



The
Property
Institute

Reserve Funds

How They Work and
Why They Matter



Reserve Funds – How They Work and Why They Matter

If you live in a flat, you will usually pay a service charge. This covers the cost of maintaining shared parts of the building and grounds, including window cleaning, lawn care, communal door repairs, and other routine services and facilities.

Your service charge may also contain a contribution to reserve funds. These are funds set aside, usually in annual increments, for large items of future expenditure. For example, your building may contain a lift. It will be maintained on an annual basis, but may have a lifespan of 30 years, and will need replacement at some stage. A reserve fund will be set up to make incremental payments towards that large item of future expenditure.

Example

A block of ten flats has a lift with a replacement cost of £90,000 every 30 years. Each resident contributes £300 each year to reserve funds. In 30 years, there is a pot of money - £90,000 - which is used to replace the lift. If a flat has changed hands during that period, each resident will have made a contribution.

Consider the same scenario without a reserve fund.

After 30 years, each resident owning a flat at that time would have to make a one-off payment of £9,000.

Whether your block of flats has a reserve fund will depend on whether there is provision for one in your lease. If the lease says nothing about reserve funds, the building owner—whether a third-party freeholder or leaseholders managing the block themselves—may decide to create one, but the lease would need to be varied first. Altering leases has costs associated with it and usually would require unanimity amongst all leaseholders, which is sometimes not easy to achieve.

Reserve funds can be specific, for a particular item of future expenditure, and also sometimes referred to as sinking funds. Or, they can be general, and rolling, to make provision for a range of future large expenditure items, such as carpets, or internal or external decoration.

Reserve funds and your managing agent

Your property manager is well placed to advise on reserve funds. If the lease compels a reserve fund in your block, your property manager is obliged to follow what the lease says. As well as permitting reserve funds, the lease may lay down conditions on their use, for example, what they can and cannot be spent on, and other conditions on how they are raised and invested. Your property manager will again have to follow what the lease stipulates.

Property managers must also be mindful of their professional standards, what is known as the [RICS Service Charge Residential Management Code](#). The Code is approved by the Housing Secretary of State under Section 87 of the Leasehold Reform, Housing and Urban Development Act 1993. If a property manager does not follow the Code they could find they are unable to defend their actions in a Court or Tribunal hearing.

Good property managers will therefore be familiar with the Code, and where they do not follow it, they will want to be able to explain why their actions depart from what is considered good practice. If they discuss or advise leaseholders on reserve funds it is therefore the property manager following good practice and reassuring themselves that residents know the pros and cons of reserve funds, and consequences of making provision for reserve funds, or not. The latest edition of the Code stresses that a property manager should make leaseholders aware of future cost implications where a lease does not provide for a reserve fund.

On reserve funds, the Code stipulates...

It is...considered good practice to hold reserve funds where leases permit it. If the lease says the landlord 'must' set up a fund, then this must be done. Neglecting to have a fund when the lease requires one could be deemed to be a breach of the terms of the lease.

Service charges should only ever be collected and/or retained at the end of the financial year in accordance with contractual lease provisions. Where there is no contractual provision for service charges to be collected or retained towards costs to be incurred in the future, landlords should consider engaging with the leaseholders to seek sufficient support for an application to the First Tier Tribunal to vary the leases.

Reserve Funds – How They Work and Why They Matter

Where there is no provision in the leases enabling the landlord to hold monies in a reserve fund, and there is insufficient support for lease variations, you should make leaseholders fully aware of the future service charge cost implications so they can make their own long-term saving provisions towards the estimated expenditure.

Planned Preventative Maintenance (PPM) plan

Another phrase your property manager may use is *planned preventative maintenance (PPM) plan*. The amount set aside for reserve funds should not be a figure just plucked out of thin air but have some basis. Reserve funds should reflect future major works, cyclical works, and replacements. All buildings should have a costed long-term planned preventative maintenance (PPM) plan that reflects the age and condition of the building and its upkeep. The PPM plan should predict the income streams that ensure funds are available, so that works can be undertaken in a timely manner when required.

A PPM plan may require expert input to improve its accuracy, such as a surveyor's assessment of a building element's condition and the likely timeframe for its replacement.

Reserve funds should be comprehensive and cover every item of future major works, cyclical works, and replacements. Having a reserve for decoration, but nothing for other major items e.g. lift, carpet, roof, roadway, etc. would be insufficient.

Can the contribution to reserve funds change?

Most leases do not set a specific amount of reserve funds to set aside. The level of contributions should be reviewed annually as part of the budget-setting process. There may be scope to decrease payments if reserve funds are predicted to overprovide or increase payments if they look like they will underprovide. It will vary depending on building complexity, age, condition, and the relative size of existing funds held.

Are my reserve funds safe?

Flat owners will naturally have concerns about potentially large sums of their money being held by third parties. However, the law dictates that such funds must be held in Trust accounts (Section 42 of the Landlord and Tenant Act 1987). The reserve/sinking funds should be held in an interest-bearing account and be ring-fenced from any day-to-day service charge monies.



Why are reserve funds regarded as good practice?

Affordability

The earlier example illustrates why reserve funds are regarded as good practice. Most people receive regular income, rather than one-off windfalls. Smaller amounts saved regularly are easier for people's income to absorb, rather than larger amounts at irregular intervals. Having to find a large amount of money in a short amount of time, such as the £9,000 in our example, can cause significant stress and anxiety. Timing is also an issue. You may be ill or infirm and need a working lift. If the full funds have to be raised from scratch that takes time, whilst the lift is out of order. Reserve funds will normally allow for quicker resolution.

Reserve Funds – How They Work and Why They Matter

Fairness

Saving for larger expenditure items via reserve funds is also thought to be fairer. In most blocks of flats people will come and go, as they buy and sell flats in the block. Reserve funds help to share the load of paying for large items of expenditure amongst residents. Returning to our lift example, somebody living in one of the flats for three years will pay a proportionate £900. Somebody that has lived there for all 30 years and benefitted from the lift for the duration will pay the full £9,000. Somebody who has just moved in will pay nothing, rather than £9,000 if there was no reserve fund, for expenditure they have gained no benefit from.

Asset value

A flat is not only a home, but for many people their main asset. Making proper provision for its maintenance is therefore prudent in terms of keeping and enhancing its value. A flat in a block with a leaky roof, threadbare carpets, or a lift that does not work will be more difficult to sell and is unlikely to achieve its best sales price.

The relationship between service charges and reserve funds is important. Reducing the annual service charge by limiting contributions to reserve funds may appear attractive in the short term, but it can create an artificial impression of affordability. For example, purchasers may buy flats on the basis that the service charge is £1,000 per year, when the true cost would be £2,000 per year if proper provision were made for future works. This can cause stress and anxiety when flat owners later discover that what appeared to be an affordable service charge is, in reality, unaffordable. Without adequate reserve fund provision, the likely alternative is a building that gradually falls into disrepair. Building owners, whether freeholders or resident-led organisations, therefore sometimes must make difficult decisions that balance current affordability with the long-term needs of the building.

Newly built flats

If you are buying a newly built flat, it may seem that future expenditure on major works is a distant prospect, but it is generally advisable to start making provision for reserve funds as soon as possible. The sooner a reserve fund is established the more years there will be to save and the lower the annual contribution.

There is sometimes temptation for builders to minimise the service charges that residents will pay on a new block. Suppressing the service charge will superficially make the flat a more attractive purchase to prospective buyers. Often, also, when a block is run by its residents, the handing over of the service charge account by the developer will only take place once the last flat is sold. On large developments that may be years after the first flat was sold. It is important that proper provision is made for reserve funds in those early years when the developer is in control of the service charge account.

Mortgage lenders

Mortgage lenders will also take a keen interest in the status of reserve funds on purchase of a flat. They too have an interest in maintaining the value of your asset as security for their loan.

Lenders will also want to ensure that the purchaser of a flat is able to afford any service charge payments as they fall due. Most borrowers are more likely to be able to afford a monthly contribution rather than a one-off large amount.



Reserve Funds – How They Work and Why They Matter



It is difficult to predict some expenditure items in a new block of flats as there will be no history on which to base estimates. However, it is regarded as good practice in the development sector by the New Homes Quality Board, and its Code, that developers are transparent on service charge items, including reserve funds, at point of reservation and pre-contract of a new flat's sale. The New Homes Quality Code states that a developer should provide a prospective buyer with:

Estimated amounts of any additional costs that the developer knows or expects will arise directly from the sale, such as management fees, event fees and other charges. This information must bring to the customer's attention any service charges that may increase or be charged in the future as more facilities become available or sinking fund charges that may be introduced for repairs or maintenance. If the developer does not know the actual value of costs or charges, they must give the customer an indicative costs schedule without including the values.

Transparency

It is a matter of good practice that any PPM plan and projected levels of reserve fund contributions should be made available to all leaseholders on request and to any prospective purchasers upon resale.

Possible changes to legislation

This information note explains the current position on reserve funds. In summer 2025, the Government consulted on whether to make reserve funds mandatory in blocks of flats, which would override lease terms. The consultation considered whether any requirement should apply only to new leases or to existing ones as well. The outcome is not yet known. If the Government decides to proceed, new legislation will be needed and may take several years to come into force.

The Government also plans to introduce commonhold as a newer form of flat ownership, and its proposals include requiring reserve funds.

Disputes and complaints

If you think you have received bad advice or poor service from a property manager, you have the option of using the services of an ombudsman. Property managers are required by law to be members of an ombudsman service. The two ombudsman services that cover property managers are [Property Redress](#) and [The Property Ombudsman](#).

If you want to contest the contribution you are making to service charges, including reserve funds, that is probably a court matter, and there is a specialist court for such disputes, the [Property Chamber of the First Tier Tribunal](#).

Reserve Funds – How They Work and Why They Matter

Some frequently asked questions

What if the reserve fund hasn't been properly maintained?

Ask your freeholder, landlord, or managing agent to provide a Planned Preventative Maintenance Plan so that you can see exactly what needs to be replaced and when.

What if contributions have been collected but the fund is still inadequate?

If you and your neighbours agree that the fund is too low, you can request that reasonable, incremental increases be added to your annual service charge.

What if my reserve fund contributions look inflated?

If you believe your landlord is demanding unreasonable or unnecessary contributions to inflate the reserve fund, you can challenge the charges. You can seek free advice through the [Leasehold Advisory Service \(LEASE\)](#) or make an application to a First-tier Tribunal (Property Chamber) to determine what is reasonable.

What if there was no disclosure at the point of purchase of your flat?

If you were not told about unfunded major works or the state of reserve funds was omitted during conveyancing, you may have legal recourse against the seller for misrepresentation, or your solicitor for professional negligence.

Further information:

The Leasehold Advice Service (LEASE)

LEASE is a Government-funded provider of free advice to leaseholders:

www.lease-advice.org

The New Homes Quality Code:

It is currently voluntary for developers to follow the New Homes Quality Code and you would need to check whether the developer you are using is a member of the New Homes Quality Board. The Government has legislative powers to mandate developers to join a New Homes Ombudsman at some point in the future.

www.nhqbc.org.uk/wp-content/uploads/2026/02/New-Homes-Quality-Code-V2-March-2026.pdf

Property Chamber of the First Tier Tribunal

The Tribunal hears service charge disputes, including reserve fund issues.

www.gov.uk/courts-tribunals/first-tier-tribunal-property-chamber

Property Redress

Property Redress is one of two ombudsman services that property managers are obliged to belong to by law.

www.propertyredress.co.uk

RICS Service Charge Residential Management Code

The RICS Code is approved by the Housing Secretary of State as a statement of professional standards and good practice. It can be used in evidence in court to illustrate whether a property manager is following good practice. A property manager can depart from the Code but must be able to explain why they took alternative action.

www.rics.org/content/dam/ricsglobal/documents/standards/Service-Charge-Residential-Management-Code_4th-edition.pdf

The Property Ombudsman

The Property Ombudsman is one of two ombudsman services that property managers are obliged to belong to by law.

www.tpos.co.uk

This information note is published by the professional body for property managers, The Property Institute: www.tpi.org.uk



**The
Property
Institute**

Contact Us

Company Memberships: 0207 978 2607

Individual Memberships: 0203 319 7575

**The Property Institute
2-4 St George's Road,
London SW19 4DP**

E: info@tpi.org.uk

W: www.tpi.org.uk

