

Manned services offer considerable scope for achieving value for money

Owners are expected to review costs and to undertake regular tenders



Cost-efficient measures

Service charges In the second of his three articles, *David Barrass* considers how owners can achieve value for money by moving away from traditional contracts to performance or service-level agreements

The service charge code requires owners to ensure that service providers continually review their processes so as to obtain value and efficiency.

Manned services, including cleaning, security and maintenance, account for between 55% and 65% of total service charge costs and offer considerable scope for achieving value for money. The new code proposes the use of performance contracts or service-level agreements.

Performance contracts, mainly related to cleaning services, have been used by airports and shopping centres.

Security issues

Security costs include guards and systems and possibly reception costs. In many buildings, security arrangements are not based upon performance standards where value for money has been considered.

For example, in some cases, all arrivals have to report to reception, necessitating a large number of staff at peak times. A typical response is to place additional guards in the entrance hall to ensure that all arrivals do report to reception.

Better value could be achieved by introducing an automated barrier system. Only visitors and contractors would then have to report to reception, significantly reducing the need for personnel.

The code provides for the introduction of new equipment where the cost of this would not normally be recoverable as part of the service charge. It is recognised that the owner may be able to justify improvements on a cost-benefit basis. In most cases, lower manned security costs will persuade tenants to agree to the improvement of equipment in the building.

Although the code does not mention risk analysis, security

performance standards should be developed from an objective analysis of the risks. This may conclude that the most secure building is a locked one; front entrances need only be open for visitors during core business hours. At other times, occupiers may gain access by using swipe cards.

Modern security equipment, particularly CCTV and movement detectors, can be monitored off-site at 24-hour monitoring centres, reducing the need for guards. The centre can call a roving guard at the building should the need arise.

At times of heightened security, a higher number of security guards will normally be employed. Although this may provide a feel-good factor, it may not always improve security. A risk analysis would provide more objective proposals, such as bombproof glass or additional CCTV.

Cleaning and maintenance

The cleaning contractor is required to maintain an agreed standard of cleanliness and should vary the amount of cleaning in accordance with building usage. Its performance is jointly and regularly measured against the standards, and payment will depend upon the quality of the service.

At present, cleaning is a largely subjective issue and the specifications are typically established by the managing agent. Under the code, performance contracts will operate value for money service levels with the agreement of both landlord and tenant. It does not set out the basis for determining performance standards. As an interim measure, managing agents should agree the specification with the tenants prior to establishing the budget.

The code briefly sets out various methods of setting performance standards for the maintenance of equipment. This is based upon establishing the periods during which equipment will be operational, providing and maintaining a specified minimum standard of service, limiting the number of faults allowed in a period and setting specific response targets for repairs.

However, equipment should be properly maintained so as to reduce the need for repair or replacement. The code does not outline a need for preventative maintenance schedules. All assemblies and components that require maintenance should be included in a schedule, which will give an idea of the resources necessary to maintain the equipment and provide the basis for a maintenance specification that can be competitively tendered. Repairs provisions can be built into the overall equipment maintenance contract based upon the performance standards in the code.

Value for money

Wages are subsumed under a number of cost categories, which in many cases are unexplained. Wages can include labour, supervision, management, subcontractors,

and the costs of consultants' or surveyors' fees.

The cost of wages, building management and management fees, amounts to 35% of total service charge costs. The code does not specify how buildings should be managed, only how management policies should be established. It notes that on-site management staff must understand modern business practices and have appropriate skills in general management, employment and health and safety matters.

Larger buildings can justify the use of management teams, particularly where maintenance and services are carried out by in-house staff, but such a large wages bill may not always represent value for money. The cost-effectiveness of management policies should be measured against alternatives in the market.

The working relationship between the building manager and the managing agent is one in which value for money has been disputed. In some cases, the building manager controls most of the services, leaving the managing agent with little to do but pay the bills and collect the service charges. In other cases, the managing agent does this

Why this matters

The 2005 Loughborough University Business School study into UK office service charges reported that actual service charges vary widely and that the obvious factors account for less than 10% of this variability.

Loughborough's figures show that UK office tenants are potentially paying £942m higher service charges per year than is necessary.

Loughborough states that service charges are controllable costs. However, with budgets being both poor estimates of actual costs and arriving very late, the tenant does not have an opportunity to contribute to the decisions that result in these charges.

Similarly, certificates are often sent out long after the year to which they relate and they use all kinds of labels to

work, leaving the building manager to supervise the services. Clearly, the situation in which percentage-based fees, unrelated to work carried out, are paid to managing agents is unfair.

The code's requirement for fixed management fees and transparency should end such practices.

Refurbishment and repairs

Refurbishments often lead to disputes since they tend to coincide with rent reviews or lease expiries. The tenants object to paying for both the refurbishment and the rental uplift resulting from the improvements.

The code does not suggest a remedy. A medium-term preventative maintenance schedule for services and fabric would obviate the need to deal with accumulated disrepair. Any element of improvement not provided for in the lease would be at the cost of the owner.

Such schedules, if updated regularly, would provide medium-term budgets for refurbishment work that tenants could rely upon.

Although the code considers replacement, it ignores repair

versus replacement issues that commonly result in disputes. The replacement of equipment is often driven by "economic life". A pump, say, may be said to have a life of 10 years and is replaced in the 11th year irrespective of its condition. Equipment that has reached the end of its economic life can be economically repaired and maintained for many years.

"Economic life" can be a useful budgeting tool, but the replacement of equipment should be based upon its condition and a proper cost-benefit analysis.

Retendering

The code requires the owner to review costs and to undertake regular and competitive tendering of contracts. These contracts now include the management of the building.

The owner is also expected to benchmark competing quotations rather than go to tender if the owner and occupier are happy with the existing service. This will require complete transparency and full and timely discussions between landlord and tenant.

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compliance of specific code items with the code's recommendations. This will cover financial controls, transparency, value for money and management processes. Loughborough plans to publish the results of this new study in the autumn.

Further Reading

RICS Code of Practice
www.servicechargecode.co.uk
RICS Tenant Satisfaction Index
www.rics.org
Service Charge Study
Calvert J, Loughborough University Enterprises
www.property-solutions.co.uk
Service Charge Update Study
Calvert J, Loughborough University Enterprises
www.property-solutions.co.uk