Lack of take up for the RICS code of practice on service charges is worrying, says Kingston University

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By Dr Timothy Eccles, Dr Andrew Holt

Professors Dr Timothy Eccles and Dr Andrew Holt say too many landlords aren’t complying with 2006 rules

There is continuing disquiet in property about common services supply and management in multi-let commercial premises and the slow take-up of the 2006 RICS Code of Practice: Service Charges in Commercial Property (the Code) which came into force in April 2007.

Now, adding to these concerns, Kingston University research shows much of the industry is ignoring the principles of good accounting practice. The ongoing lack of transparency over service charges raises concern for tenants who fear that bad accounting procedures are masking bad management practices and costing them money.

Kingston is only part-way through detailed research on accounting processes in service charge accounts which will be published in 2010. However, we believe that the results of their research to date is significantly worrying to warrant interim exposure.

The Code came into force on 1 April 2007, which means that the UK multi-let office industry has now had more than two years to respond to its guidance, and subsequently alter existing practices for accounting and record keeping for service charge monies. It has to be remembered that the Code of Practice is a guidance note rather than a practice statement. However, it is reasonable to assume that Code compliance should be the priority of management agents and landlords that wish to supply a professional and “best practice” level of service to their tenants. The Code is also supported by information papers, and RICS warns that “members should note that when an allegation of professional negligence is made against a surveyor, the court is likely to take account of any relevant information papers published by the RICS in deciding whether or not the surveyor has acted with reasonable competence”.

However, as Calvert in “The Loughborough Report: the paradox of service charges” (2009), the Occupiers’ Satisfaction Index [www.occupiersatisfaction.co.uk] and Jin and Tsourikova “Fixing UK commercial service charges – has the credit crunch helped?” (2008) all highlight, levels of Code compliance and tenant satisfaction remain almost unchanged at relatively low levels.

These findings generally correlate with the results of ongoing research at Kingston University into the transparency of current accounting practices and disclosures for commercial service charge transactions in the UK. This research commenced in August 2008 and, to date, has discovered strong evidence of widespread non-compliance with the Code in terms of accounting requirements, continuing tenant dissatisfaction with level of information included within service charge certificates and examples of plain poor practice.

For example, one interviewee, who was generally positive and supportive about the Code, stated that there was “some way to go” before it could be claimed that the Code was widely practiced.

The qualitative and quantitative data for the research has been collected from sixteen in-depth interviews with various industry stakeholders, focus groups, questionnaires and an analysis of service charge certificates and documents prepared and issued during fiscal years 2004-2008.

The interviews and focus groups included various landlords, tenants, managing agents, RICS members and qualified accountants. The service charge certificates and documents analysed were all drawn anonymously for commercial and confidentiality reasons.

What is covered in the Code of Practice?

From an accounting perspective, the Code of Practice outlines a number of detailed requirements for the accounting and associated narrative disclosures for service charge monies, including:

• an annual budget of likely service charge expenditure one month prior to commencement of the service charge year
• certified accounts within four months of the end of the service charge year, that provide a consistent, detailed and comprehensive summary of items of expenditure with full explanations of material variations against the budget.
• narrative explanation and disclosures about significant individual costs and variances from previous year’s budget/accounts
• the use of standard cost codes and a clearly defined apportionment basis
• disclosure on interest earned on service charge monies
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employed do contribute to the problem, the fact remains that the interviewee) coupled with the way in which some managing agents are straightforward governance issues. Whilst “bad tenant practices” (another described the Code as “aspirational”, but the rules are in reality very

to be failing in the “best practice” service budgets and accounts, industry practitioners appear to be failing in the professional duty to carry these out. One interviewee described the Code as “aspirational”, but the rules are in reality very straightforward governance issues. Whilst “bad tenant practices” (another interviewee) coupled with the way in which some managing agents are employed do contribute to the problem, the fact remains that the preparation of a “code-compliant” set of service charge accounts is far from difficult.

We are in the process of preparing such a set of accounts with the help of accounting and industry experts, and hope other parties in the industry are working towards the same goal. Those who do are likely to obtain a substantial competitive advantage.

Postscript:

Dr Timothy Eccles and Dr Andrew Holt are professors at Kingston University

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