

Service Charge Operating Report *for* Retail

2017

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1. RECOMMENDATIONS

Based on the analysis and findings presented in this report, the cost benchmarking and compliance results would suggest the industry consider the following recommendations:

- Those property owners whose service charge accounting practices score poorly when measured up against the RICS Code must consider the ramifications of the upcoming 2018 edition holding the status of a professional statement and therefore becoming mandatory on RICS professionals and RICS regulated firms.
- Transparent property owners, wishing to go above and beyond the Code, should consider presenting the service charge accounts in the form of an end-of-year balance sheet, keeping up with best practice in the office service charge sector.
- Occupiers should make sure they interrogate the costs in the service charge budgets and certificates issued, cross-referencing them with the terms of their leases.

2. SERVICE CHARGE BENCHMARKING METHODOLOGY – PROFESSOR ANDREW HOLT

The Service Charge Operating Report (SCOR) for Retail is produced from data provided to Property Solutions by an array of contributing parties, including directly from commercial landlords. This varied data provides an unbiased and representative dataset, which this year incorporates service charge information from 70 unique landlords and 39 unique managing parties within the commercial retail sector.

While having a representative data source is crucial, it is also vital that information is collected and analysed in a neutral manner, free from researcher bias and inaccuracy. In terms of data collection, all SCOR data is obtained from the actual service charge budgets and reconciliation statements (service charge certificates) provided to commercial occupiers by managing parties. Supplementary information, such as that contained within covering letters and additional attachments, is also reviewed where it is relevant to the analysis. As data is hand collected by the research team from actual service charge documents, there is no potential for third-party bias in terms of manipulation or selective-exclusion of documents. Furthermore, for each part of SCOR’s benchmarking analysis, all available service charge data for a given period is included, unless the underlying source document is incomplete, or a random sample is used.

In terms of analysis, content analysis is used to derive both the service charge benchmark cost and Royal Institute of Chartered Surveyors’ (RICS) Code of Practice - Service Charges in Commercial Property (Code) compliance results. For the compliance analysis, all available service charge reconciliation certificates for the latest SCOR year are used. Unlike the cost analysis, the processing of the compliance data often requires some degree of subjective interpretation on behalf of the research team. In practice, the potential for bias in this type of work is remote as it requires limited interpretation by the researcher.

While the majority of SCOR’s data collection and analysis is performed by a research team at Property Solutions, the work is closely monitored by an independent academic supervisor. I have proudly held this position since the inception of the SCOR Report and have helped to establish its methodology, annually verifying the neutrality and independence of the reported results. As part of this verification process, during the preparation of each year’s report, the academic supervisor conducts a comprehensive audit of the data collection, analysis and archiving process. In terms of data verification, a random sample of the documents used for SCOR’s cost and compliance analysis are selected in order to determine the accuracy and consistency of the data input, analysis and results.

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Property owners must consider the ramifications of the 2018 edition of the RICS Code holding the status of a professional statement.
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3. FINDINGS AND ANALYSIS

3.1. Cost benchmarking for the most recent year

Detailed cost analysis was undertaken for a sample of 102 shopping centres, which was an increase of 8 properties when compared to last year. Table 1 and Figures 1 & 2 provide descriptive information about the cost benchmarking dataset.

Year of expenditure	No. of centres	No. of unique landlords	No. of unique managing parties	Total area (sq. ft.)	Total cost (£)
2016	102	70	39	48,396,829	323,701,828

Table 1. Characteristics of the cost benchmarking dataset for SCOR 2017

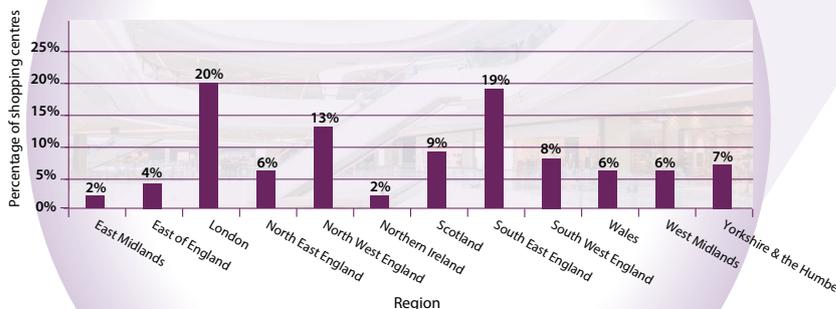
Figure 1. Property sizes (in sq. ft.) of all the shopping centres in the dataset



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This year’s data incorporates service charge information from 70 unique landlords and 39 unique managing parties within the commercial retail sector across the UK
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Table 1 and Figures 1 & 2 illustrate that the cost benchmarking dataset included a range of different sized properties located throughout the United Kingdom (UK). Approximately 40% of the centres were in London and the South East, and 20% were from the North West and the North East of England. Table 2 shows the analysis of the service charge costs for all 102 shopping centres.

Figure 2. Geographic representation of the shopping centres in the dataset



RICS Cost Category	Lower quartile	Median	Upper quartile
	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
Management fees	0.26	0.35	0.52
Site management resources	0.54	0.76	1.09
Electricity	0.18	0.30	0.48
Gas	0.02	0.04	0.08
Security	0.73	1.01	1.37
Cleaning & environmental	0.71	1.10	1.60
Mechanical & electrical (M&E) services	0.16	0.36	0.66
Lifts & escalators	0.04	0.09	0.16
Fabric repairs & maintenance	0.17	0.29	0.53
Marketing and promotions	0.14	0.28	0.49

Total Service Charge	Lower quartile	Median	Upper quartile
	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
Quartiles of Total Costs	3.92	5.40	6.94

Table 2. Analysis of service charge costs across all shopping centres

The Total cost of Management (ie Management fees and Site management resources), Security, and Cleaning & environmental categories represented 60% of total service charge costs, which is consistent with prior years. These three categories of cost are the most significant components of total service charge at most shopping centres and must be carefully monitored. Historically, industry practice was to set management fees at 10% of total annual expenditure, although the RICS Code dictates that such charges should be levied as a fixed fee. As the total cost of management now appears to represent approximately 20% of total annual expenditure, it is perhaps time for certificates to provide greater explanatory detail about the charging basis for such fees, as many fail to provide this information even though the Code demands it.

In terms of future cost increases, the increase in the National Living Wage (and its counterpart; the London Living Wage) will continue to trigger yearly increases in certain service charge costs, and SCOR reports on longitudinal cost changes and trends in the next section.

Table 3 provides separate regional cost information for London and the Rest of the UK (ROUK), and this illustrates that London-based centres incur comparatively higher costs than those located in the ROUK. This cost differential appears to be wider than last year, and represents a service charge cost premium of around 40-50% for London properties.

RICS Cost Category	Lower quartile		Median		Upper quartile	
	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
	London	ROUK	London	ROUK	London	ROUK
Management fees	0.35	0.26	0.50	0.34	0.71	0.45
Site management resources	0.80	0.51	0.92	0.69	1.13	1.05
Electricity	0.28	0.17	0.49	0.28	0.67	0.43
Gas	0.04	0.02	0.06	0.03	0.08	0.08
Security	1.15	0.71	1.40	0.92	1.97	1.24
Cleaning & environmental	1.13	0.63	1.35	0.98	2.03	1.43
Mechanical & electrical (M&E) services	0.25	0.12	0.48	0.33	0.72	0.56
Lifts & escalators	0.06	0.04	0.11	0.09	0.19	0.15
Fabric repairs & maintenance	0.25	0.16	0.40	0.27	0.72	0.51
Marketing and promotions	0.03	0.18	0.27	0.28	0.47	0.50

Total Service Charge	Lower quartile		Median		Upper quartile	
	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
	London	ROUK	London	ROUK	London	ROUK
Quartiles of total costs	5.77	3.83	6.87	4.93	9.62	6.60

Table 3. Analysis of service charge costs at shopping centres located in London (centres: 20) and in the ROUK (centres: 82)

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The Total Cost of Management is the costliest element of a service charge and constitutes approximately 20% of the total cost.

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Apart from Marketing and promotions costs, all other categories of expenditure are far higher per sq. ft. in London than the ROUK. These higher costs at London-based centres may be partially explained by the need to pay a higher hourly rate in the capital, but other unexplained factors appear to be driving the significant cost differentials in London. Further analysis is needed, but the costs of labour intensive contracts in London may be being inflated through the application of higher profit margins or the over-allocation of overheads.

As well as regional differences, it is important to determine if costs vary depending on whether a centre is covered or part-/uncovered. Table 4 provides details of the costs at 78 covered and 24 part-/uncovered centres, and illustrates that occupiers in covered shopping centres incurred higher costs than those in part-/uncovered centres. Cost categories that contribute to the greatest extent of this difference were Utilities, Cleaning, Mechanical & electrical services and Fabric repairs & maintenance.

Cost Category	Lower quartile		Median		Upper quartile	
	£ per sq. ft.		£ per sq. ft.		£ per sq. ft.	
	Covered	Part-/uncovered	Covered	Part-/uncovered	Covered	Part-/uncovered
Management fees	0.29	0.17	0.40	0.30	0.54	0.43
Site management resources	0.57	0.37	0.80	0.65	1.16	0.81
Electricity	0.22	0.08	0.38	0.22	0.53	0.27
Gas	0.02	0.01	0.04	0.03	0.08	0.05
Security	0.79	0.69	1.05	0.92	1.43	1.28
Cleaning & environmental	0.82	0.40	1.16	0.73	1.62	1.09
Mechanical & electrical (M&E) services	0.22	0.11	0.40	0.17	0.72	0.38
Lifts & escalators	0.04	0.03	0.09	0.07	0.16	0.14
Fabric repairs & maintenance	0.18	0.15	0.34	0.20	0.59	0.29
Marketing and promotions	0.17	0.00	0.29	0.24	0.52	0.33

Total Service Charge	Lower quartile		Median		Upper quartile	
	£ per sq. ft.		£ per sq. ft.		£ per sq. ft.	
	Covered	Part-/uncovered	Covered	Part-/uncovered	Covered	Part-/uncovered
Quartiles of Total Costs	4.47	2.85	5.60	3.78	8.09	5.80

Table 4. Analysis of service charge costs for covered (78 centres) and part-/uncovered (24 centres) shopping centres

Theoretically, larger properties may offer economies of scale when it comes to cost per sq. ft. for certain types of cost. As Table 5 shows, however, in London larger properties reported a higher median service charge cost per sq. ft. than smaller centres. In the ROUK, the difference between total service charge costs was marginal between those shopping centres above or below 300,000 sq.ft. in total area.

RICS Cost Category	London		ROUK	
	£ per sq. ft.		£ per sq. ft.	
	<300,000 sq. ft. (12 centres)	>300,000 sq. ft. (8 centres)	<300,000 sq. ft. (36 centres)	>300,000 sq. ft. (46 centres)
Management fees	0.56	0.42	0.37	0.34
Site management resources	0.92	0.93	0.73	0.68
Electricity	0.45	0.53	0.27	0.29
Gas	0.06	0.04	0.05	0.03
Security	1.60	1.40	1.02	0.87
Cleaning & environmental	1.61	1.24	0.99	0.98
Mechanical & electrical (M&E) services	0.60	0.33	0.29	0.40
Lifts & escalators	0.18	0.08	0.13	0.08
Fabric repairs & maintenance	0.34	0.47	0.26	0.29
Marketing and promotions	0.17	0.38	0.24	0.30

Total Service Charge	London		ROUK	
	£ per sq. ft.		£ per sq. ft.	
	<300,000 sq. ft. (12 centres)	>300,000 sq. ft. (8 centres)	<300,000 sq. ft. (36 centres)	>300,000 sq. ft. (46 centres)
Medians of Total Costs	6.86	7.71	4.82	4.79

Table 5. Median service charge costs at shopping centres classified by total property size and geographical location

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Comparing service charge costs between centres in London and the Rest of the UK shows that those in the capital are 40% - 50% more expensive.

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Table 6 illustrates that relative size and whether the centre is covered or not may jointly influence service charge costs. Larger, covered centres do exhibit a 12% lower service charge cost than their smaller counterparts. Conversely with centres that are part-/uncovered the smaller the development the lower the total service charge cost. Further research would be required in order to offer reasons as to why this is the case.

RICS Cost Category	Covered		Part-/uncovered	
	£ per sq. ft.		£ per sq. ft.	
	<300,000 sq. ft. (31 centres)	>300,000 sq. ft. (47 centres)	<300,000 sq. ft. (17 centres)	>300,000 sq. ft. (7 centres)
Management fees	0.47	0.34	0.26	0.34
Site management resources	0.90	0.74	0.64	0.67
Electricity	0.41	0.33	0.21	0.25
Gas	0.06	0.03	0.02	0.03
Security	1.22	0.90	0.92	0.91
Cleaning & environmental	1.20	1.14	0.59	0.76
Mechanical & electrical (M&E) services	0.42	0.39	0.16	0.41
Lifts & escalators	0.17	0.08	0.05	0.07
Fabric repairs & maintenance	0.41	0.31	0.21	0.18
Marketing and promotions	0.25	0.34	0.20	0.30

Total Service Charge	Covered		Part-/uncovered	
	£ per sq. ft.		£ per sq. ft.	
	<300,000 sq. ft. (31 centres)	>300,000 sq. ft. (47 centres)	<300,000 sq. ft. (17 centres)	>300,000 sq. ft. (7 centres)
Medians of Total Costs	6.13	5.42	3.73	4.11

Table 6. Median service charge costs at centres classified by total property size and whether they are Covered or Part/uncovered

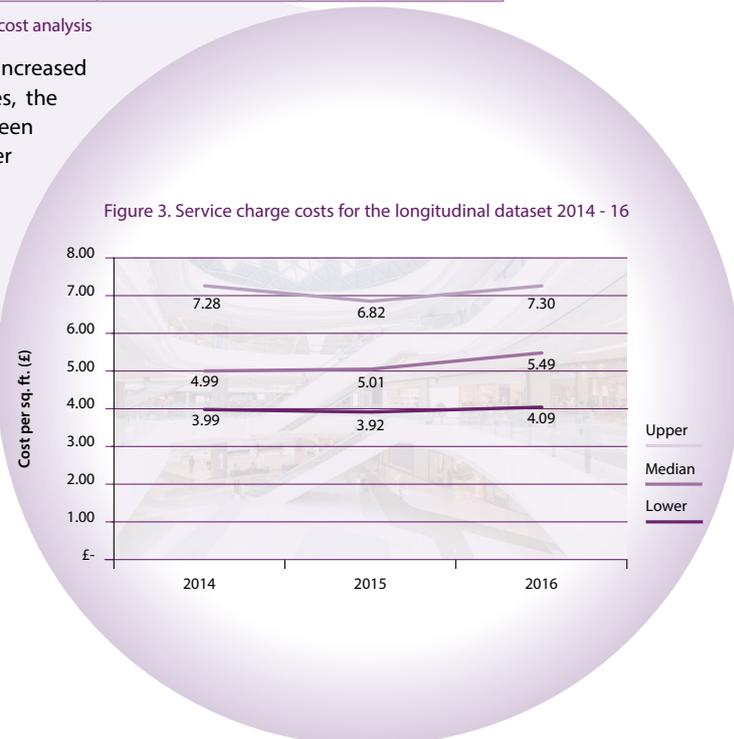
3.2 Longitudinal cost benchmarking

In addition to SCOR for Retail’s annual cost benchmarking of all centres, it was possible to undertake longitudinal cost analysis of the annual costs for 74 shopping centres for the last three years (2014-2016). This longitudinal year-on-year analysis is essential for understanding the changing nature and magnitude of service charge costs, and identifying cost trends in certain categories of expenditure.

Years	No. of centres	Type of documents	Total floor area (sq. ft.)	Total service charge cost for the year 2016 (£)
2014-2016	74	Certificates/budgets	36,605,936	236,169,752

Table 7. Characteristics of the dataset used for the longitudinal cost analysis

For the 74 centres analysed, the total cost per sq. ft. increased over the three-year period. As Figure 3 illustrates, the median cost per square foot rose by 10% between 2014 to 2016, with the lower quartile and the upper quartile increasing by 2.5% and 0.3% respectively.



RICS Cost Category	2014	2015	2016
	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
Management fees	0.40	0.39	0.40
Site management resources	0.78	0.78	0.76
Electricity	0.30	0.32	0.35
Gas	0.05	0.04	0.04
Security	1.01	1.03	1.06
Cleaning & environmental	1.03	1.02	1.07
Mechanical & electrical (M&E) services	0.36	0.35	0.40
Lifts & escalators	0.09	0.08	0.09
Fabric repairs & maintenance	0.31	0.28	0.29
Marketing and promotions	0.28	0.31	0.32
Major works	0.47	0.25	0.27
	2014	2015	2016
Total Service Charge	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
Medians of Total cost	4.99	5.01	5.49

Table 8. Service charges for eleven cost categories for the longitudinal dataset 2014 - 16

When comparing the results for the same eleven cost categories analysed in the main cost analysis – as shown in Table 8 – the cost increases over the three years are worth noting. Between 2014 and 2015, costs did not increase significantly whereas between 2015 and 2016 there was a 9.6% increase in total service charge costs. It is difficult to identify any one cost category that caused this cost increase observed between 2015 and 2016 in that there were only small increases in most categories between the two years. As put forward earlier in this report, the rise in wages would explain the marginal increases in individual cost categories but cannot be held responsible for a circa 10% uplift in total costs.

		2014	2015	2016
		£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
London (17 centres)	Lower quartile	4.83	5.30	5.84
	Median	7.34	7.48	8.41
	Upper quartile	8.47	9.21	9.65
ROUK (57 centres)	Lower quartile	3.65	3.72	3.88
	Median	4.59	4.78	4.93
	Upper quartile	5.95	6.04	6.18

Table 9. Service charge costs for shopping centres in London and the ROUK during 2014-16

The figures in Table 9 show that service charge costs in London and the ROUK have risen year on year over the last three years. The median for London rose by nearly 15% and in the ROUK the increase was over 7% from 2014 to 2016.

		2014	2015	2016
		£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
Covered (60 centres)	Lower Quartile	4.34	4.31	4.43
	Median	5.42	5.35	5.63
	Upper Quartile	7.59	7.41	7.64
Part/uncovered (14 centres)	Lower Quartile	3.11	2.90	3.22
	Median	3.91	3.54	3.81
	Upper Quartile	4.66	4.68	5.54

Table 10. Analysis of service charge costs for covered and part-/uncovered shopping centres during 2014 - 16

As Table 10 illustrates, during 2014-16, covered centres saw a rise in the median cost of service charge liability whereas part-/uncovered centres saw a drop in their reported median.

4. RICS CODE COMPLIANCE
4.1. Code compliance 2017

This section reports on RICS Code compliance regarding whether certificates comply with the Code’s main accounting requirements for the preparation and issuing of service charge documents. This year’s compliance results are based upon a review of the service charge reconciliation statements prepared at 71 shopping centres. Table 11 provides details about the compliance dataset used.

No. of documents	Years	Type of documents	No. of unique landlords	No. of unique managing parties
71	2016 - 2017	Certificates	45	28

Table 11. Characteristics of the dataset used for the 2017 Compliance analysis

As Figure 4 illustrates, SCOR analyses compliance with ten specific accounting requirements of the 2014 RICS Code (RICS, 2014). Of the 71 certificates analysed, at least 50% were compliant with seven of the accounting requirements, with at least 75% compliance achieved in only three areas: having the **cost variances** and **apportionment basis** adequately explained, and having the document **signed off by a suitably qualified manager**.

Of the seven requirements where compliance was less than 75%, overall compliance levels were mixed. For four of them – **fixed management fee**, **cost classes used**, **cost categories used** and **interest credited** – compliance ranged between 50-56%. Unless stipulated in the lease itself, the Code requires that the management fee must be a fixed fee and not a percentage of total costs, as was traditionally the case. The fact that only 55% of certificates clearly disclosed that the management was a fixed fee is disappointing. In terms of using Code compliant **cost classes** and **cost categories**, a little over half of the certificates analysed did so. In order to provide comparative and consistent cost information, certificates must present this information using the Code’s prescribed cost hierarchies and classifications. As a substantial number of retail locations are failing to use appropriate cost classifications, performing cost comparisons can be difficult. As these specific requirements were introduced by the 2006 RICS Code, progress in this area is urgently needed to provide increased cost transparency and comparability across the retail service charge sector.

Only 35% of certificates were prepared and issued in a **timely** manner. Although SCOR does not report the average length of time it takes to issue certificates, many documents are issued far beyond the four months from year end prescribed in the Code. The poor results in this area are a long-standing concern, and are compounded by the fact that many accounting statements are not stamped with a date of issue. While the timely issuance of service charge budgets is not actively measured by SCOR, managing parties should also ensure that such documents are issued to occupiers in accordance with the time-limit prescribed by the Code.

Only 45% of certificates provided disclosure of the accounting principles used for their preparation. As this disclosure only requires a statement as to whether the accounts are prepared on an accrual or cash basis, it is concerning that most of the certificates surveyed failed to comply in this area. Since most service charge certificates are prepared on an accruals basis, an occupier requires a statement to confirm this in order to ascertain whether adjustments to annual expenditure have been made for prepaid and accrued expenses.

The requirement for a certificate to include a schedule of accruals and prepayments was introduced by the 2014 Code, and 25% of documents do so this year. While this information is useful, we would call for this to be presented in the form of an end-of-period balance sheet that provides a full list of the assets and liabilities on the service charge account, including the ending balance on the service charge bank account.

While the above discussion provided an overall analysis of the compliance results, SCOR also provides each certificate a “compliance Score” between 0 and 10 based upon the extent to which it complies with each of the Code’s ten accounting requirements. The compliance rankings achieved by each of the 71 certificates is illustrated in Figure 5.

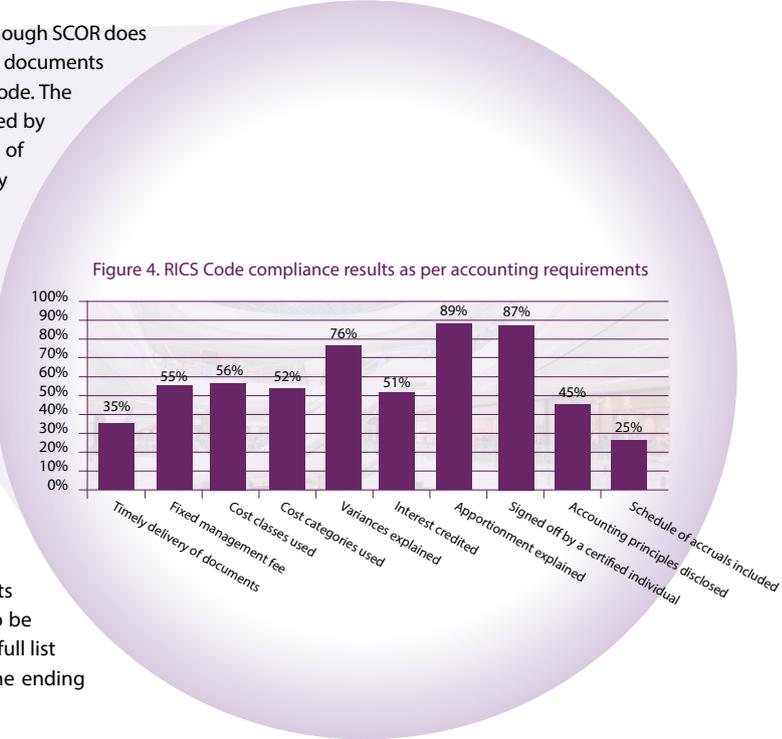


Figure 5 shows that approximately 41% of certificates achieved a compliance ranking of 7 or more. However, 34% only complied with 4 or less of the required compliance metrics. For all certificates, the median compliance score was 6, which was an improvement on last year's median of 5, which suggests that compliance levels are improving very slowly. In terms of compliance with the seven original accounting requirements of the 2006 RICS Code, only 12.7% certificates fully complied with these long-standing standards.

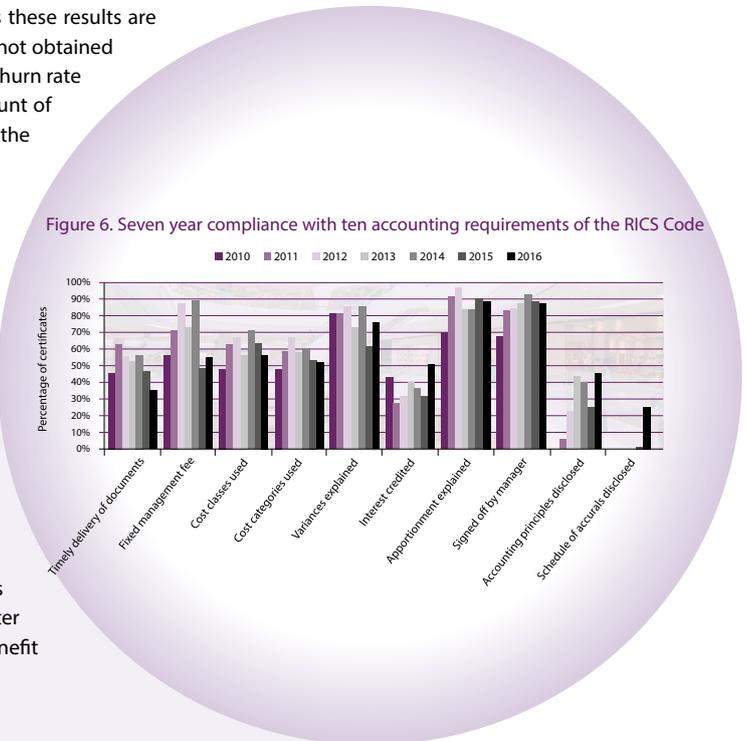
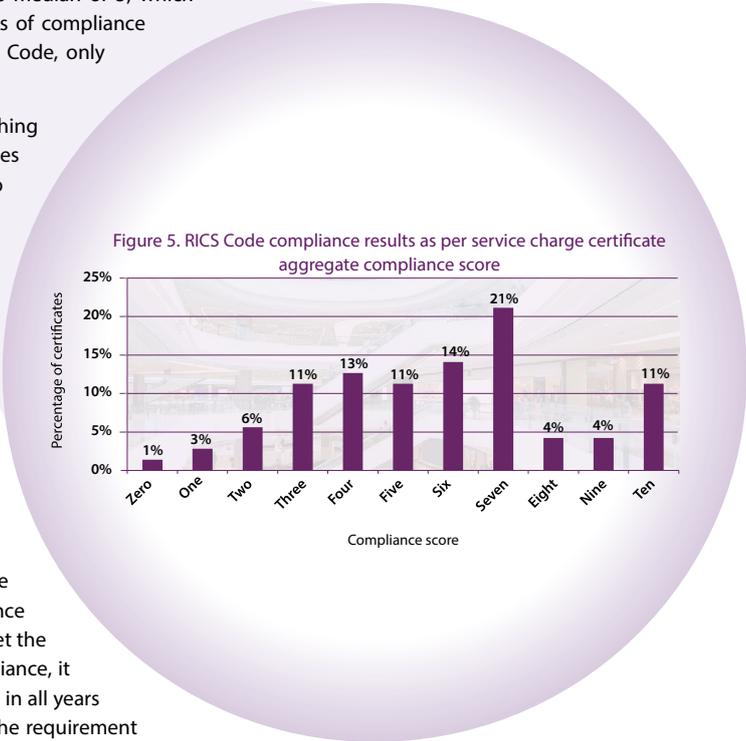
Overall, the compliance results illustrate that those practitioners wishing to embrace best practice are indeed doing so (11.3% of certificates were fully compliant), but many industry participants are failing to adhere to the Code's best practice requirements for accounting presentation and transparency. Code compliance is essential, and we urge managing parties to adopt best practice to increase the overall consistency, comparability, and transparency within the accounting, management and administration of commercial service charges.

4.2. Seven-year longitudinal Code compliance analysis

While it is essential to measure and monitor current levels of RICS Code compliance, it is also crucial to report on longitudinal compliance trends within the retail sector. During the last seven years, the RICS Code's guidelines for the preparation of service charge accounting certificates and budgets have been expanded and made more rigorous. As new requirements are added, SCOR's compliance analysis is modified to assess whether certificates are evolving to meet the new standards for best practice. When assessing longitudinal compliance, it is important to determine which Code requirements were applicable in all years under review. For example, two of SCOR's ten compliance metrics, the requirement to disclose the accounting principles used, and provide a schedule of accruals, were only implemented in 2010 and 2014 Codes, respectively.

SCOR's longitudinal compliance results are presented in Figure 6. As these results are obtained from each year's SCOR compliance analysis, the results are not obtained from a consistent year-on-year sample of retail properties. While the churn rate in the data is a concern, the results provide the only published account of longitudinal RICS Code compliance. Between this year and last year the data has seen a churn rate of c. 46%.

The results in Figure 6 suggest that the various iterations of the RICS Code have brought about an improvement in the overall standard of service charge accounting and reporting. High overall levels of compliance have been maintained in two areas: **apportionment explained** and being **signed off by a manager**, although it must be noted there has been a reduction in compliance in both areas this year. Compliance with the **crediting of interest**, **disclosure of accounting principles** and inclusion of a **schedule of accruals** have all increased this year, which is encouraging as these are areas where SCOR has long been calling for improvement. With the remaining five requirements, however, compliance levels appear to have plateaued, and even dropped in the cases of **timely delivery of certificates**, **fixed management fee**, **cost classes** and **cost categories** used. We would continue to call for increased efforts on the part of landlords and their managing agents to push for greater compliance with the accounting requirements of the Code for the benefit of their customers, the tenants.



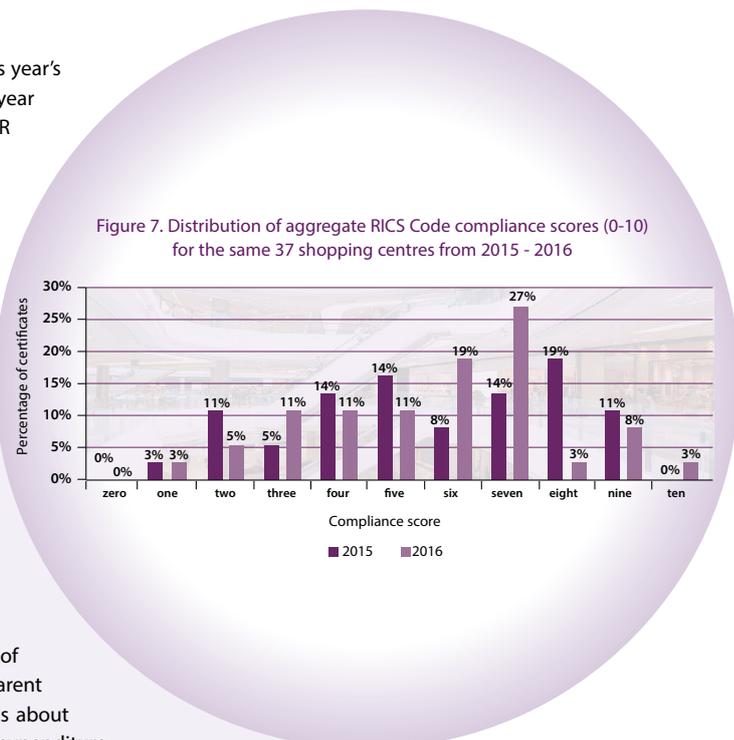
4.3. Longitudinal Code compliance analysis: 2015 to 2016

Due to the potential issue of longitudinal bias caused by data churn, this year's SCOR introduces a comparative longitudinal analysis of the year-on-year compliance results for 37 retail properties that were included in both SCOR 2017 and 2016. These results are shown in Figure 7.

Figure 7 illustrates that between the two years, the number of certificates attaining a score of 8 or more has fallen from 30% to just 14%, this is a concern and is hard to explain. Certificates obtaining a score of 6 and 7 increased from 22% to 46%. Across the sample, certificates at 14 properties increased their year-on-year compliance scores, while 18 achieved lower scores. Quite clearly, there are pockets of best practice, driven by certain managing parties. However, at other properties the quality of certificates does appear to vary year-on-year, and might be influenced by a potential change in property owner or managing party.

4.4. Pockets of best practice: Room for improvement

In terms of this year's compliance results, 8 of 71 certificates fully complied with the ten main accounting requirements of the RICS Code. Of these, 6 were produced by one managing party, which indicates a strong commitment to complying with the best practice requirements of the RICS Code. This party's certificates were clearly presented and transparent in all reviewed areas, and exceptional when it came to providing details about the apportionment basis used for allocating the annual service charge expenditure between the occupiers. A modified illustrative example of this apportionment table is presented below.



Unit	Current Occupier	Floor Area (Sq. ft.)	Weighted Floor Area (Sq. ft.) *	Schedule 1	Schedule 2-C	Schedule 3-H	Unit Liability 2016 - 2017
A	AB Limited	1,894	1,894	1.12%	0.00%	0.00%	£10,061
B	BC Limited	2,353	2,353	1.39%	0.00%	0.00%	£12,499
C-1	CD plc	23,465	18,426	10.88%	53.25%	0.00%	£161,783
C-2	DE plc	4,453	4,453	2.63%	12.87%	0.00%	£39,098
C-3	WH Holdings Limited	13,890	11,723	6.92%	33.88%	0.00%	£102,929
D	AG Limited	5,643	5,514	3.25%	0.00%	0.00%	£29,291
E	BU Limited	5,567	5,454	3.22%	0.00%	0.00%	£28,972
F	The DK Limited	9,245	8,396	4.96%	0.00%	0.00%	£44,601
G	NM Retail Limited	31,456	23,874	14.09%	0.00%	0.00%	£126,821
H-1	HS Limited	3,455	3,455	2.04%	0.00%	6.05%	£30,463
H-2	HP Limited	4,675	4,675	2.76%	0.00%	8.19%	£41,219
H-3	DR Limited	51,884	35,942	21.21%	0.00%	62.99%	£316,889
H-4	HA Limited	15,703	12,992	7.67%	0.00%	22.77%	£114,550
J	FG plc	34,567	25,740	15.19%	0.00%	0.00%	£136,734
K	AA Limited	4,533	4,533	2.68%	0.00%	0.00%	£24,078
Total		212,783	169,424	100.00%	100.00%	100.00%	£1,220,000

Table 12. Illustrative example of a Code-compliant, transparent apportionment disclosure

*Note: A weighted calculation, which is common within retail shopping centre leases, is applied to the gross internal area of each unit. There is no such thing as a standard weighting formula but an example of this sort of weighting is as follows:

- The first 5,000 sq. ft. @ 100%
- The next 5,000 sq. ft. @ 80%
- The next 20,000 sq. ft. @ 70%
- The next 20,000 sq. ft. @ 60%
- Excess over 50,000 sq. ft. @ 50%

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Compliance with the Code on several accounting and transparency requirements assessed in SCOR year on year has plateaued.
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However, even in the most compliant of certificates, there was room for improvement in one area of accounting disclosure. While these certificates provided a full list of accruals and prepayments as required by the Code, they did not provide a full balance sheet of the assets and liabilities on the service charge account. This is surprising, as in the commercial service charge office sector, many best practice certificates also provided a full balance sheet within the certificate.

While an increased number of certificates did state whether the accounts were prepared on an accruals basis, this year's compliance results suggest that there is still confusion about how to provide transparent disclosures for accrued and prepaid expenses, and what types of costs should be included as part of "accrued" expenses. In line with generally accepted accounting practice, the 3rd edition of the RICS Code states that accruals "are expenses for goods and services actually incurred in a period for which no invoice has been received at the period end", and "large round sum provisions included to spread the cost of significant works over a period of time are not accruals as they do not represent a liability at the end of the period" (RICS, 2014, p. 50).

As was first observed in SCOR for Retail 2016, despite the Code's guidance, some retail certificates commingle accruals with provisions for anticipated future expenditure when disclosing information about accrued and prepaid expenses. As a result, it is uncertain whether such amounts simply relate to accrued expenses, or include provisions for long-term future expenditure. In addition, sometimes only a single total figure is disclosed, with no accompanying listing of itemised accrued expenses and prepayments. As the RICS Code provides clear guidance for distinguishing between 'accruals' and 'provisions', and now requires that a schedule of accruals and prepayments should accompany the service charge accounts, it is surprising that most managing parties are failing to follow these 'best practice' accounting standards. In terms of the 71 certificates analysed this year, only 18 (25%) provided some form of disclosures about the accrued, prepaid, and long-term expenditure provisions, and some of these lacked detail and clarity. For SCOR's authors, merely providing a schedule of accruals and prepayments is not best practice, since they must be presented with all the other assets and liabilities on the service charge account in the form of an opening and closing balance sheet. Disclosure of the balances on these opening and closing balance sheets is critical to understanding the annual certificate of expenditure, and assessing the management of the service charge process.

As the RICS is about to publish a new edition of the Code, it is perhaps surprising that it has yet to sponsor or initiate any form of benchmarking of Code compliance. As in prior years, SCOR for Retail's annual compliance results provide the sector with invaluable data about current levels of Code compliance. The results continue to show that the quality and consistency of certain financial reporting practices for commercial service charges remain poor. Full compliance with the Code's accounting requirements in the retail sector continues to be some way off and, given that the new Code will be issued as a Professional Statement, there is much work to be done to comply with these soon to be mandatory accounting requirements.

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Of the 8 fully compliant certificates, 6 were produced by one managing party indicating a strong commitment to complying with the best practice requirements of the Code.

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