

RICS Guidance – Service Charge

Are Your Service Charges Too High?

Did you know 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 information you receive on the expenses passed on to you in the service charge.

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 a 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 depends on the wording of the lease. One pattern is for the landlord to prepare each year an estimated annual charge to cover likely expenses and spread it among the different tenants as a service charge. You, as tenant, would pay this estimated charge in four instalments, quarterly in advance. At the end of the year, actual expenses will be compared with the estimate, possibly meaning you pay a top up or receive a rebate.

Will I Have an Opportunity to Vet the Figures?

Make sure you get accounts of the actual expenses. Best practice is for these accounts to be audited by an independent firm of qualified accountants who can certify that the expenditure is properly used under the terms of the lease. Some leases stipulate that a chartered surveyor or an accountant should sign the accounts.

How Can I Avoid Being Overcharged?

Even with audited accounts there can be disagreement about the quality - and therefore the cost - of work that needs to be carried out, often about the cost effectiveness of the contractors the landlord employs. It is a good idea to get competitive tenders for major items of expenditure, except in an emergency. Always review regular contracts for cleaning, maintenance and the like every few years.

What Happens to the Money Collected Before it is Spent?

Ideally, the money should be held on trust for the tenants who contribute, so interest earned on the money goes to reduce the amount they need to pay each year. The landlord, too, should contribute service charges for any vacant parts of the premises. You can get a free copy of *Service Charges in Commercial Property: RICS Code of Practice* which came into effect on 1 April 2007 from www.servicechargecode.co.uk.

Flude Commercial are a practice of Chartered Surveyors with expertise in property management, service charges, rent reviews, lease renewals and other commercial property services. For further information please contact Edward Flude BSc FRICS, Lindsay Duff MRICS or Nick Maxwell BA (Hons) PGDip MRICS on 01273 727070 or email mail@flude.com.

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