



 technical &  
real estate services

**SCOR 2018/19**

**SHOPPING  
CENTRES**

**SERVICE CHARGE  
OPERATING REPORT**

 **bellrock**

INNOVATIVE. TRANSPARENT. COMPLIANT.

CONTENTS	
1. INTRODUCTION.....	2
2. AIM .....	2
3. DATASET .....	2
4. FINDINGS AND ANALYSIS.....	3
4.1 Cost Benchmarking .....	3
4.2 Longitudinal Cost Benchmarking .....	6
4.3 Compliance Analysis .....	7
4.4 Longitudinal Compliance Analysis .....	9
5. SPOTLIGHT ON ACCOUNTANTS' REPORTS .....	11
6. FINAL THOUGHTS.....	11
7. ACKNOWLEDGEMENTS.....	11

*“Transparent service charge costs are invaluable whether you are a tenant, a landlord or a managing agent. The 2018/19 SCOR for Shopping Centres presents a highly engaging view of trends in service charge management and benchmarks costs.”*

**Russell Heath**  
 Head of Retail, Leisure & Industrial  
 Bellrock Technical & Real Estate Services

## 1. INTRODUCTION

Welcome to Bellrock’s Service Charge Operating Report (SCOR) for Shopping Centres 2018 /19. This report benchmarks shopping centre service charge costs and assesses the preparation of service charge accounts for compliance with the Royal Institution of Chartered Surveyors’ (RICS) recommendations. It is the eighth SCOR in the retail series but the first to be published by Bellrock. It is also the first to be titled SCOR for Shopping Centres, which more accurately reflects the dataset. At the same time, it is the last SCOR to judge best practice by the standards of the 2014 RICS Code of Practice, as this year’s SCOR is designed to coincide with the implementation of the 2018 RICS Professional Statement on Service Charges in Commercial Property. Although the Professional Statement was published in the autumn of 2018, it came into effect for service charge years beginning on or after 1st April 2019.

The Professional Statement sets out the best practice requirements for RICS professionals and firms that claim accreditation by the RICS. Unlike the preceding RICS Code of Practice, the Professional Statement contains mandatory requirements. However, the requirements remain subordinate to lease provisions, since the lease provides the contractual grounds upon which a tenant occupies space in a landlord’s asset. In situations where the lease is silent on a specific element of the service charges and their management, the RICS Professional Statement establishes mandatory best practice. The RICS should be congratulated in its latest attempt at improving best practice within the industry. However, many in the industry feel that the Professional Statement could have gone further.

At present, SCOR is the UK’s only report that benchmarks commercial property service charge costs and it is unique in measuring accounting compliance with RICS standards. As in previous years, this year’s SCOR shows that progress towards best practice and good governance is still, at best, fragmented.

## 2. AIM

SCOR benchmarks shopping centre service charge costs, and monitors the preparation of annual service charge accounts for compliance with selected RICS requirements. The information can be used to improve transparency in the management and accounting of service charges.

## 3. DATASET

Detailed cost analysis was undertaken for service charge budgets and year-end certificates of 101 primary and secondary shopping centres. Table 1 and Figures 1 & 2 provide descriptive information about the cost benchmarking dataset. Please note that due to the necessary lag in reporting on service charge costs, figures are taken from the previous year.

**The Service Charge Operating Report (SCOR) is verified by Professor Andrew Holt, Metropolitan State University of Denver.**

Bellrock’s research is audited by the same independent academic every year to ensure the data collection and analysis is unbiased and consistent.

Year of expenditure	No. of centres	Total area (sq. ft.)	Total service charge cost
2017-2018	101	44,183,213	£345,957,067

Table 1. Characteristics of the dataset used for cost analysis.

Approximately two out of every five centres are in London and the South East, and 20% are in the North of England.

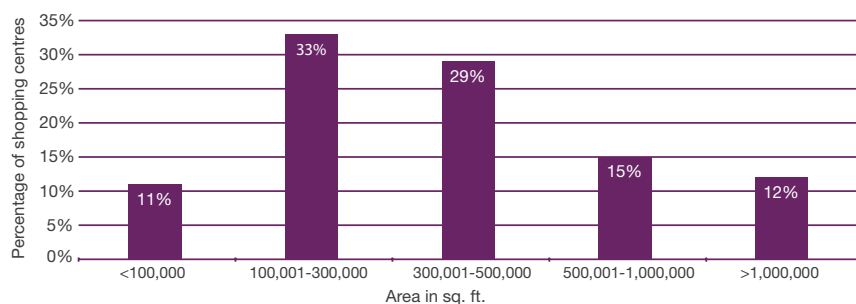


Figure 1. Representation of property sizes in the dataset

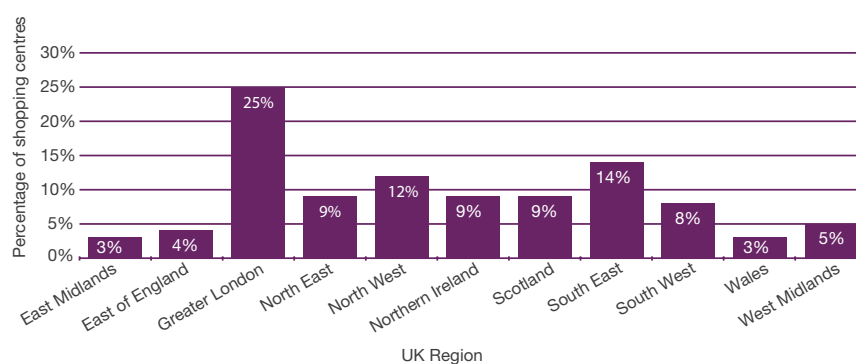


Figure 2. Representation of UK regions in the dataset

## 4. FINDINGS AND ANALYSIS

### 4.1 Cost Benchmarking

Table 2 shows the lower, median and upper quartiles for cost per square foot for ten RICS cost categories irrespective of shopping centre characteristic, such as size or location. You can find definitions of the RICS cost classes and categories on page 43 of the 2014 Code of Practice or page 48 of the 2018 Professional Statement. The total cost is for the total expenditure per square foot of the building, rather than the sum of the ten chosen categories.

	Lower quartile	Median	Upper quartile
RICS cost category	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
Management fees	0.26	0.37	0.50
Site management resources	0.61	0.81	1.12
Electricity	0.19	0.33	0.50
Gas	0.01	0.03	0.08
Security	0.80	1.06	1.51
Cleaning & environmental	0.87	1.23	1.75
Mechanical & electrical (M&E) services	0.18	0.38	0.69
Lifts & escalators	0.02	0.09	0.14
Fabric repairs & maintenance	0.19	0.31	0.55
Marketing and promotions	0.14	0.30	0.53
	Lower quartile	Median	Upper quartile
<b>Total service charge</b>	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
<b>Quartiles of total costs</b>	<b>4.35</b>	<b>5.53</b>	<b>7.93</b>

Table 2. Service charge costs for selected RICS categories for all shopping centres in the dataset.

## 4.1. Cost Benchmarking

The Total Cost of Management combined with the “Security” and “Cleaning and Environment” cost categories amount to 60% of total service charge costs, split roughly equally between the three. The Total Cost of Management is largely made up of “Management Fee” and “Site Management Resources”. This is consistent with prior years. These three costs combined represent the most significant component of total service charge cost at most shopping centres and must be carefully monitored.

The Total Cost of Management now represents approximately 20% of total annual expenditure, yet the basis for these charges is rarely given in year end certificates. The RICS Professional Statement requires greater explanatory detail to be provided and it is perhaps time for managing agents to fall in line. All outsourced contracts should ideally be of a demonstrably arm’s length nature and represent value for money.

In terms of future cost increases, the increase in the National Living Wage (and its counterpart; the London Living Wage) will drive costs up; 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 costs that are a third higher than those located in the ROUK.

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	0.34	0.26	0.49	0.34	0.75	0.45
Site management resources	0.77	0.58	0.94	0.72	1.20	1.10
Electricity	0.26	0.18	0.45	0.32	0.72	0.45
Gas	0.01	0.01	0.03	0.03	0.08	0.08
Security	1.05	0.75	1.37	1.02	2.51	1.31
Cleaning & environmental	1.01	0.85	1.47	1.16	2.19	1.62
Mechanical & electrical (M&E) services	0.30	0.17	0.47	0.36	0.80	0.64
Lifts & escalators	0.07	0.02	0.13	0.07	0.15	0.13
Fabric repairs & maintenance	0.21	0.16	0.29	0.31	0.64	0.51
Marketing and promotions	0.12	0.15	0.37	0.29	0.57	0.52
	Lower quartile		Median		Upper quartile	
	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
Total service charge	London	ROUK	London	ROUK	London	ROUK
<b>Quartiles of total costs</b>	<b>5.70</b>	<b>4.14</b>	<b>6.93</b>	<b>4.97</b>	<b>10.98</b>	<b>6.72</b>

Table 3. Service charge costs for selected RICS categories comparing 25 London shopping centres with 76 in the ROUK.

Apart from Fabric Repairs & Maintenance, all other categories of expenditure have a higher median cost per sq. ft. in London than the ROUK.

The higher costs at London-based centres may be partially explained by higher wages in and around the capital, but other unexplained factors appear to be influencing the significant cost differences.

Table 4 provides details of the costs at 72 covered and 29 part/uncovered centres and illustrates that occupiers in covered shopping centres incurred higher costs than those in part/uncovered centres. Cost categories that contribute most to this difference are 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	0.32	0.23	0.41	0.30	0.52	0.41
Site management resources	0.61	0.60	0.81	0.80	1.16	0.97
Electricity	0.24	0.12	0.38	0.21	0.54	0.31
Gas	0.02	0.00	0.04	0.01	0.08	0.05
Security	0.77	0.86	1.07	1.02	1.58	1.35
Cleaning & environmental	0.89	0.81	1.29	1.15	1.76	1.55
Mechanical & electrical (M&E) services	0.28	0.19	0.41	0.17	0.73	0.62
Lifts & escalators	0.04	0.00	0.10	0.06	0.15	0.11
Fabric repairs & maintenance	0.19	0.15	0.34	0.25	0.59	0.37
Marketing and promotions	0.16	0.12	0.32	0.24	0.57	0.40

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
<b>Quartiles of total costs</b>	<b>4.37</b>	<b>3.66</b>	<b>5.98</b>	<b>4.38</b>	<b>8.58</b>	<b>6.76</b>

Table 4. Service charge costs for selected RICS categories comparing 72 covered with 29 part/uncovered shopping centres.

In London larger properties reported a slightly higher median service charge cost per sq. ft. than their smaller counterparts. For the ROUK the difference in total service charge cost between shopping centres smaller than 300,000 sq. ft and larger than 300,000 sq. ft was only marginal.

RICS cost category	London		ROUK	
	£ per sq. ft.		£ per sq. ft.	
	<300,000 sq. ft. (13 centres)	>300,000 sq. ft. (12 centres)	<300,000 sq. ft. (31 centres)	>300,000 sq. ft. (45 centres)
Management fees	0.49	0.47	0.38	0.34
Site management resources	0.94	0.93	0.76	0.69
Electricity	0.34	0.54	0.27	0.34
Gas	0.03	0.04	0.03	0.03
Security	1.63	1.35	1.07	0.95
Cleaning & environmental	1.53	1.30	1.20	1.09
Mechanical & electrical (M&E) services	0.47	0.51	0.22	0.45
Lifts & escalators	0.10	0.13	0.06	0.07
Fabric repairs & maintenance	0.29	0.35	0.31	0.31
Marketing and promotions	0.24	0.41	0.20	0.34

Total service charge	London		ROUK	
	£ per sq. ft.		£ per sq. ft.	
	<300,000 sq. ft. (13 centres)	>300,000 sq. ft. (12 centres)	<300,000 sq. ft. (31 centres)	>300,000 sq. ft. (45 centres)
<b>Medians of total costs</b>	<b>6.93</b>	<b>7.36</b>	<b>5.11</b>	<b>4.96</b>

Table 5. Median service charge costs for selected RICS categories comparing shopping centres by size and whether they are in London or the ROUK.

#### 4.1. Cost Benchmarking / 4.2 Longitudinal Cost Benchmarking

Table 6 illustrates that the size of a shopping centre and whether it is covered may jointly influence service charge costs. Larger centres exhibit a 9% lower service charge cost than their smaller counterparts, whether they are covered or part/uncovered.

RICS cost category	Covered		Part/uncovered	
	£ per sq. ft.		£ per sq. ft.	
	<300,000 sq. ft. (29 centres)	>300,000 sq. ft. (43 centres)	<300,000 sq. ft. (16 centres)	>300,000 sq. ft. (13 centres)
Management fees	0.49	0.36	0.29	0.30
Site management resources	0.87	0.77	0.83	0.71
Electricity	0.38	0.40	0.19	0.23
Gas	0.03	0.04	0.01	0.02
Security	1.27	1.05	1.18	0.95
Cleaning & environmental	1.42	1.26	1.19	1.01
Mechanical & electrical (M&E) services	0.36	0.45	0.15	0.25
Lifts & escalators	0.13	0.09	0.03	0.07
Fabric repairs & maintenance	0.33	0.34	0.28	0.23
Marketing and promotions	0.22	0.39	0.22	0.33

Total service charge	Covered		Part/uncovered	
	£ per sq. ft.		£ per sq. ft.	
	<300,000 sq. ft. (29 centres)	>300,000 sq. ft. (43 centres)	<300,000 sq. ft. (16 centres)	>300,000 sq. ft. (13 centres)
<b>Medians of total costs</b>	<b>6.24</b>	<b>5.70</b>	<b>4.59</b>	<b>4.36</b>

Table 6. Median service charge costs for selected RICS categories comparing shopping centres by size and whether they are covered or part/uncovered.

#### 4.2 Longitudinal Cost Benchmarking

In addition to benchmarking service charge costs incurred by 101 shopping centres in section 4.1, it was also possible to undertake longitudinal analysis of service charge certificates for the same 65 shopping centres over the last four years. This year-on-year analysis is essential to identify cost trends.

Years of expenditure	No. of centres	Type of documents	Total floor area (sq. ft.)	Total service charge cost for the year 2017/18 (£)
2014- 2017/18	65	Certificates / Budgets	32,767,421	£258,826,487

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

For the 65 centres analysed, the total cost per sq. ft. increased over the four-year period. As Figure 3 illustrates, the median cost per sq. ft. rose by 21% between 2014 and 2017/18, with the lower quartile and the upper quartile increasing by 11% and 12% respectively.

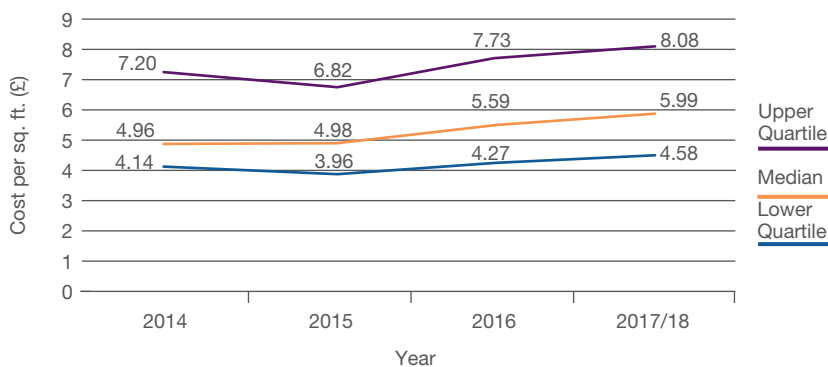


Figure 3. Annual service charge cost per sq. foot.

When comparing the longitudinal results for the 11 cost categories analysed – as shown in Table 8 – the irregularity of cost increases is worth noting. Between 2014 and 2015, costs did not increase significantly whereas from 2015 to 2016 and 2016 to 2017/18 there were 12% and 7% increases in the median of the total service charge costs, respectively.

Of the cost categories we benchmark the only one that has significantly risen is Cleaning and Environmental.



	2014	2015	2016	2017/18
<b>RICS cost category</b>	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
Management fees	0.40	0.39	0.40	0.41
Site management resources	0.78	0.78	0.76	0.85
Electricity	0.30	0.32	0.37	0.36
Gas	0.04	0.04	0.04	0.04
Security	1.07	1.06	1.07	1.12
Cleaning & environmental	1.04	1.03	1.10	1.32
Mechanical & electrical (M&E) services	0.29	0.31	0.31	0.29
Lifts & escalators	0.36	0.35	0.40	0.38
Fabric repairs & maintenance	0.08	0.08	0.09	0.09
Marketing and promotions	0.33	0.29	0.30	0.32
Major works	0.12	0.25	0.30	0.21
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017/18</b>
<b>Total service charge</b>	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
<b>Medians of total cost</b>	<b>4.96</b>	<b>4.98</b>	<b>5.59</b>	<b>5.99</b>

Table 8. Median service charge costs for 11 selected RICS service charge categories for shopping centres in the longitudinal dataset.

		2014	2015	2016	2017/18
		£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
<b>London (18 centres)</b>	<b>Lower quartile</b>	4.79	4.95	5.55	6.54
	<b>Median</b>	7.46	7.71	8.33	9.38
	<b>Upper quartile</b>	9.40	9.59	9.74	11.54
<b>ROUK (47 centres)</b>	<b>Lower quartile</b>	3.81	3.90	3.91	4.33
	<b>Median</b>	4.59	4.66	4.93	5.23
	<b>Upper quartile</b>	5.94	6.04	6.18	6.63

Table 9. Service charge costs comparing London with the ROUK longitudinally.

The figures in Table 9 show that service charge costs in London and the ROUK have risen year on year over the last four years. The median for London rose by nearly 26% and in the ROUK the median costs increased by 14% from 2014 to 2017/18. However, we should remember the longitudinal dataset is relatively small, which could skew the results.

		2014	2015	2016	2017/18
		£ per sq. ft.	£ per sq. ft.	£ per sq. ft.	£ per sq. ft.
<b>Covered (53 centres)</b>	<b>Lower quartile</b>	4.33	4.30	4.42	4.81
	<b>Median</b>	5.31	5.30	5.65	6.30
	<b>Upper quartile</b>	7.45	7.43	7.95	9.18
<b>Part/uncovered (12 centres)</b>	<b>Lower quartile</b>	3.29	3.15	3.42	3.75
	<b>Median</b>	4.08	3.80	4.31	4.82
	<b>Upper quartile</b>	5.39	5.57	6.03	7.05

Table 10. Service charge costs comparing covered with part/uncovered shopping centres longitudinally.

As Table 10 illustrates, during 2014-17/18, both covered and part/uncovered centres saw a rise in the median cost of service charge.

### 4.3 Compliance Analysis

SCOR uniquely reports on accounting best practice by assessing whether year end service charge certificates comply with the main accounting requirements from the 2014 RICS Code of Practice. This year's compliance results reviewed the latest service charge reconciliation statements for 100 shopping centres.

The certificates were assessed against the following RICS accounting best practice requirements:

- *Timely Delivery of Documents:* Has the year end certificate been received by the client within four months of service charge year end?
- *Fixed Management Fee:* Is it stated in the certificate that the management fee is fixed?
- *Cost Classes Used:* Does the accounting report use the RICS cost classes?

## 4.3 Compliance Analysis

- **Cost Categories Used:** Does the accounting report use the RICS cost categories?
- **VariANCES Explained:** Are any significant variances from the annual service charge budget explained?
- **Interest Credited:** Is the interest accrued on the service charge account credited to that account?
- **Apportionment Explained:** Is the tenants' service charge apportionment clearly set out?
- **Signed by Manager:** Has a suitably qualified manager provided a certification statement?
- **Accounting Principles Disclosed:** Is it stated whether the accounts are based on cash or accruals?
- **Schedule of Accruals Disclosed:** Is a schedule of accruals and prepayments provided?

Table 11 provides details about the dataset used for compliance analysis.

No. of documents	Years	Type of documents	No. of unique landlords	No. of unique managing parties
100	2017 - 2018	Certificates	55	26

Table 11. Characteristics of the dataset used for compliance analysis.

The percentage of certificates that complied with each category is shown below.

**Apportionment Explained / Signed by Manager:** over 70%

Out of the ten categories, only these two exceeded 70%. For the remaining eight categories compliance levels were mixed.

**Fixed Management Fee / Cost Classes Used / VariANCES Explained / Interest Credited:** 50 – 63 %

Unless stipulated in the lease itself, the Code of Practice requires that the management fee must be a fixed fee rather than a percentage of total costs, but only 54% of certificates provided clear information about the exact nature of this fee.

**Cost Categories Used: 46% Cost Classes Used: 63%**

In terms of using the cost classes prescribed by the RICS, 63% of certificates did so, but only 46% used the RICS second tier cost categories. Inconsistent use of the RICS cost categories and classifications limits accounting transparency and the ability to compare costs between locations. We feel this area needs urgent improvement.

**Timely Delivery of Documents:** 31%

Only 31% of certificates were prepared and issued in a timely manner. Although SCOR does not report on the average length of time it takes to issue certificates, most documents are issued far beyond the four months from year end recommended by the Code of Practice. This is a long-standing issue that is difficult to monitor since most accounting statements are not issued with a clear date of issue. While the timely issuance of service charge budgets is not currently monitored by SCOR, managing parties should also ensure that they are issued in accordance with the Code of Practice (one month before year start).

**Accounting Principles Disclosed:** 38%

Only 38% of certificates clearly disclosed the accounting principles used for the preparation of the annual statement of service charge expenditure. Since most certificates are prepared under an accrual basis, the preparer must include a statement explaining this so it is clear that adjustments to annual expenditure may have been made for accrued expenses.

**Schedule of Accruals Disclosed:** 19%

The requirement for a certificate to include a schedule of accruals and prepayments was introduced by the 2014 Code of Practice, and 19% of the reviewed documents included an explanatory note listing such expenses and prepayments. While providing a schedule of accruals is useful, we suggest it would be more transparent to include the balance sheet so the client could see the full list of the assets and liabilities on the service charge account, including the ending balance on the service charge bank account.



The discussion on the previous page provides an analysis of the compliance results for the individual categories. SCOR also awards each certificate a score between zero and ten, based on how many categories in total it is compliant with. The total scores for certificates' compliance for SCOR 2018/19 are given in Figure 4.

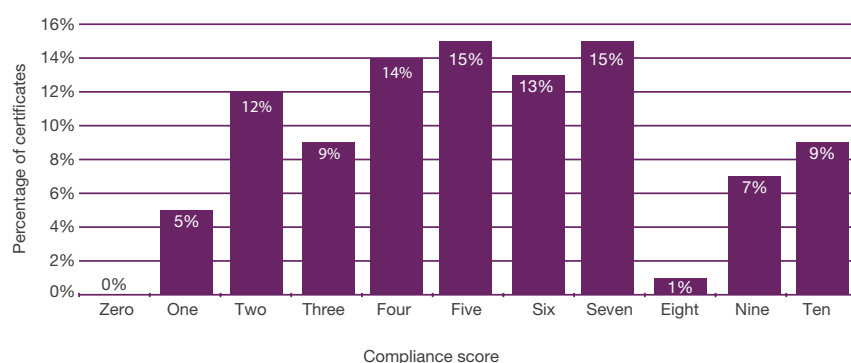


Figure 4: Compliance scores for year-end certificates 2017/18.

Figure 4 illustrates that approximately 32% of certificates achieved a total score of seven or more. However, 40% scored four or less. For all certificates, the median compliance score was five, with upper and lower quartile rankings of seven and three, respectively. While 9% of certificates were fully compliant with the ten accounting requirements monitored by SCOR many industry participants are falling short of adhering to the Code of Practice's standards for accounting transparency. As compliance with some of these accounting metrics simply requires formatting and presentation changes with the annual certificate, the costs involved would be greatly outweighed by the increased consistency, comparability, and transparency within commercial service charge documents.

In addition, since seven of the accounting metrics were introduced by the 2006 edition of the RICS Code of Practice, it is very disappointing that 13 years on, only 9% of certificates are fully compliant with them. The timely delivery of the certificate especially is still proving a major problem area.

#### 4.4 Longitudinal Compliance Analysis

While it is interesting to monitor current levels of accounting compliance, it is also crucial to report on longitudinal compliance trends within the retail sector. During the last eight years, the RICS Code of Practice'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 of Practice requirements were applicable in all years under review. For example, the requirement to disclose the accounting principles used, and provide a schedule of accruals, were only implemented in 2010 and 2014, respectively. How then have compliance levels changed since SCOR's inception?

SCOR's longitudinal compliance results are presented in Figure 5. As these results are obtained from each year's SCOR compliance data, the results are not obtained from a consistent year-on-year sample of shopping centres. While the churn rate in the data is a concern, the results provide the only published data on longitudinal industry compliance with the requirements of the RICS Code of Practice.

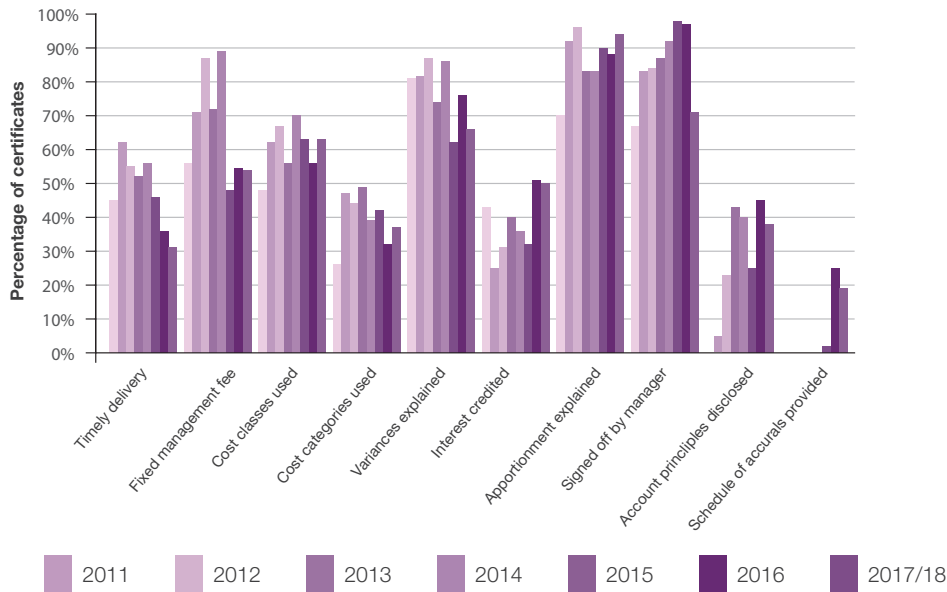


Figure 5. Score for each compliance category over seven years.

Figure 5 illustrates no consistent trend or improvement in the overall standard of service charge accounting and reporting. While relatively high levels of compliance have been maintained in two areas: *Apportionment Explained* and *Signed by Manager*, compliance with other requirements has fluctuated widely. This year, only one requirement, *Apportionment Explained*, showed an increase in compliance. We continue to call for greater efforts on the side of landlords and their managing agents to comply with the accounting requirements of the Code of Practice for the benefit of their customers, the tenants.

Due to the potential impact that data churn has on longitudinal results Figure 6 shows a longitudinal representation comparing the same 27 shopping centres over the last three years.

Figure 6 illustrates that for each of the three years, 4% of the centres achieved a compliance ranking of one or less. At the top end, the percentage of centres where the certificate was fully compliant increased from 0% to 11% during the three-year period. The percentage of certificates attaining a score of six or more stayed at 56% over the period. Across the sample, certificates at eight properties increased their year-on-year compliance scores between SCOR 2017 and 2018/19, 11 achieved identical scores, and eight received comparatively lower yearly rankings. While there are pockets of best practice, driven by certain managing parties, 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.

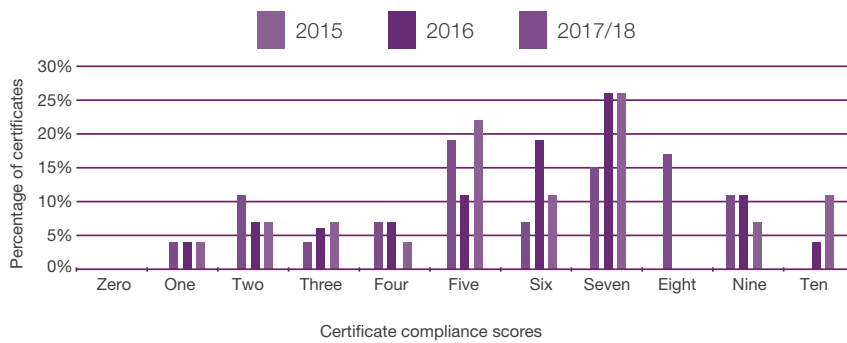


Figure 6. Compliance score for certificates of the same 27 shopping centres over three years.

## 5. SPOTLIGHT ON ACCOUNTANTS' REPORTS

Increasingly, service charge certificates include an independent accountant's report that provides an opinion about the preparation quality and accuracy of the certified service charge costs. For the first time this year, two accountant's reports included an adverse opinion concerning the potential misuse of accrual accounting. One report said:

*"We have been unable to obtain all information and explanations in respect of expenditure ... As a result, we are unable to report as to whether the expenditure in that period is fair and reasonable".*

Another independent accountant's report identified an incorrect accrual adjustment for a material amount, in excess of 10% of the total service charge cost.

*"Based on our review we have identified an incorrect accrual ... for services rendered subsequent to 31 March 2018 .... Accordingly, we conclude that the attached statement of service charge expenditure is not properly prepared and presented in all material respects and accordingly our opinion is qualified for this matter."*

Despite concluding that the service charge statement was not properly prepared, both the report and the incorrect accrual were included in the year end certificate.

Viewing this in the most positive light possible, it illustrates good accounting practice and the value of the independent accounting review process. However, it is of course poor practice that the managing party made an incorrect accrual, had it flagged by an independent accountant, but still included the accrual without rectifying the error.

We conclude that it is important for clients to scrutinise year end certificates closely (or hire an expert to do so) and not assume that because they come with an accounting report that they are correct.

## 6. FINAL THOUGHTS

The 2018 RICS Professional Statement on Service Charges in Commercial Property includes new mandatory requirements for RICS Professionals and regulated firms involved in the management and administration of commercial service charges. Stakeholders within the industry who wish not only to comply with the mandatory elements of the Professional Statement but go further and embrace best practice as set out in the document should bear in mind that:

- Service Charge budgets must be issued annually and should be produced at least one month prior to the start of the service charge year.
- Similarly, annual statements of service charge expenditure must be produced annually and should be presented to occupiers within four months of the service charge year end.
- If service charges are significantly above industry norms, an adequate, transparent explanation for the charges should be provided.

## 7. ACKNOWLEDGEMENTS

Our thanks go to Charlotte Brown and Beth Botterill for their hard work on this piece of research and its production.

Our special thanks goes to Professor Andrew Holt for assisting with the compliance analysis, auditing the data, and contributing to the writing of the final report.

SERVICE CHARGE OPERATING REPORT for Shopping Centres 2018/19

Published by Bellrock Property & Facilities Management Limited  
Copyright of Bellrock Property & Facilities Management Limited

Should you have any questions, please contact the authors directly:

Professor Andrew Holt, Department of Accounting, Metropolitan State University of Denver, USA  
E: [aholt7@msudenver.edu](mailto:aholt7@msudenver.edu)  
T: (001) 303 641 8308

Nigel White, Business Development Director - Property  
Bellrock Property & Facilities Management Limited  
E: [nigel.white@bellrockgroup.co.uk](mailto:nigel.white@bellrockgroup.co.uk)  
T: +44 (0)1454 332 219