3,000

### What causes my service charge to be higher or lower than my neighbours?

There are many factors which can cause variances in the service charges from one building to another, such as:

1. The ratio of lifts to the number of units.
2. The area of common areas to the number of units.
3. Size and quality of landscape areas.
4. The size of the apartment, number of bedrooms.
5. The number of units
6. Mechanical and electrical additions such as generators, pumps, vehicular gates, intercom systems.
7. On site Janitor/Concierge staff.
8. Sinking fund easements – size of painted and carpeted areas.

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### Further Queries?

Should you have any further queries in relation to any aspect of the management of your development please do not hesitate to contact ODPM's **Property Services Team** who are available to address your calls and assist you in any way they can.

You can contact the **ODPM Property Services Team** on 01-6603822, Monday to Friday, 9am to 5.00pm.

Please have the following information ready to help them deal with you more efficiently:

- Your development name
- Your name
- Your unit number

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### Disclaimer

*This document is prepared by ODPM and is intended to answer some of the common queries raised by members of Management Companies in an understandable manner without using a great deal of legal terminology.*

*The intention is to give general guidance to cover concerns which commonly arise but by no means does ODPM accept any liability whatsoever for errors or omissions.*

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