

# BATTLE CHARGE

■ A cross-industry committee is drafting a new code on service charges after widespread complaints from tenants. But can a voluntary code achieve real improvements? **Mark Jansen** reports

THE VEXED ISSUE OF SERVICE CHARGES IS BACK ON the agenda once again. Next month a cross-industry committee made up of landlord and tenant representatives (see box, right) will begin drafting a third version of the Guide to Good Practice on Service Charges. The guide is supposed to promote good practice, calling for the provision of accurate budgets, detailed information and timely reconciliations.

Unfortunately the guide has been widely ignored since the most recent version was published in 2000. Meanwhile many tenants continue to be unhappy with the way service charges are run. In the first ever Tenant Satisfaction Index, published by the RICS in February, tenants gave landlords a rating of just 39 out of 100 (professional + legal news, 25.02.05, p55). Service charges were not mentioned specifically but tenants repeatedly accused landlords and their managing agents of poor communication.

In the same week, Loughborough University published damning research showing that many landlords fail to explain service charges to tenants in sufficient detail, and send out financial statements up to 18 months late (professional + legal news, 04.03.05, p79).

## LIMITED EFFECT

Chris Edwards, a former chairman of property management firm Phoenix Beard who is chairing the cross-industry committee on behalf of the RICS, admits that the guide's impact has been limited. 'We have to get this more widely disseminated to all businesses,' he says. 'It's seen as a retail tool, but it's actually written for all sorts of commercial property.'

Pressure is building on landlords and their managing agents to achieve a consistent improvement, particularly as the Office of the Deputy Prime Minister has also been taking a close interest in landlord-tenant relationships.

Although it announced in March that it would not ban upward-only rent reviews, it promised to review the law on assignment and subletting. The ODPM also pledged to monitor the property industry for three years. Whether this interest will be maintained following the election remains to be seen but the industry is taking no chances.

The British Property Federation is setting up a Property Customer Service Group to improve the dialogue with tenants. The Property Managers

Association, which represents retailers, has been invited to participate, but no date has been set for the first meeting.

'Obviously, service charges may be one of the issues that arises, but I don't want to pre-empt the agenda,' says Ian Fletcher, director of commercial policy at the BPF.

Efforts to redraft the good practice guide are at a similarly early stage; the cross-industry committee is due to meet for only the second time next month. Publication of the revised guide is not expected until 2006.

The committee's members have diverse views on what needs to be done. Chris Edwards talks of making the guidance 'more enforceable'. It has been mooted that the guide be given the status of an RICS Guidance Note, which would ensure greater acceptance among surveyors, but no decision has been taken.

Mike Harrison, president of the Property Managers Association and estates manager at the clothing chain Bonmarché, says the main issue is transparency. Echoing the findings of the Loughborough research, Harrison says many landlords fail to provide service charge budgets in good time. The reconciliation statements, which present the final cost of services with either a refund or a demand for more money, 'can be years late'. Landlords sometimes fail

## TENANTS DON'T KNOW WHAT THE LANDLORD IS SPENDING OR WHY

PETER FORRESTER, SAVILLS

to explain what may turn out to be perfectly justifiable increases. 'My team is continually battling to get information,' says Harrison.

He stresses that there are good landlords as well as bad ones. Land Securities, for example, is said to provide service charge information that is 'on time, easy to understand and provides just the right amount of detail'. This shows 'how easy it could be' if all landlords followed suit, Harrison says.

Peter Forrester, a service charges consultant at Savills who represents the British Council for

Shopping Centres on the drafting committee agrees that many landlords fail to be clear. Tenants may receive a bill for service charge that can easily reach £100,000 but merely items without explaining changes, such as rise in energy costs or a fall in security costs.

'Very often, there is poor communication zero transparency,' Forrester says. 'The tenants don't know what the landlord is spending why he is spending it.'

Forrester also says many landlords fail to budget accurately for repairs or maintenance so funds set aside are either excessive or far short, creating uncertainty for the tenant. Often the figures for sinking or reserve fund plucked out of the air,' he says.

Like Harrison, Forrester says there are good landlords as well as bad ones. He also insists that the good practice guide is worthwhile there were nothing at all, anarchy would reign he says. 'There are people who abide by the existing guide. It's not all doom and gloom'

## STANDARD SERVICE

David Barrass, managing director of service charges consultant Property Solutions, who sponsored the Loughborough research, proposes a 'kitemark' to guarantee standards of service charge administration. Kitemark landlords and managing agents would guarantee that budgets and reconciliations went out on time and that charges were adequately explained. 'This would be in everyone's interests,' argues Barrass.

Michael Smedley, director of retail property management at Nelson Bakewell and a member of the committee, thinks the idea worth investigating. 'Some form of recognition would be good,' he says. 'The better managing agents would have no problem complying with it, while the poorer ones would struggle.'

Barrass also wants regular research into level of service charges paid by tenants across all property sectors and locations. Occupier group Corenet shares this aim. 'Our members would welcome more benchmarking tools, Susie Gray, president of the UK division.

Committee chairman Chris Edwards says benchmarking research and kitemarks are 'good ideas' but that it is too early to commit. However, it is clear that bold steps will need to be taken on service charges if the tenant satisfaction ratings are to improve. ■

Description	Expense total (£)
Security	58,456
Cleaning and environmental	43,241
Energy	3,578
Mechanical and electrical	4,209
Fabric repairs and maintenance	6,850
Marketing and promotions	26,436
Insurance	229
Rates	3,645
Premises management	17,474
<b>Expense total</b>	<b>164,118</b>
<b>Management fee</b>	<b>16,412</b>
<b>Income</b>	<b>-9,960</b>
<b>Grand total</b>	<b>170,570</b>

↑ Cause for complaint: lack of transparency in service charge bills has prompted the review

## THE SERVICE CHARGE COMMITTEE

### Chris Edwards (chairman)

Former chairman of Phoenix Beard, for the RICS

**Peter Forrester** Service charges consultant at Savills, for the British Council for Offices

**Michael Smedley** Retail management director at Nelson Bakewell, for the British Council of Shopping Centres

**Andrew Martin** National rating and service charge manager at Boots, for the British Retail Consortium

**John Gray** Next, for the Property Managers Association

**Liz Peace** Chief executive, British Property Federation