

## Property Reserve Fund

### What is a Reserve Fund?

Reserve Funds, sometimes known as ‘sinking funds’, are saving arrangements to fund repairs carried out by Knightstone, which you’re responsible for under the terms of your lease or other legal agreement.

It’s intended to prepare for the cost of future works and to ensure there are funds in place when needed. These works will be delivered as part of a planned programme and are typically:

- routine painting and decoration
- roofing works
- window and door replacement
- replacement door entry systems
- replacement fire alarm systems
- external repairs to the building
- improvements to communal areas and parking areas.

The fund won’t cover the cost of day to day responsive repairs. These will be paid through your service charge each year.

The obligation to pay into a reserve fund is usually contained within your lease or legal documentation. It ensures there’s money available to reimburse us when we incur costs on your behalf, and means no large bills for you.

The fund ‘belongs’ to the property and transfers to a new owner on sale or assignment of your lease. Your solicitors will advise you at the time about how this affects your sale, but in general your sales price should be influenced by both the balance contained within the fund and the liability for future works to the building.

### How do we decide the amount you pay into the Fund?

If we were to assess each property on an annual basis, carrying out a building survey and reporting back this information to each homeowner, the cost to you would be very high. We’ve found it’s also hard to be accurate with the forecast of future works, as components can often fail unexpectedly quickly or last longer than predicted. Taking this approach can also lead to big variations in the amount we may ask you to pay into your fund from one year to the next.

If the contribution amount becomes high, it can often impact on your ability to sell your home (when the amount you pay is compared with other homes for sale in the area). For this reason we consulted with the Homeowners Panel (a representative body of Knightstone homeowners), and decided to standardise our approach to the calculation of your contribution, so that we collect a reasonable sum from you each year but in the knowledge that it isn't based on the actual condition of your home.

So that we can determine a starting point for the calculation of the amount to be paid into your fund, we commissioned an independent firm of property and construction consultants Ridge & Partners, to look at the stock we manage and to recommend the contribution amounts.

They've recommended the contribution bands (below) based on our current stock list and the type of construction that is likely to have been used. The older buildings are more likely to be of similar construction and therefore the age spread within these bands is far greater than the properties which have been built since the 1960's, where the banding is more tightly grouped.

Each band of properties is averaged, to enable a calculation of the 'typical number of storeys/flats in the building/wall type/floor area and so on.

Lifecycle costings for each band have been calculated, starting from the average year of construction within that band. It has been assumed that all maintenance works have been carried out in accordance with the lifecycle requirements.

The forecast maintenance costs are totalled and divided by the number of years the costings will run for. For example, if we estimate costs over the next 10 years to be £25,000 in a building which contains five flats, each flat would contribute £500 per year into the fund (£25,000 divided by 10 years, divided by five flats).

In order that contributions into reserve funds are 'smoothed out' to avoid large variations in payments to the fund, we've calculated the maintenance cycle in 10 year periods. The recommended bandings start from 2006 to take account in our calculations of the possibility that not all maintenance works have been completed in accordance with the recommended intervals. The first age band therefore runs from 2006 to 2016 and thereafter for every 10 years.

In support of this approach, approximately every five years we'll arrange for a report on the condition of your building, looking ahead to the next 20 years. This will not be a full structural survey and the surveyor will not go into the roof space. However, it will be in sufficient detail to give us a professional opinion about the likelihood of future repairs and replacements. The results of this survey will help us to verify what works need to be carried out and at what intervals. The survey will be passed onto you for your information and to assist you in understanding your future liabilities.

At each five yearly interval we'll carry out a review of the performance of your fund and where there is a significant variation between the forecast works costs and the amount in your fund, we'll discuss the implications with you. This could lead to an increase or decrease in your annual contribution.

## Recommended bandings

<b>Band</b>	<b>Age of construction</b>	<b>Costing until 2016</b>
1	2010 +	£250
2	2007-9	£300
3	2004-6	£450
4	1980-90	£600
5	1960-79	£400
6	1800-1911	£450
7	1750	£550

Please note:

- The banding reflects the actual ages of the properties we manage. For example, there is no band for properties aged 1912-1959 as we do not have any
- The higher contribution level in band 4, reflects the costs of maintaining buildings of this age where an increasing number of major works are anticipated.

These broad contribution bands will allow you to work out exactly how much you have to pay into your fund each month and will provide you with the security that, when a large bill comes in for repair works, you'll have funds available to pay for, or substantially contribute towards, the costs.

Please be aware that because the fixed contribution into your fund is not related to a forecast of actual works, there may not be enough money to pay for works as and when they occur. In these situations, you'll have to find additional resources to pay for work as it completes.

You'll be sent a final account statement for every individual job so that you know how much each bill will be and at the beginning of each financial year, you'll receive a statement showing you how much is in your reserve fund. Needless to say, it's important that you're aware of how much is in your fund and what your forthcoming liabilities will be so that you can make plans to deal with any unusually large expenses. If you're in any doubt, ask your Homeownership Officer to help.

## Charging for completed works

In January or February each year, we'll calculate the value of all jobs completed in that year to be deducted from your reserve fund on the 1st April. Hopefully there will be enough money in the fund to cover your costs but if not, you'll be charged in 12 equal monthly instalments starting from April.

This bill will need to be paid in addition to your usual monthly contribution to the fund for future works and it will be requested as one single combined amount to be paid preferably by direct debit.

We recognise there may be exceptional circumstances where meeting these costs will prove difficult. In such situations we'll consider what options we can offer to an individual. These arrangements will be at our discretion. Further details of our policy dealing with large bills for major works which you're unable to pay, can be found on our website: [www.knightstone.co.uk](http://www.knightstone.co.uk)

Please note that any monthly contributions which aren't paid are likely to attract a letter to chase payment and a charge may be applied. In some cases we may also charge interest on the outstanding amounts in accordance with the terms of your lease.

### What happens if there is too much money in my Fund?

Although we intend to review the performance of your fund every five years, if your fund builds up to a level which is agreed by us to be in excess of an amount needed to meet your future liabilities, we'll adjust your contribution at the next annual review.

It's important that you engage with us and discuss this matter during the service charge consultation period because in-year adjustments outside the review period will not be possible. Past contributions to reserve funds will not be reimbursed under any circumstances.

### Calculation of interest

Interest will be paid to you on any credit balances at a rate of 0.75% below the Barclays Bank base rate. This is the amount set out in your lease or legal agreement.

We may charge you interest on any outstanding debit balance in accordance with your lease or legal agreement. This is in the range of 3 to 4 % above the Barclays Bank base rate. The exact rate will be stated in your lease or legal agreement.

### Keeping you informed

Each year we'll send you a statement of your account setting out the payments made, the interest credited or debited to your account and the current balance within the fund itself.

In addition to your annual statement we'll keep you informed of any fluctuations in the timetable for planned works so that you're aware of when we'll start and finish each project. In some cases prior to starting any works, we'll need to undertake formal consultation known as Section 20 consultation.



In these circumstances you'll be given an opportunity to comment on the choice of contractor (except where we are using a contractor under a qualifying long term agreement) the works themselves, and the costs.

We hope this factsheet provides you with sufficient information to help you understand the principles of how your Property Reserve Fund works but if you have any further questions, please contact your Homeownership Officer.