



SINKING FUND POLICY & PROCEDURE

Responsible Director: Director of Homes and Wellbeing

Responsible Manager: Head of Specialist Housing

Last updated: November 2018

Next update: November 2021

G05 Sinking Fund

1. Purpose

- 1.1 This policy and procedure deals with the recovery of contributions from shared owners and leaseholders into sinking funds for major repairs to blocks of flats and communal areas on estates.
- 1.2 The policy intends to ensure that sufficient funds accrue in the sinking fund by the time major works are required, in order to avoid the need to send large bills to leaseholders.

2. Policy Statement

- 2.1 It is the policy of the NCHA Group to obtain contributions from its leaseholders into a sinking fund to pay for future repairs to the structure of their building and communal facilities on their scheme.
- 2.2 The lease will determine the method of contribution into the major repairs sinking fund. Some leases enable NCHA to collect a monthly contribution as part of the service charge. In other cases, the lease allows the Association to receive a contribution from the proceeds of sale of the property, based on a formula related to the length of residence in the property.
- 2.3 The level of contribution into the major repairs sinking fund, where this is based on a monthly contribution in the service charge, will, where possible, be based upon a costed long term schedule of maintenance taking into account the life cycle costing of the main building components.
- 2.4 Leaseholders will be informed of the level of monthly contributions into the sinking fund, and will be given a statement of the monies accrued in the fund with their annual service charge accounts.
- 2.5 Sinking fund contributions will be held in a separate trust account as required by the Commonhold and Leasehold Reform Act 2002.

3. Risks

- 3.1 The risk that insufficient funds have accrued in the sinking fund to pay for major repairs when they become due.
- 3.2 The risk of causing financial hardship to leaseholders by having to charge lump sums for essential works where a shortfall in the sinking fund exists.
- 3.3 The risk that NCHA or Lets Select will not be able to recoup money paid out for essential repairs due to the inability of residents to pay

- 3.4 The risk that excessive surpluses accrue in sinking funds which could be challenged by leaseholders.
- 3.5 The risk that the value of leaseholders' homes, or their ability to sell could be negatively affected by the lack of an adequate sinking fund provision.

4. References

- 4.1 Section 20 Major Works Policy and Procedure.
- 4.2 Service Charges Policy and Procedure

5. Process

- 5.1 The Project Meeting held 3 – 6 months before completion should include information about components that will require maintenance. The Technical Inspector will be requested by the Specialist Housing Manager to determine life cycle costing of the building and components in order to determine a realistic initial contribution to the sinking fund.
- 5.2 The Specialist Housing Manager will incorporate the figure for the sinking fund contribution into the initial service charge calculation which is given to the sales team in advance of the advertising of the scheme for sale.
- 5.3 For existing leasehold schemes, the Customer Service Officer, in agreement with the Specialist Housing Manager, will set a level of monthly sinking fund contribution, where the lease allows, that is reasonable and based on the stock survey, the condition of the property and the life cycle of building components.
- 5.4 Where the lease provides for a contribution to the sinking fund from the proceeds of re-sale, the Housing Officer will liaise with the solicitors acting for NCHA on the sale to ensure the correct amount is collected on completion of the sale.
- 5.5 A detailed service charge budget with proposed sinking fund contribution will be sent out to leaseholders with their notice of rent increase by the end of February each year.
- 5.6 A regular review of reserve funds should take place, at least every 3 years, to ensure that sufficient reserves are being accrued to meet anticipated maintenance requirements.
- 5.7 Leaseholders will be consulted, by letter or at a meeting, if it appears that the sinking fund and the current level of contributions is insufficient to pay for expected repairs, in order to agree a more realistic contribution.

- 5.8 If any leaseholder disputes the current or proposed level of sinking fund contribution, they should be advised to refer the matter to First Tier Tribunal.
- 5.9 Works to be paid for from the sinking fund with a cost of £250 or more to the leaseholders will be subject to the consultation requirements of Section 20 of the Landlord and Tenant Act 1985, as amended by the Commonhold and Leasehold Reform Act 2002 (see Section 20 Major Works Policy and Procedure).