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Service charges

You will probably have to pay – over and above the rent – a service charge to cover the cost of services that the landlord provides. Particularly if you occupy only part of a larger building. Service charges for business premises are not specifically regulated by legislation. It is up to you, with your chartered surveyor's help, to make sure before you take a lease that you are happy with the amount of information you will receive on expenditure, which will be passed on to you via the service charge.



RICS has produced a Code of Practice for its members which is widely accepted by the property industry as the best practice principles for the management and administration of service charges in commercial property. The Code can be viewed at [rics.org/servicechargecode](https://www.rics.org/servicechargecode)

What does a service charge cover?

It probably includes your share of the cost of maintaining common parts of the building and a proportionate share of the costs of repair or redecoration of the building. It would also cover your proportion of the cost of insuring the premises where the landlord is responsible for insurance. If major items of equipment need replacement, such as a central heating boiler that serves the whole of the building, your proportion of the cost would probably be charged by way of the service charge.

Your lease should set out what items would come within the service charge. It is important to get your chartered surveyor to explain to you the implications of this part of the lease and what expenditure you might face.

How is a service charge levied?

This will depend on the wording of the lease.

Where there are several businesses occupying one property the costs for services need to be shared. It is likely that each separate occupier will have different needs so it is common for each occupier to pay a proportion of the total service charge for the property.

The proportion could be calculated using a number of methods but the aim should always be to ensure that occupiers bear a proportion of the total costs that is fair, reasonable and reflects the availability, benefit and use of the services. The method and details of the formula used to calculate your share should be clearly communicated to you by the property managers and it is essential that this matrix is reasonable and can be seen to be fair to all occupiers of the property.

The various items that are covered by the service charge will be listed in an 'expenditure schedule'.

You should be given a copy of both the 'apportionment matrix' and the 'expenditure schedule' together with a clear and easy-to-follow commentary on how the expenditure is allocated between the schedules and how those schedules are apportioned between the occupiers.

Any services that are used by some occupiers but not others should be excluded from the main schedule and only allocated to a separate schedule which is apportioned among the relevant occupiers.

Property owners and managers should try to keep the number of these schedules to a minimum so that overall management of the services does not become too complex.

The apportionment system means that owners will usually be able to recover all the expenditure on operational services through the service charge. However, sometimes this may not be possible.

The owner is responsible for the service charges attributed to unlet properties and for any specific concessions granted to individual occupiers. These charges should not be passed to existing occupiers.

The owner will need to bear a fair proportion of the costs attributed to their own use of the property (e.g. where an on-site management office is used as the owner's regional office) and also for any concessions granted to individual occupiers.

The apportionment matrix should be reviewed regularly to ensure that it is still fair after any changes to the occupation or use of the property. As with all other aspects of service charges, changes should be explained and shared with everyone concerned.

How do I know how much has been spent and how much to budget?

Owners should provide you with:

- an estimate (budget) for the likely service charge for the year ahead, including an explanation of the itemised costs (delivered no later than one month before the start of the 'service charge year')
- a statement setting out in detail the expenditure incurred for the previous year (delivered as soon as possible after the service charge year-end, but certainly within four months).

Good communication is essential and owners should make sure that the accounts clearly explain the reasons why any actual costs were different from budget estimates. In addition, owners should ensure the layout of accounts is similar each year, so that everyone who reads them can easily compare changes year-on-year.

If you wish to ask questions about the accounts you should do so within a reasonable period – we would suggest four months from the date the certified accounts were issued.



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Will I have an opportunity to vet the figures?

Ensure that you receive accounts of the actual expenditure. Best practice is for these accounts to be reviewed by an independent firm of qualified accountants who can certify that the expenditure is properly incurred under the terms of the lease. Some leases stipulate that the accounts should be signed by a chartered surveyor or an accountant.

How can I avoid being overcharged?

There can be disagreement about the quality – and therefore the cost – of work that needs to be carried out and about the cost-effectiveness of the contractors that the landlord employs.

In practice, this means that:

- the property owner should obtain competitive quotations for the various services and should select suppliers based on a value-for-money assessment of the services offered
- the costs of the services should be transparent so that everyone involved is aware of how the costs are made up
- the owner should ensure that all costs have been incurred in accordance with the lease
- owners should hold service charge money in one or more separate bank accounts.

What if we can't agree on the service charge?

Poorly managed service charges can cause disputes between owners and occupiers, and inevitably, disagreements will arise from time to time.

You have a right to reasonably challenge the propriety of expenditure on services, although you will need to bear the costs of the challenge, unless other arrangements have already been agreed (e.g. by court determination).

Alternative Dispute Resolution (ADR) has been introduced because the courts are increasingly encouraging people to resolve all sorts of disputes – from divorce to service charges – without the need to go to trial. The courts may ask for evidence that ADR was properly considered prior to going to court.

It is worth noting that if you have a dispute over service charges it may also affect other occupiers of the property (a situation known as a 'joinder'). This means that it can be helpful to deal with related disputes from more than one occupier at the same time.

RICS Dispute Resolution Service (DRS) is a two-stage dispute resolution process that includes 'mediation' and 'expert determination'. DRS has access to a 'service charges panel' of trained and experienced service charge practitioners to help resolve such disputes.

For further information, contact:
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