Blockwell

Is a Governance Risk Review a defensible use of company funds?

Directors of RTM and RMC companies spend money that belongs, in effect, to all leaseholders. Any leaseholder can ask the First-tier Tribunal whether a service charge cost was payable and reasonable. Asking this question before you commission any adviser is good governance in itself.

> **The short answer: usually yes, provided three things hold.** Your leases permit the cost, the fee is reasonable for what you receive, and the board records why it decided to spend it.

How the fee can be paid

There are two routes, and your leases decide which one is open to you.

Route	When it works	What to check
Service charge	The lease allows management or professional fees to be recovered	The wording of the management and professional fees clauses
Other company funds	The company holds money that is not service charge, such as member contributions	That the funds are genuinely separate and the board has authority to spend them

A recoverable cost must also be reasonably incurred and reasonable in amount (section 19, Landlord and Tenant Act 1985). RTM companies take on the landlord's position for these rules, so the same test applies. If you are unsure what your leases allow, your managing agent or solicitor can confirm it quickly.

Why the review is built to be reasonable

The review is scoped around the management of your building, not general company advice. It examines how the board oversees building safety, takes major works decisions, supervises its managing agent and keeps records.

- **Fixed fee, agreed in advance.** The board knows the full cost before committing, with no hourly billing.
- **Defined scope.** The areas reviewed are set out in writing before work begins.
- **A written output.** The board receives a report it can show leaseholders, insurers or a tribunal.
- **Proportionate to the risk.** The fee is small against the cost of a poorly evidenced decision on fire safety or major works.

Section 20 consultation

Section 20 consultation applies to qualifying works costing any leaseholder more than £250, and to long-term agreements lasting more than 12 months that cost any leaseholder more than £100 a year. A one-off Governance Risk Review is an advisory service delivered in a few weeks. It is not works and it does not run for more than 12 months, so it would not normally call for consultation.

Ongoing board support after a review is billed quarterly in advance, on a term of no more than 12 months. It is set up that way to stay outside the long-term agreement rules. If your board is unsure how the rules apply to your building, ask your managing agent or solicitor before committing.

Recording the decision

A short minute is the best protection against later challenge. Suggested wording:

"The Board considered a proposal from Blockwell Ltd for a fixed-fee Governance Risk Review at a cost of £[amount]. The Board noted the review's defined scope, covering building safety oversight, major works decision-making, managing agent oversight and record keeping. Having confirmed that [the cost is recoverable under the leases / the cost will be met from company funds], the Board resolved that the review is a reasonable and proportionate step in discharging its management responsibilities, and approved the engagement."

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This note is general guidance on governance and does not constitute legal advice. Whether a cost is recoverable depends on the wording of your leases and the circumstances of your building. Figures and thresholds refer to the rules in England. Where there is doubt, take advice from your managing agent or a solicitor before committing funds. Blockwell Ltd. Registered in England and Wales, company number 17487187. Registered office: Unit 82A, James Carter Road, Mildenhall, Bury St Edmunds, IP28 7DE.