

Service Charge Operating Report

Offices

SCOR 2021



technical &
real estate services

A photograph of a modern glass-fronted building with a large indoor tree in a central atrium. The tree is lush green and stands on a dark, reflective base. The building's glass reflects the surrounding urban environment. A semi-transparent teal box is overlaid on the right side of the image, containing a table of contents.

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A photograph of a modern building interior, featuring a glass-walled staircase and a glass wall with vertical bars. The image is partially obscured by a dark teal banner at the top.

1. Introduction

Welcome to the 2021 edition of the Service Charge Operating Report (SCOR) for Offices, which is the 10th edition in the series.

This year's edition provides new compliance metrics for assessing whether service charge accounting documents comply with the increased presentation and disclosure requirements of the 2018 RICS Professional Statement. It also benchmarks service charge costs by analysing them according to the new Cost Classes and Categories within the Professional Statement, and includes both current year (2021) and longitudinal (2019-2021) cost data for select UK multi-let office buildings.

The dataset and methodology used are described in more detail in the next section, but it must be noted that the findings presented here are not designed to be used by industry stakeholders as justification for modifying current service charge costs. For example, costs may differ regionally, and the levels of services delivered to occupiers at individual buildings are rarely the same. Regardless of these limitations, SCOR's benchmarks provide a starting point for more transparent and constructive cost negotiations and discussions.

Once again academic oversight for SCOR for Offices is provided by Metropolitan State University of Denver, and we hope that you find this latest edition useful for both managing and monitoring service charge costs under the RICS's new regulatory approach for fostering best practice.

2. Methodology



The data for SCOR's compliance analysis came from the annual statements of service charge expenditure supplied to occupiers at 62 UK multi-let office buildings/developments, whose fiscal year commenced on or after 1 April 2019 (the effective date for the introduction of the 2018 RICS Professional Statement's accounting requirements). All of the certificates available to Bellrock were included in the sample, unless a document was found to be incomplete.

The data for SCOR's core cost benchmarking was obtained from analysis of the service charge documents supplied to occupiers at 95 UK multi-let office buildings/developments. Due to the COVID pandemic, the publication of many "2021" end-of-period service charge certificates were delayed, resulting in SCOR cost data being obtained from analysis of annual budgets of service charge costs which included at least six months of 2021. The decision to focus exclusively on budgetary data was not ideal but seen as a necessary modification to facilitate the timely publication of this 2021 cost information.

SCOR's dataset is unbiased and representative as it includes cost information for any office building that Bellrock Real Estate deals with where complete budgetary information was available for at least six months of 2021. As a result, no self-selection or bias was used in establishing the dataset, and a unique population of properties was used for the analysis.

Due to the fact that many source documents do not use the RICS cost classification system, cost data is entered into Bellrock's systems under the exact naming conventions used within each document. A member of the Portfolio Services team at Bellrock then allocates the costs to the correct RICS mandated cost category thus allowing the research to compare like with like. This "modified" data is then exported from the Bellrock database and, using the area (NIA) of each building, is converted into £ per sq. ft. figures. The median has long been the average employed by SCOR to represent the figures as, by its nature, it eliminates "outliers" (very high or very low figures). Lower quartiles and Upper quartiles - the first signifying the figure that 25% of the buildings fall below and the latter the figure that 25% of the buildings are more expensive than - are also shown. The quartiles also give an idea of the spread of the costs, the smaller the difference between the two figures suggests a more bunched up data set than if the difference were higher.

One final methodological issue relates to the calculation of median costs for certain types of costs. Not all buildings have all types of costs during a specific year, and sometimes an absence of cost is entered on the document as an amount of "0" or merely left blank. This inconsistency in accounting has the potential to distort the cost analysis. For example, where an amount is entered as "0", it will impact the calculation of the median cost for the entire population of buildings, whereas a blank entry will not. As a result, in order to prevent distorted figures, SCOR's analysis of the specific Major Works and Lifts & Escalators costs specifically excluded amounts of "0" when calculating the median costs.

2.1 The Dataset

Figure 1 illustrates the geographical spread of the dataset by UK office region, and this shows that approximately 44% of the properties are located in Greater London.

The analysis is split into buildings which fall within the Greater London region, or what we will term “London”, and those which lie in, what we designate “Rest of the UK” (ROUK). In addition, for parts of the analysis, the dataset within these two geographical classifications is then divided further based on total floor areas. Figures 2 and 3 illustrate the way in which each geographical classification has then been sub-divided showing the number of properties in each area division. The area divisions are not the same in both geographical classifications as buildings tend to be larger in the capital.

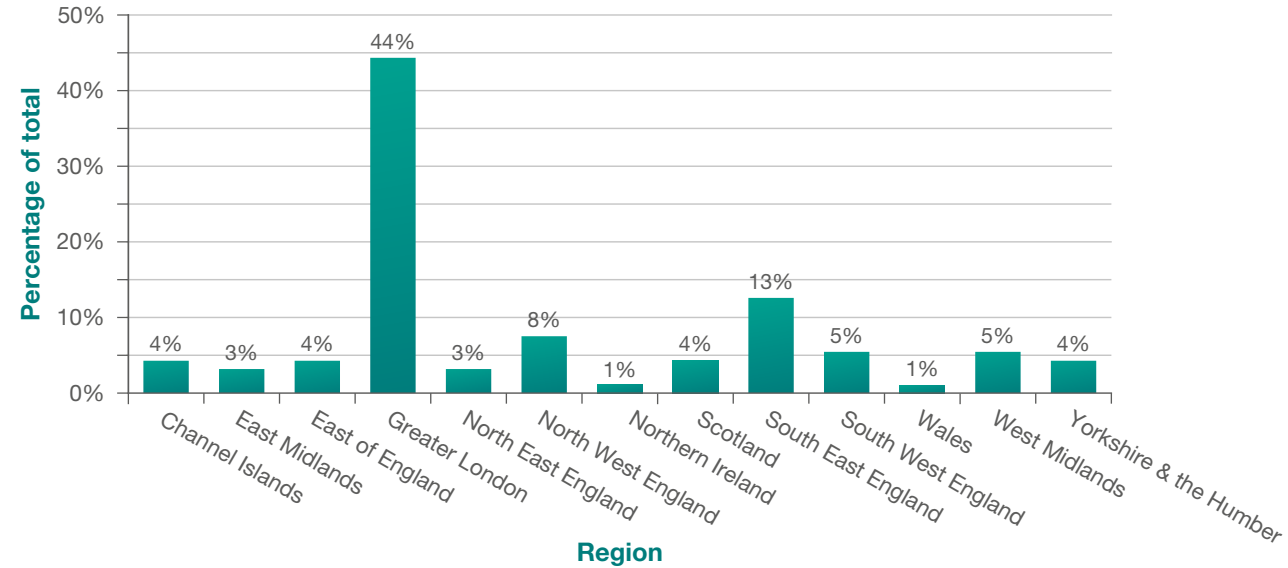


Figure 1: Geographical spread of the properties in the dataset, classifying them by their UK Government Office Region (GOR).

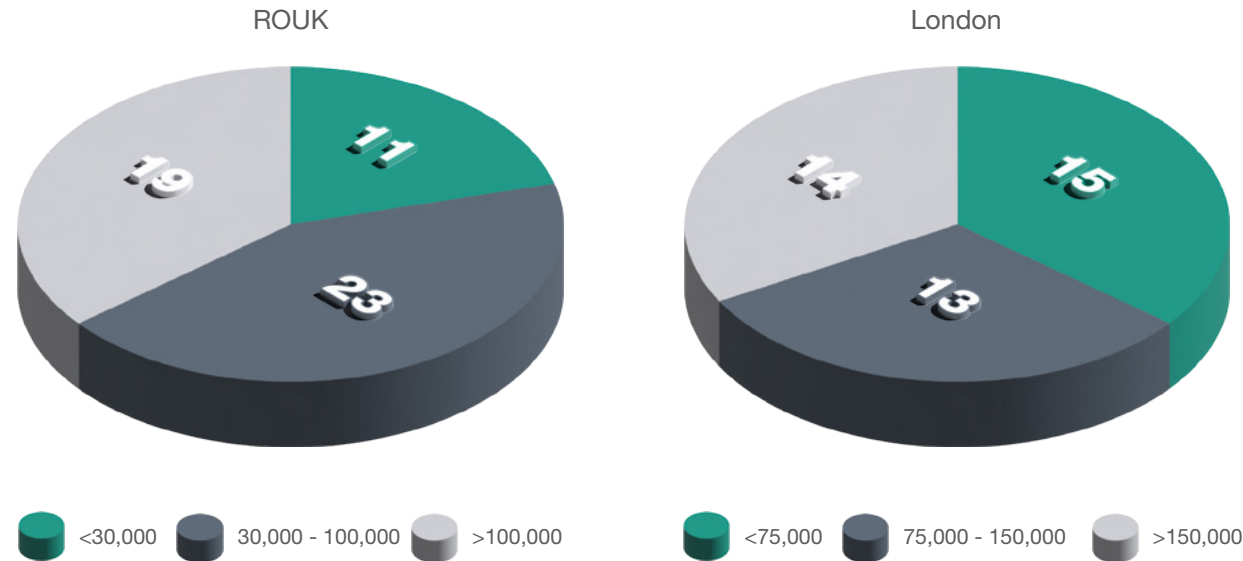


Figure 2: Sub-division of Rest of the UK properties as per total area in sq. ft.

Figure 3: Sub-division of London properties as per total area in sq. ft.

3. 2021 Cost Benchmarking

3.1 Overall Cost Benchmarking

The core data for SCOR for Offices 2021 was obtained from the analysis of service charge budgets supplied by occupiers from 95 multi-let office buildings. These locations had a total service charge expenditure of circa £123 million per annum, and represented a total floor area of just under 13 million sq. ft. The characteristics of the cost analysis dataset are given in Table 1.

Years	No. of Buildings	Types of Document	Total SC Cost	Total Floor Area
2021	95	Budget	£ 122,687,256	12,935,629

Table 1: Characteristics of the core dataset used for the main cost analysis.

Figure 4 and Table 2 show that the service charge costs per sq. ft. were significantly higher in London than the Rest of the UK.

In terms of costs in London, this year's median and lower quartile are very similar to last year's figures, rising by only 1.4% and 1.2%, respectively. The upper quartile however, rose by 6.1%. For the Rest of the UK, the median and lower quartile dropped by 6% and 10% respectively but the upper quartile rose by 1.3%. These comparisons, however, are across two different sets of buildings. Further discussion of service charge cost trends can be found in the Longitudinal Cost Benchmarking section of this report where the same buildings are used across three years.



Figure 4: Total service charge costs compared between properties located in London and the Rest of the UK.

£ Per sq. ft.	London	ROUK
Lower Quartile	10.12	4.40
Median	12.02	6.42
Upper Quartile	14.57	8.55

Table 2: Total service charge costs compared between properties located in London and the Rest of the UK.

3.2 RICS Cost Class Benchmarking - Irrespective of Location

This section provides cost benchmarks across the eight Cost Classes as per the 2018 RICS Professional Statement.

The results in Figure 5 show that across all cost classes, irrespective of geographical location, the largest costs are Soft services, Hard services, Management and Utilities, accounting for 31%, 25%, 17% and 16% of the total service charge cost, respectively. These results are comparable with last year's percentages.

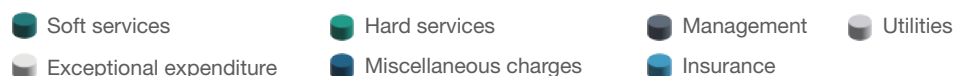
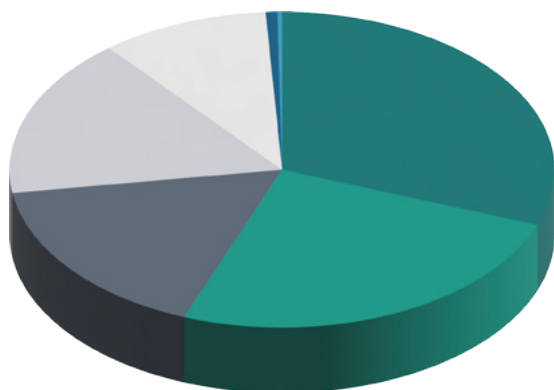


Figure 5: Percentage of total service charge costs per RICS Cost Class across the whole dataset.

3.3 RICS Cost Class Benchmarking - London and the Rest of the UK

Figures 5.1. and 5.2 show the costs per sq. ft. across RICS Cost Classes split between the Rest of the UK and London. The most noticeable differences between the overall results (Figure 5) and the geographical split is the higher proportion that Management accounts for in the Rest of the UK as compared to London; 19.0% vs 15.5%. Also, when comparing Exceptional Expenditure, the figure for London is 11.4%, compared to 7.8% in the Rest of the UK.

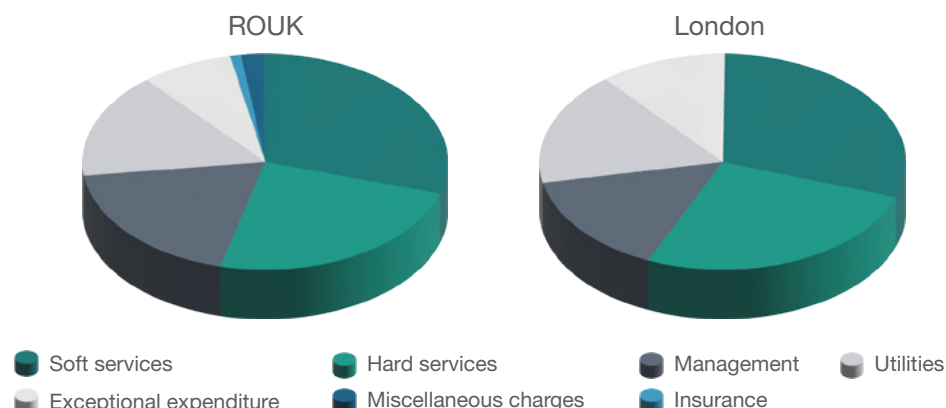


Figure 5.1: Percentage of total service charge costs per RICS Cost Class in the Rest of the UK.

Figure 5.2: Percentage of total service charge costs per RICS Cost Class in London.

£ Per sq. ft.	Lower Quartile		Median		Upper Quartile	
RICS Cost Class	London	ROUK	London	ROUK	London	ROUK
Management	1.27	0.66	1.88	0.99	2.67	1.53
Utilities	1.17	0.26	1.77	1.11	2.33	1.74
Soft services	2.66	1.33	3.74	1.87	4.47	2.55
Hard services	1.97	1.12	3.03	1.87	3.57	2.43
Income	0.00	0.00	0.00	0.00	0.00	0.00
Insurance	0.00	0.00	0.01	0.02	0.04	0.04
Exceptional expenditure	0.88	0.32	2.22	0.51	3.96	0.98
Miscellaneous charges	0.00	0.00	0.00	0.00	0.00	0.00
Quartiles of total costs	10.12	4.40	12.02	6.42	14.57	8.55

Table 3: Service charge expenditure across RICS Cost Classes split between London and the Rest of the UK.

3. 2021 Cost Benchmarking

3.4 RICS Cost Class Benchmarking - by Building Size in London and the Rest of the UK

Table 4.1 and Figure 6.1 show the service charge expenditure across all RICS Cost Classes split by building size in London. The results show that increasing building size does not have a large effect on the median of the total service charge.

Median costs (£ per sq. ft.)	London		
RICS Cost Class	< 75,000 sq. ft.	75,000 - 150,000 sq. ft.	> 150,000 sq. ft.
Management	2.47	1.73	1.99
Utilities	1.56	1.94	2.28
Soft services	2.63	3.78	3.74
Hard services	2.45	2.76	3.21
Income	0.00	0.00	0.00
Insurance	0.01	0.02	0.01
Exceptional expenditure	2.17	3.91	1.18
Miscellaneous charges	0.00	0.00	0.00
Medians of total costs (£ per sq. ft.)	11.71	12.96	11.90

Table 4.1: London service charge expenditure across all RICS Cost Classes split by total building area

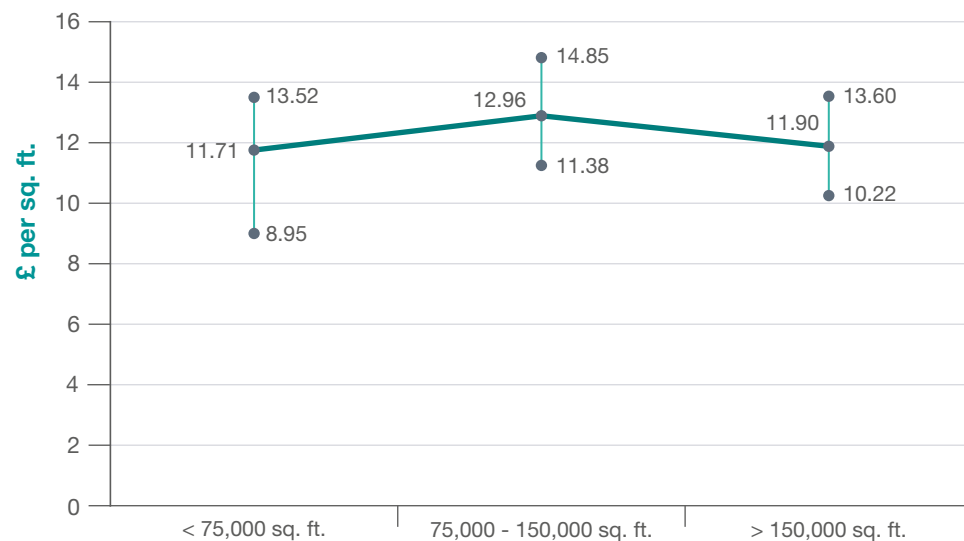


Figure 6.1: Quartiles of London service charge expenditure split by total building area.

The results for the Rest of the UK are shown in Table 4.2 and Figure 6.2. Unlike locations in the capital, building size in the Rest of the UK has an effect on the median of total service charge expenditure, with a rise of nearly 21% between the smallest and the largest buildings. Soft services, Hard services and Management contribute most to this increase. However, the lower quartile shows a fall between the smallest and largest buildings.

Median costs (£ per sq. ft.)	ROUK		
RICS Cost Class	< 30,000 sq. ft.	30,000 - 100,000 sq. ft.	> 100,000 sq. ft.
Management	0.92	0.90	1.16
Utilities	1.34	0.96	1.34
Soft services	1.61	1.72	1.90
Hard services	1.87	1.86	2.37
Income	0.00	0.00	0.00
Insurance	0.01	0.03	0.01
Exceptional expenditure	0.13	0.90	0.56
Miscellaneous charges	0.00	0.00	0.00
Medians of total costs (£ per sq. ft.)	6.07	6.40	7.24

Table 4.2: Rest of the UK service charge expenditure across all RICS Cost Classes split by total building area.

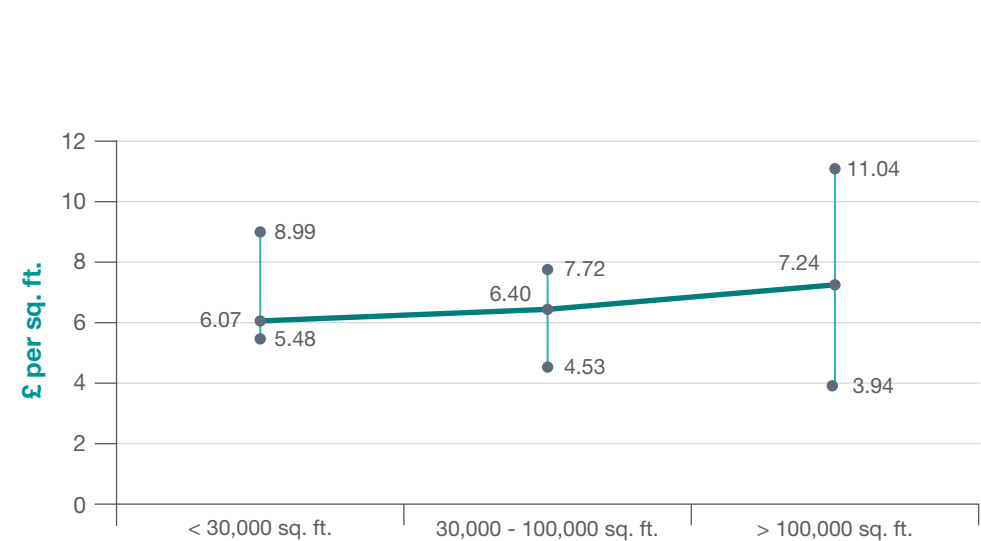


Figure 6.2: Quartiles of Rest of the UK service charge expenditure split by total building area

3.5 RICS Cost Category Benchmarking

Since SCOR's inception its benchmarking analysis has focused on nine specific RICS Cost Categories which typically represent the majority of service charge costs. Figure 7 shows the breakdown of costs between these nine cost categories, irrespective of geographic location, with Security (17.0%), M&E Services (16.4%) and Cleaning and Sustainability (11.9%) being the greatest contributors to the overall costs. When the "Total cost of management" (Management fee plus Site management resources) is considered, this contributes 15.7% to the total.

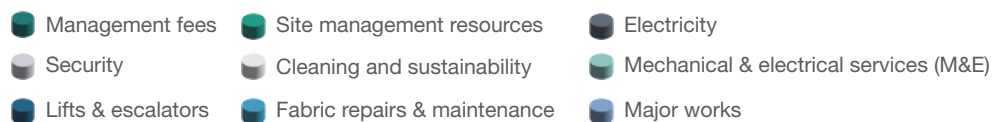
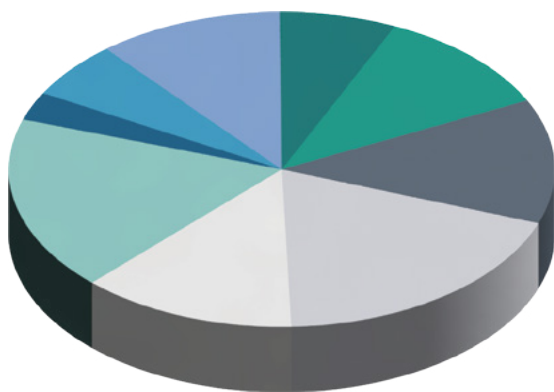


Figure 7: Percentage of total service charge costs across the selected nine RICS Cost Categories across the whole dataset.

The results in Table 5 indicate that Security, Mechanical & electrical services and Major works are a higher proportion of total median costs in London, than the Rest of the UK. However, Cleaning and sustainability and Fabric repairs & maintenance account for a larger proportion of the total costs in the Rest of the UK as compared to London.

£ Per sq. ft.	Lower Quartile		Median		Upper Quartile	
RICS Cost Category	London	ROUK	London	ROUK	London	ROUK
Management fees	0.63	0.31	0.75	0.52	0.93	0.64
Site management resources	0.50	0.05	0.87	0.39	1.53	0.77
Electricity	0.71	0.16	1.30	0.62	1.75	1.25
Security	1.54	0.22	2.23	0.74	2.84	1.26
Cleaning and sustainability	1.02	0.54	1.28	0.87	1.84	1.47
Mechanical & electrical services	1.53	0.37	1.96	0.82	2.66	1.60
Lifts & escalators	0.15	0.10	0.22	0.13	0.32	0.23
Fabric repairs & maintenance	0.27	0.28	0.47	0.48	0.73	0.89
Major works	1.03	0.32	2.45	0.50	4.11	0.94
Quartiles of total costs	10.12	4.40	12.02	6.42	14.57	8.55

Table 5: Service charge expenditure across nine RICS Cost Categories.

3. 2021 Cost Benchmarking

As mentioned earlier in the methodology section, as the service charge budgets and certificates for many buildings do not include and/or populate the Major works and Lifts & escalators cost categories, analysis of these costs were conducted by using the median measure of average but allowing there to be blanks in the data as opposed to considering these to be zero values.

Tables 6.1 and 6.2 provide further cost analysis by building area across the nine chosen RICS cost categories within each geographical classification.

Median costs (£ per sq. ft.)	London		
RICS Cost Category	< 75,000 sq. ft.	75,000 - 150,000 sq. ft.	> 150,000 sq. ft.
Management fees	0.76	0.82	0.69
Site management resources	0.74	0.73	1.18
Electricity	0.71	1.41	1.57
Security	0.43	2.30	2.36
Cleaning and sustainability	1.84	1.18	1.15
Mechanical & electrical services	1.56	2.07	2.38
Lifts & escalators	0.18	0.24	0.23
Fabric repairs & maintenance	0.57	0.49	0.39
Major works	2.20	3.91	1.82
Medians of total costs (£ per sq. ft.)	11.71	12.96	11.90

Table 6.1: London service charge expenditure across nine RICS Cost Categories split by total building area.

Median costs (£ per sq. ft.)	ROUK		
RICS Cost Category	< 30,000 sq. ft.	30,000 - 100,000 sq. ft.	> 100,000 sq. ft.
Management fees	0.63	0.50	0.43
Site management resources	0.12	0.33	0.67
Electricity	0.76	0.49	0.70
Security	0.27	0.87	0.92
Cleaning and sustainability	1.19	0.76	0.99
Mechanical & electrical services	1.20	0.71	1.10
Lifts & escalators	0.15	0.13	0.14
Fabric repairs & maintenance	0.54	0.58	0.33
Major works	0.02	0.62	0.56
Medians of total costs (£ per sq. ft.)	6.07	6.40	7.24

Table 6.2: Rest of the UK service charge expenditure across nine RICS Cost Categories split by total building area.



4. Longitudinal Cost Benchmarking

Longitudinal cost analysis for three continuous years (2019, 2020 and 2021) was also undertaken on 76 office buildings selected based on the availability of source documents for each of the three years. This analysis was performed to identify cost trends and provide greater insight into the changing nature and magnitude of service charge costs over time.

Years	No. of Buildings	Types of Document	Total SC Cost	Total Floor Area
2019-2021	76	Certificates/Budgets	£100,747,718	10,429,709 sq. ft.

Table 7: Characteristics of longitudinal cost analysis dataset.

4.1 Longitudinal Cost Benchmarking - Overall Costs

We are mindful that, as we comment upon these longitudinal trends, we have experienced a once in a century event over the last 18 months which will have materially affected the levels of the services delivered to the common parts of the buildings represented in the dataset. It would also be true to say that, as the documents used for the analysis are either budgets or end-of-year certificates, those documents, especially for the 2020 figures, may vary widely. It is with this in mind that we caution users of this research if they seek to draw hard and fast lines between this research and their own building(s).

Figure 8 shows the quartiles of the total annual service charge costs per sq. ft. for all 76 properties, regardless of geographical location. In the median costs there is an overall increase of 6.3% between 2019 and 2021.

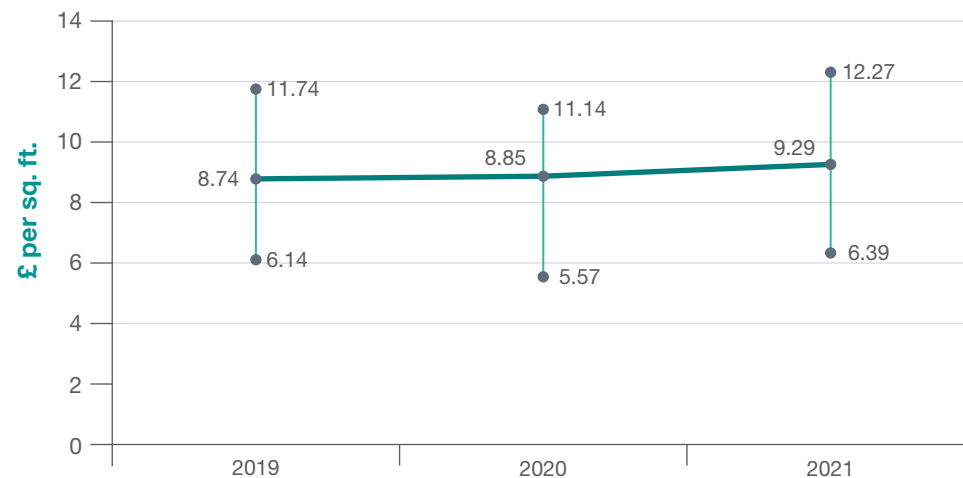


Figure 8: Total service charge cost trends for the years 2019-2021 - £ per sq. ft.

4. Longitudinal Cost Benchmarking

4.2 Longitudinal Cost Benchmarking - RICS Cost Classes

The annual median cost per sq. ft. for all RICS Cost Classes are compared year on year as shown in Table 8. The results show that the only Cost Class that shows any appreciable increase over the three year period is Exceptional expenditure, rising by 25% in the period 2019 to 2021.

Median costs (£ per sq. ft.)			
RICS Cost Class	2019	2020	2021
Management	1.32	1.34	1.31
Utilities	1.62	1.43	1.65
Soft services	2.55	2.29	2.55
Hard services	2.03	2.22	2.18
Income	0.00	0.00	0.00
Insurance	0.00	0.02	0.02
Exceptional expenditure	0.88	0.85	1.07
Miscellaneous charges	0.00	0.00	0.00
Medians of total costs (£ per sq. ft.)	8.74	8.85	9.29

Table 8: Service charge expenditure across all RICS Cost Classes compared over three years: 2019-2021

As with the earlier RICS Cost Class analysis, the results for the longitudinal analysis are split by London and the Rest of the UK and are shown in Table 9.

Median costs (£ per sq. ft.)		London			Rest of the UK		
RICS Cost Class		2019	2020	2021	2019	2020	2021
Management		1.75	1.78	1.85	1.04	1.05	1.10
Utilities		1.99	1.74	1.89	1.22	1.14	1.37
Soft services		3.53	3.52	3.84	1.74	1.61	1.88
Hard services		2.67	2.84	3.07	1.61	1.75	1.88
Income		0.00	0.00	0.00	0.00	0.00	0.00
Insurance		0.00	0.02	0.02	0.01	0.02	0.02
Exceptional expenditure		1.24	0.97	2.45	0.48	0.51	0.67
Miscellaneous charges		0.00	0.00	0.00	0.00	0.00	0.00
Medians of total costs (£ per sq. ft.)		11.48	10.97	12.21	6.59	6.22	6.53

Table 9: Comparison of RICS Cost Classes over three years split between London / Rest of the UK.



4.3 Longitudinal Cost Benchmarking - RICS Cost Categories

The annual median costs per sq. ft. for the same nine RICS Cost Categories were compared year on year as shown in Table 10. Over the three-year period, the most notable material increases occurred in Major works (36%), M&E services (19%) and Cleaning and sustainability (11%).

Median costs (£ per sq. ft.)			
RICS Cost Category	2019	2020	2021
Management fees	0.62	0.62	0.62
Site management resources	0.54	0.60	0.59
Electricity	1.15	1.09	1.07
Security	1.30	1.20	1.26
Cleaning & sustainability	1.00	1.04	1.11
Mechanical and electrical services	1.29	1.29	1.54
Lifts and escalators	0.13	0.13	0.16
Fabric repairs and maintenance	0.44	0.48	0.48
Major works	0.97	0.90	1.31
Medians of total costs (£ per sq. ft.)	8.74	8.85	9.29

Table 10: Service charge expenditure across nine RICS Cost Categories compared over three years: 2019-2021.

Table 11 shows the results of the analysis when the RICS Cost Categories are compared across London and the Rest of the UK.

Median costs (£ per sq. ft.)	London			Rest of the UK		
RICS Cost Category	2019	2020	2021	2019	2020	2021
Management fees	0.78	0.79	0.76	0.48	0.49	0.52
Site management resources	0.74	0.83	0.80	0.37	0.42	0.39
Electricity	1.41	1.33	1.41	0.60	0.56	0.70
Security	2.37	2.20	2.36	0.88	0.80	0.83
Cleaning & sustainability	1.23	1.22	1.31	0.87	0.81	0.85
Mechanical and electrical services	2.00	2.07	2.03	0.86	0.83	0.92
Lifts and escalators	0.21	0.20	0.23	0.09	0.12	0.12
Fabric repairs and maintenance	0.48	0.48	0.47	0.39	0.53	0.49
Major works	1.88	1.16	2.55	0.53	0.83	0.67
Medians of total costs (£ per sq. ft.)	11.48	10.97	12.21	6.59	6.22	6.53

Table 11: Longitudinal comparison across nine RICS Cost Categories over three years split between London / Rest of the UK.



5. Compliance with the 2018 Professional Statement

5.1 New Compliance Metrics for SCOR 2021

Based upon a review of 62 annual statements of service charge expenditure (certificates) whose fiscal year commenced on or after 1 April 2019, this section presents the results of our compliance analysis that investigates whether select accounting presentation and disclosure requirements of the 2018 RICS Professional Statement have been adopted by managing parties.

After evaluating the Professional Statement, the SCOR research team identified 17 “must”, “should” and “other” compliance metrics that **both** captured the main accounting and administrative requirements of the Professional Statement and could be identified via an unbiased, “binary” review of the annual service charge accounts (i.e. a requirement would be coded “yes” if it was included and/or fully described, or “no” if it was absent or only partially explained). As the leases for many properties do not require the creation of a sinking or reserve fund, no metrics were included to measure the accounting requirements in this area. Each of the 17 metrics are explained in more detail in Table 12.

No.	Requirement	Must/Should	Measurement
1	The Professional Statement requires that fees be set on a fixed-price basis (Section 4.1.3.2, page 14)	Must	Binary coding – yes/no
2	Ensure that a service charge apportionment matrix for the property is provided annually to all tenants. Clearly shows the basis and method of calculation, and the total apportionment per schedule for each unit within the property. (Section 4.2.4, page 18)	Must	Binary coding – yes/no
3	Service charge monies must be held in one or more discrete [or virtual] bank accounts (Section 4.5, page 22)	Must	Clear statement – yes/no
4	Interest earned on service charge accounts must be credited to the service charge account after appropriate deductions have been made (Section 4.5.10, page 27)	Must	Binary coding based upon evidence – yes/no
5	Timeliness - Detailed statements of actual expenditure, together with accounting policies and explanatory text, should be issued within four months of the service charge year end (Section 4.5.12, page 27-28)	Should	Binary coding – yes/no
6	Industry Standard Cost Classifications should be used in reporting budget and actual expenditure. As a minimum acceptable level of reporting, service charge budgets and statements of actual expenditure should be prepared at cost class level (Section 4.5.5, page 25)	Should	Cost classes Binary coding – yes/no
7	and cost category level (Section 4.5.5, page 25)	Should	Cost category Binary coding -yes/no
8	Service charge accounts should include a comprehensive list of accounting policies and principles including: whether the accounts are prepared on an accruals or where permitted, the cash basis (Section 4.5.1, page 23)	Should	Clear statement of whether accounts are prepared on an accrual or cash basis Yes/no
9	Where the accounts are prepared on an accruals basis, they should be accompanied by a schedule of opening and closing prepayments and accrued expenses (Section 4.5.6, page 26)	Should	Binary coding – yes/no
10	An analysis of any material variances between budget and actual expenditure, with a detailed commentary to explain trends and variances where significant (section 4.5.2, page 23)	Should	Binary coding – yes/no
11	Other information includes: A statement detailing how insurance claims are accounted for (Section 4.5.2, page 23)	Should	Clear statement on insurance claims – yes/no
12	Other information: Whether the owner has waived the exemption to charge VAT (opted to tax) (Section 4.5.1, page 23)	Should	Statement of whether owner has waived exemption to charge VAT Yes/no
13	The accounts should be approved by or on behalf of the landlord as complying with the following statements: the accounts produced represent the actual expenditure incurred by the owner in supplying the services to the building (section 4.5.3.2, page 23) and	Should	Clear statement – yes/no
14	That the expenditure the owner is seeking to recover is in accordance with the terms of the leases and where practicable, the provisions of the professional statement (section 4.5.3.2, page 24)	Should	Clear statement – yes/no
15	The approver should be an appropriately qualified and competent person with experience in dealing with service charges. The status of the person and the capacity in which they are acting should be made clear (section 4.5.3.2, p. 24)	Should	Clear statement of status and capacity – yes/no
16	Annual statements of service charge expenditure should be supported by an independent review of service charge accounts, such as specified with the ICAEW Technical Release (Section 3, principle 13, page 11)	Should	Includes an Independent Accountants' report – yes/no
17	Openness and transparency can be further enhanced by the inclusion of a balance sheet or cash reconciliation (Section 4.5.4, page 24)	Other	Binary coding – yes/no

Table 12: Metrics for assessing service charge accounting compliance with the RICS Professional Statement

The metrics include 4 “musts”, 12 “shoulds”, and 1 “other” requirement as per the language used within the Professional Statement. As the 1 “other” requirement included within the Professional Statement (“Openness and transparency can be further enhanced by the inclusion of a balance sheet or cash reconciliation”) is neither a “must” or a “should”, each property’s annual service charge accounts were ranked out of a total compliance score of 16 (i.e. the 4 “musts” and 12 “should”), with separate reporting of compliance with the 1 “other” requirement.

The characteristics of the compliance dataset are provided in Table 13.

Years	No. of Buildings	Types of Document	Total SC Cost	Minimum no. of Property Owners represented	Minimum no. of Managing Agents represented
2019-2020	62	Service Charge Certificates	£63,003,836	55	36

Table 13: Characteristics of the dataset used for the compliance analysis 2021



5. Compliance with the 2018 Professional Statement

5.2 Compliance Results for 2021

Table 14 provides the compliance results for each of the 16 “must” and “should” metrics for the 62 buildings.

When assessing the results in Table 14, it is disappointing to note that there was less than 52% compliance with three of the four “must” requirements (Metrics 1-4 in Table 12) of the Professional Statement, with the “crediting of interest earned” achieving the highest result at 62.9% compliance. While three of these “must” metrics are specifically listed under the Professional Statement’s list of “mandatory” requirements (RICS, 2018, p.9), the document also “requires that [management] fees be set on a fixed-price basis” (RICS, 2018, p.14) so this metric is also classified as a “must” rather than merely a “should”.

In addition, the relatively low level of compliance with some of the 16 requirements, such as “Statement that accrual accounting used” (No. 8: 46.8%) and to certify that the accounts represent actual expenditure incurred in supplying services in accordance with the lease (No. 13: 51.6% and No. 14: 30.6%), are more concerning, since this information is essential for determining whether the accounts provide “true and fair” and faithfully representative information for occupiers. These accounting requirements also serve to enhance the comparability and overall quality of the resultant accounting information. Furthermore, many of the other accounting requirements, such as providing the financial statements within four months of the year end (No. 5) and utilizing industry specific cost classes and categories (Nos 6 and 7), should not be too onerous for professional managing parties to comply with.

Requirement	Must/ Should	Compliance out of 62	
		No.	%
1. Fixed Management Fee	M	32	51.6%
2. Apportionment matrix is provided for each unit in the property	M	27	43.5%
3. Statement that service charge monies are held in one or more discrete bank accounts	M	24	38.7%
4. Interest earned credited to the service charge account	M	39	62.9%
5. Timeliness Compliant (date) - annual accounts produced within four months of year end	S	28	45.2%
6. Cost Classes Used	S	34	54.8%
7. Cost Categories Used	S	39	62.9%
8. Statement that accrual accounting or cash basis used	S	29	46.8%
9. Schedule of accruals and prepayments.	S	25	40.3%
10. Description of Variances	S	43	69.4%
11. Statement about how insurance claims are accounted for	S	14	22.6%
12. Statement about whether owner has waived exemption to charge VAT	S	36	58.1%
13. Statement that accounts represent the actual expenditure incurred in supplying services	S	32	51.6%
14. Statement that amounts seeking to be recovered are in accordance with the lease and where practicable the PS	S	19	30.6%
15. Approver should be an appropriately qualified and qualified person. Status of person should be made clear	S	26	41.9%
16. Accounts should be supported by an independent review in line with ICAEW Technical Release	S	33	53.2%

Table 14: Compliance against 16 “must and “should” accounting requirements of the Professional Statement



In terms of the 17th metric, the inclusion of a balance sheet, only 1 of the documents (1.61%) included such an accounting statement, which is disappointing as a balance sheet provides transparency as to the magnitude of end-of-period assets, liabilities, and reserves. In addition, the provision of a balance sheet will benefit the auditing process and assist greatly during the handover of the service charge accounts to a new agent.

Figure 9 provides the overall compliance rankings for each of the 62 certificates against the 16 “must” and “should” metrics of the 2018 Professional Statement.

While it is difficult to generalize from a sample of only 62 buildings, it is clear that compliance varies widely. 8.1% of documents fully complied with all 16 requirements, while 3.2% complied with zero requirements. 51.6% of documents complied with 8 or more metrics, but 38.7% complied with 4 or fewer of the requirements analysed. Overall, compliance levels appear similar to those found within SCOR's previous reviews of compliance against the old RICS Code, with some managing parties trying hard to comply, while others have much work to do. SCOR will continue to monitor compliance with key accounting aspects of the 2018 Professional Statement, and plans to include longitudinal compliance analysis when sufficient data is available.

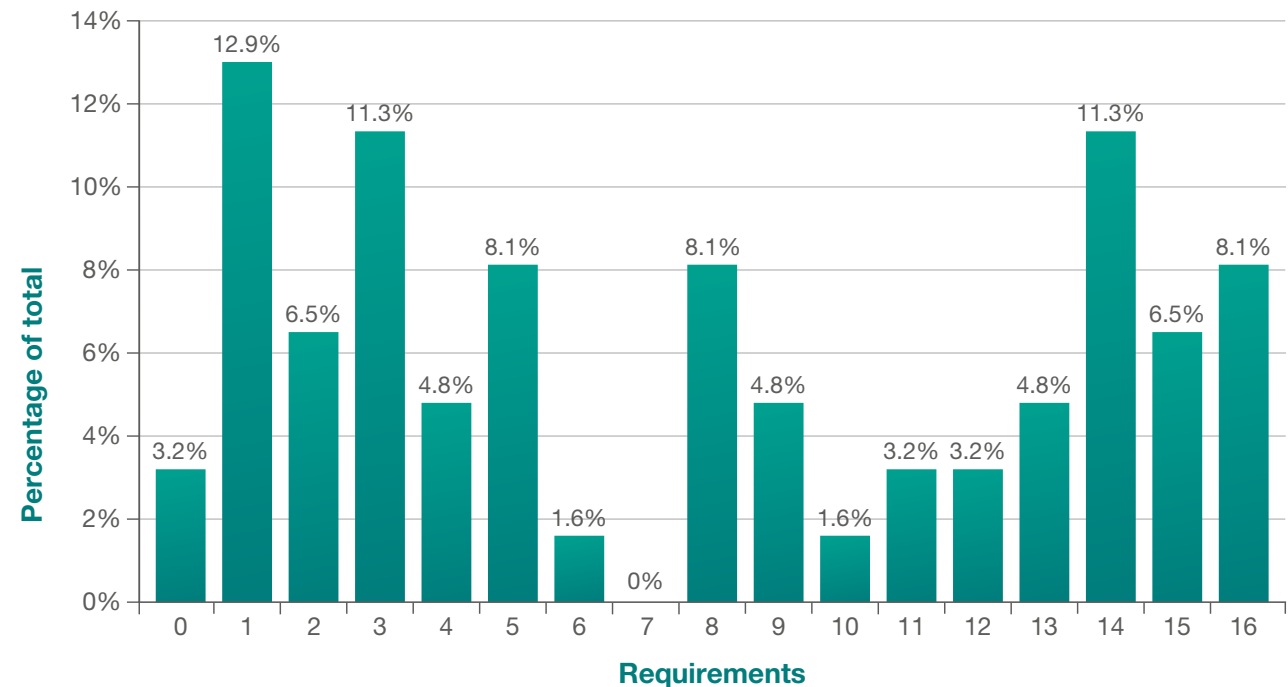


Figure 9: Compliance rankings against 16 accounting requirements of the 2018 Professional Statement

6. Summary of Findings

- ▶ The medians of the total service charge for office buildings in London and the Rest of the UK were £12.02 and £6.42 per sq. ft., respectively.
- ▶ The four most significant RICS Cost Classes, in terms of budgeted expenditure, are Soft services, Hard services, Management and Utilities, which together represent approximately 89% of total annual forecasted service charge spend during 2021, precisely the same percentage as 2020.
- ▶ The “Total cost of management” (Management fee plus Site management resources) contributes nearly 16% to the total service charge costs
- ▶ In the longitudinal study, over the last three years, service charges have increased by 6.3% although, as we point out in the research, this period continues to be affected by a once in a century event (the Covid 19 pandemic), which has undoubtedly materially affected the services delivered to the buildings in the dataset, and therefore the costs incurred.
- ▶ Key service charge cost metrics for London and the Rest of the UK by building size:

Median costs (£ per sq. ft.)	London		
RICS Cost Category	< 75,000 sq. ft.	75,000 - 150,000 sq. ft.	> 150,000 sq. ft.
Management fees	0.76	0.82	0.69
Site management resources	0.74	0.73	1.18
Electricity	0.71	1.41	1.57
Security	0.43	2.30	2.36
Cleaning and sustainability	1.84	1.18	1.15
Mechanical & electrical services	1.56	2.07	2.38
Lifts & escalators	0.18	0.24	0.23
Fabric repairs & maintenance	0.57	0.49	0.39
Major works	2.20	3.91	1.82
Medians of total costs (£ per sq. ft.)	11.71	12.96	11.90

Table 6.1: London service charge expenditure across nine RICS Cost Categories split by total building area.

- ▶ The compliance results for SCOR's 16 “must” and “should” accounting requirements from the 2018 Professional Statement were relatively disappointing. Compliance for any of the four “must” accounting requirements failed to exceed 62.9%, and only 51.6% of documents complied with eight or more of the metrics.
- ▶ Only one document (1.61% of the sample) included an end of period balance sheet of the assets and liabilities on the service charge account.
- ▶ Bellrock is currently the only stakeholder assessing the accounting compliance of service charge documents against RICS best practice. This best practice, as embodied in the Professional Statement, is mandatory on all those, whether individuals or companies, who are registered with the RICS.

Median costs (£ per sq. ft.)	ROUK		
RICS Cost Category	< 30,000 sq. ft.	30,000 - 100,000 sq. ft.	> 100,000 sq. ft.
Management fees	0.63	0.50	0.43
Site management resources	0.12	0.33	0.67
Electricity	0.76	0.49	0.70
Security	0.27	0.87	0.92
Cleaning and sustainability	1.19	0.76	0.99
Mechanical & electrical services	1.20	0.71	1.10
Lifts & escalators	0.15	0.13	0.14
Fabric repairs & maintenance	0.54	0.58	0.33
Major works	0.02	0.62	0.56
Medians of total costs (£ per sq. ft.)	6.07	6.40	7.24

Table 6.2: Rest of the UK service charge expenditure across nine RICS Cost Categories split by total building area.

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