



ADVICE NOTE

SECTION 20 CONSULTATION AND MAJOR WORKS

A guide to the S.20 consultation process for major works



Note:

As the leading trade body for residential leasehold management, ARMA is also an important resource for leaseholders. Our Advice Notes cover a range of topics on the leasehold system to help leaseholders understand their rights and responsibilities and ultimately get the most out of living in their flat.

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IMPORTANT NOTE

By law, leaseholders must be consulted before a landlord carries out works above a certain value.

This guide explains the Section 20 consultation process for landlords, resident management companies and their managing agents in England and Wales.

IMPORTANT: The advice in this booklet needs to be read in conjunction with the decision in a recent case in the High Court, 'Philips v Francis'.

WHAT IS SECTION 20 CONSULTATION?

Section 20 (S20) is a clause in the Landlord and Tenant Act 1985 intended to protect leaseholders from paying unnecessarily large sums for work carried out to their building.

In summary it says that a leaseholder's contribution to the cost of work will be capped if the landlord or their agent fails to follow set consultation procedures first.

Residents' Management Companies (RMCs) and Right to Manage Companies (RTMs) are included under the definition of a landlord for the purposes of S20.

At a glance

S20 procedures apply to work carried out by RMCs, RTMs or other landlords/freeholders.

The procedure is prescribed in detailed regulations issued by the Government. Failure to follow the procedure can result in penalties.

The penalty for a landlord, RMC or RTM failing to consult properly before commencing work is that they will only be able to recover £250 per leaseholder — regardless of the final bill. This does not mean that every leaseholder can be billed £250 for works without consultation. Leaseholders can only be billed according to the proportions set out in their leases.

RMCs and other landlords who fail to consult lay themselves open to loss of income and claims for negligence.

Consultation is required with leaseholders and any Recognised Tenants Association (RTA).

(NOTE: where we refer to "leaseholder" it also means any RTA).

What's the procedure?

A S20 consultation must be carried out if any one leaseholder's contribution to the work is estimated to, or does, exceed £250. When calculating the estimated cost, VAT and any consultants' fees must be included.

Here's what's involved:

- **Stage 1: the Notice of Intention.** A notice must be served setting out what works are proposed and why they need doing. It should invite comments and nominations of contractors from leaseholders.



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- **Stage 2: the Statement of Estimates.** Once estimates for the works have been obtained, a notice must be served to all leaseholders detailing the costs, how to inspect them and inviting any comments.
- **Stage 3: the Notice of Reasons.** Once the contract is awarded, the landlord must send notice if they did not choose the cheapest estimate or a contractor nominated by the leaseholders. It must explain why they chose that particular option.

How long does S20 take?

For stages one and two, leaseholders must be given at least 30 days to reply with any comments. So even estimates can be obtained quickly, it will take at least two to three months as a minimum. Indeed, agents are advised to allow slightly more than 30 days for comments in case of postal delays.

Surely S20 doesn't apply to RMCs and RTMs

Don't fall into the trap of thinking S20 consultation doesn't apply to you because everyone in your block is a member of the RMC. It applies to all landlords, RMCs and RTMs.

Even if a unanimous decision is made at your residents' meeting to go ahead with work, S20 consultation is still required by law. Just because a decision has been taken by shareholders, members or directors of a RMC/RTM, it doesn't mean that landlord and tenant law can be ignored.

What happens if we don't consult?

If you don't consult properly, you will be subject to a penalty: the maximum costs leaseholders can be made to pay for the work will be limited to £250. This is regardless of the final bill.

So, let's say an RMC of a block of eight flats spent £5,000 on work to their building but did not consult properly. If the other leaseholders found out and objected, the maximum they could be made to pay by law would be $8 \times £250$ each. That's £2,000 assuming each leaseholder pays the same proportion of service charges.

Where would the rest come from? Well, very possibly, the RMC directors would be liable because they were negligent in not following S20 procedures.

You may argue that in your block, everyone knows each other and there won't be any arguments. But what happens if a flat is sold whilst the work is being carried out and a new leaseholder moves in? Or if the contractor fails to do a good job? Arguments may crop up then, and leaseholders may well refuse to pay.

Can Tribunals dispense with S20 rules?

Yes. The First-tier Tribunal (Property Chamber) in England or the Leasehold Valuation Tribunal in Wales can dispense with S20 rules before or after works have been carried out; but only if a good case can be made.

Do the Tribunals go easy if mistakes have been made?

In general, the Tribunals have interpreted S20 rules strictly.

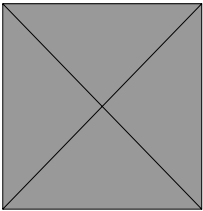
Failing to consult may not be justified by an honest mistake, or complying with the 'spirit' of S20. The legislation makes no distinction between the professional landlord and a group of leaseholders managing their own block.

Final word

Section 20 consultation procedures may seem onerous and time consuming. But the legislation is there to protect leaseholders from paying unnecessarily high sums.

If you're an RMC/RTM director you still need to follow the rules, even if everyone in your block agrees to the work.

If you're not, it's still wise to brush up on the procedures so you know your rights when your landlord proposes major work to your block.



FURTHER INFORMATION

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- The full reference for S20 consultation is “S20 of the Landlord and Tenant Act 1985. As amended by the Commonhold and Leasehold Reform Act (CLRA) 2002.”
- ARMA and the Leasehold Advisory Service have collaborated on a detailed guide to the S20 process, which includes template notices. Download from the ARMA leasehold library: arma.org.uk/leasehold-library
- Read the full service charge consultation requirements in England at: www.legislation.gov.uk/ukxi/2003/1987/contents/made
- Read the full service charge consultation requirements in Wales at: www.legislation.gov.uk/wsi/2004/684/note/made

Note:

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