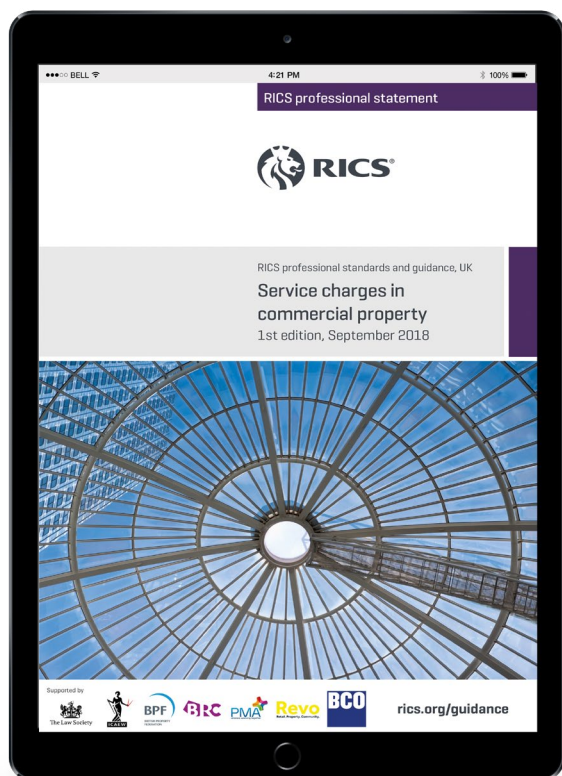


# SERVICE CHARGES IN COMMERCIAL PROPERTY

*The RICS has launched its latest version of the Service Charge Code.*



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The RICS are seeking to ensure that the management of commercial service charges is transparent, upfront and fair.

Launched in September 2018, **The RICS Service Charges in Commercial Property, 1st Edition** sets a marker for standards of management within commercial property. It replaces the existing RICS Service Charge Code and is effective for all service charge periods commencing from 1st April 2019. Importantly, the move to formalise the code as a professional statement imposes mandatory requirements on RICS members that they are required to follow rather than just provide guidance, which could lead to sanction if not adhered to.

By elevating the Code to a professional statement with mandatory requirements and core principles, it is a significant step forward in enforcing better and more effective regulation of activities by landlords and their managing agents. It seeks to protect tenants from unscrupulous repair and maintenance costs and ensure an accountability for fair and reasonable expenditure and administration of service charges.

# SERVICE CHARGES IN COMMERCIAL PROPERTY

## THE REQUIREMENTS OF THE PROFESSIONAL STATEMENT

There are nine mandatory requirements set out by the RICS which members must follow, and are summarised as follows:-

1

All expenditure sought to be recovered by the owner or manager must be in accordance with the terms of the Lease.

4

Owners and managers must issue to all tenants annually, a signed statement showing a true and accurate record of actual expenditure for the property.

7

All interest earned on service charge accounts (after any appropriate deductions) must be credited to the service charge account for the property.

2

Owners and managers must seek to recover no more than 100% of the proper and actual costs of the provision or supply of services unless the lease expressly gives the right to do so.

5

An Apportionment Schedule for the service charge must be provided annually to all tenants.

8

Where acting on behalf of a tenant, RICS Members must advise their clients that if a dispute exists, only the actual service charge sum in dispute may be withheld from payment.

3

Service Charge budgets must be issued at least annually to all tenants, together with an appropriate explanatory commentary.

6

Service charge monies must be held in one or more discrete or virtual bank accounts, which includes Reserve and Sinking Funds.

9

Where acting on behalf of a landlord, RICS Members must advise their clients that following resolution of a dispute, any service charge monies that have been raised incorrectly, must be adjusted to reflect the error without undue delay.

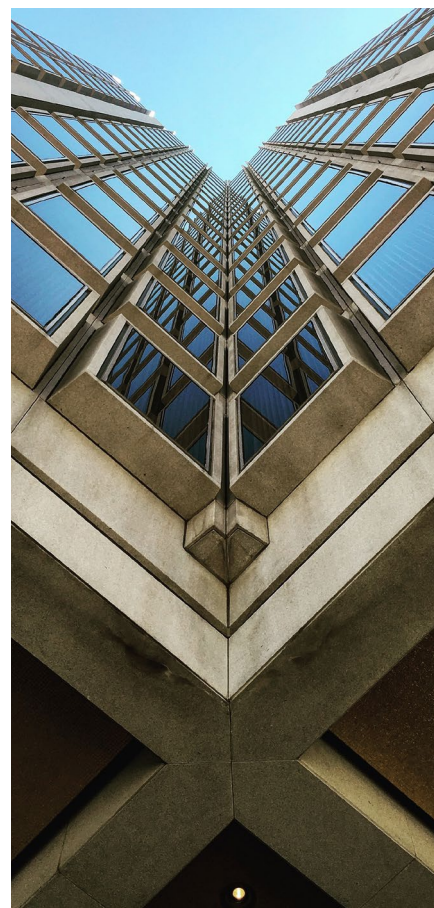
# SERVICE CHARGES IN COMMERCIAL PROPERTY

## THE SUPPORTING CORE PRINCIPLES

There are in addition, a number of core principles within the professional statement that are intended to underpin and support the mandatory requirements where at all possible.

The appropriate level of compliance will be based on the professional judgement of all parties as to what is considered reasonable and appropriate given the individual circumstances involved. Some examples of the core principles are as follows:

- Budgets, together with a full commentary and apportionment matrix should be provided at least one month prior to the start of the service charge year. Detailed statements of actual expenditure to be provided within four months of the service charge year end
- Management fees should be on a fixed-price basis, with no hidden mark ups
- The RICS Industry Standard Cost Classification should be used in the reporting of budget and actual expenditure
- Ensuring value for money is achieved at all times (as opposed to lowest value) and that initial costs such as original design and construction are excluded from the service charge
- There is additional guidance on the role of FM support and the level of disclosure in respect of the total cost of management, i.e. greater transparency of costs paid to specialists working for the same organisation or managing agent
- A requirement to provide appropriate and professional advice on costs that should be borne by a landlord such as fees relating to rent collection and asset management initiatives
- An increased focus to refer bona fida disputes to mediation and independent expert, to resolve genuine service charge disputes where appropriate
- Additional guidance on dealing with entertainment, customer services, amenities and facilities in relation to retail, shopping centres, leisure and business parks
- Change of owner or manager. If full supporting documentation has not been supplied in a timely manner (for example within four months of the change in owner or manager) the expenditure incurred by the two managers should be disclosed separately within the service charge accounts.



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*The core principles should be adopted as appropriate for the individual circumstances.*

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## OUR VIEW OF THE LATEST GUIDANCE

We believe this professional statement will ensure that all service charges are managed in a consistent and transparent manner. It should reduce causes of disputes, provide advice and guidance for resolution where they do arise and provide guidance to other professionals such as lawyers and accountants.

Workman has worked closely with the RICS and other organisations during the consultation process of the professional

statement. Our input and extensive experience in property management has enabled us to address a number of commonly disputed service charge matters covered in the professional statement. This is a welcome update to our industry and will provide greater guidance, transparency and efficiencies.

Following the release of the professional statement, Workman has reviewed all procedures for the

management of service charges to ensure the requirements of the professional statement will continue to be followed. We are confident of being able to continue to provide a 'best in class' service to our clients and their occupiers in the management and administration of service charges.

FOR FURTHER INFORMATION PLEASE CONTACT YOUR CLIENT PARTNER.

[workman.co.uk](http://workman.co.uk)

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