SERVICE CHARGE OPERATING REPORT 2010/11

SCOR for Offices 2010/11

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April 2011

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WELCOME TO THE SERVICE CHARGE OPERATING REPORT ON COMMERCIAL OFFICE SERVICE CHARGES (SCOR) 2010/11

Service charges are a matter of growing interest within the commercial property sector, resulting in an increasing number of initiatives designed to better understand and constructively determine practical steps to improve the management and administration of such expenditure.

The relative size and importance of the commercial service charge market is now clearly understood and there is increasing support from occupiers, landlords and managing agents for improvements in best practice within the industry.

The Service Charge Operating Report 2010/11 (SCOR) on commercial service charges provides an opportunity for better benchmarking across the industry. This report is the first output of the Knowledge Transfer Partnership (KTP) between Kingston University and Property Solutions (UK) Limited. The KTP is endorsed and partially funded by Government, and provides academic resources to further knowledge in the area of commercial service charges.

This work is complementary to initiatives by the Royal Institution of Chartered Surveyors (RICS) to improve industry standards as laid out in the 2006 RICS Code of Practice 'Service Charges in Commercial Property' (the Code) a revision of which is due to be published in May 2011.

We hope you will find the results to be carefully researched as well as stimulating, and we look forward to continuing this work in the future. We believe the practical conclusions set out in this report form an evidential and challenging agenda for future cross-industry discussions and initiatives.

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1. INTRODUCTION

SCOR offers the industry detailed benchmarking as well as providing guidance on best practice as set out by the Code. It also reports on accounting practices relevant to commercial service charges.

In completing this research we would like to acknowledge the support of the KTP programme, funded by the Technology Strategy Board.

2. METHODOLOGY

2.1. The data

SCOR's core data was obtained from analysis of the service charge documents supplied to tenants of 756 large-scale multi-let buildings located throughout the UK (predominantly England and Wales), and occupied by seventeen corporate tenants operating principally in the financial services sector. The total floor area of these buildings is 66,667,864 square feet (sq.ft.). According to statistics released by the Office for National Statistics (ONS) and published by the Department for Communities and Local Government (2009), the total commercial office space in England and Wales at 1 April 2008 equalled 904,954,239 sq.ft. These statistics provide the most recent and independent account of commercial floor space.

While there are no published statistics for the amount of multi-let buildings on which commercial service charges are normally levied, the Occupiers Property Databank (OPD) estimated that 76.2% of commercial office space was multi-let in 2008. Based upon this estimate and the April 2008 ONS statistics, the total amount of multi-let office space in England and Wales is estimated at 689,575,130 sq. ft. SCOR's dataset provides an analysis of the service charge practices for a sample size equivalent to 9.67% of this multi-let space over the years 1997 to 2011. A summary of the core dataset is shown in Table 1.

The importance of introducing transparency into service charges

Service charges have always been a bone of contention between landlord and tenant. And yet this need not be the case. If service charges can be demystified with all sides committed to full openness about the services provided, the opportunities for dispute would surely reduce.

A key step in moving in this direction is to analyse service costs consistently across the whole UK commercial property market for all buildings where service charges apply.

The time for this move is right now: the RICS Service Charge Code gives the basis for cost analysis, while property management systems are increasingly able to assemble the costs together with information on cost drivers and service levels. Put together, it will then be possible to produce fair and consistent value for money feedback to tenants.

Everyone would benefit from such a system: occupiers would have much greater insight into the costs they are paying; landlords would be able to demonstrate best practice credentials; excellence in property management would be much easier to recognise, while the industry would operate at higher standards and help to heal a long-standing sore of the property market.

Christopher Hedley,
Managing Director, IPD Occupiers

Table 1 – Summary of the 2011 Core SCOR Dataset of Commercial Offices

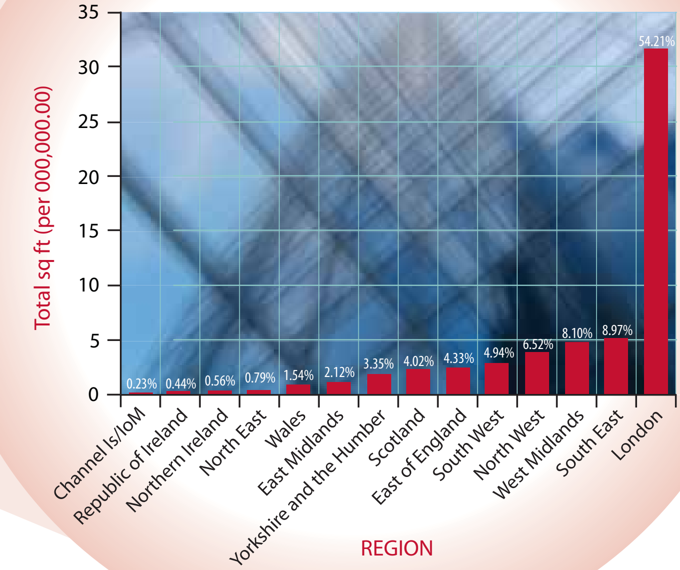
Number of buildings	Total area for let ('000 sq. ft.)	Air-conditioned		VAT registered	
		No. of buildings	% by area	No. of buildings	% by area
756	66,667.86	416	74.53%	436	73.68%

As a number of SCOR's buildings are located outside England and Wales, Figures 1 and 2 provide a detailed geographic analysis of the core dataset. Figure 1 illustrates the location of each building by classifying them according to the geographical office regions (GOR) defined by the ONS. Figure 2 compares these regional results to the respective amount of ONS commercial office space in each region within England and Wales at 1 April 2008.

While the majority of the report's analysis is derived from core dataset, supplementary and extended data were also used to provide additional depth for certain parts of the study. When assessing the timely delivery of service charge budgets and certificates, the analysis used operational data from 1,397 buildings to capture a wider range of building sizes, landlords and managing agents. The enlarged sample of 1,397 buildings included data for 76% of the 756 buildings within SCOR's core dataset, so statistical continuity was preserved.

Finally, SCOR extends its existing benchmarking of Code compliance by providing a section that focuses on analysing the accounting quality of service charge documents and the level of disclosure as determined by established accounting principles. This accounting benchmarking is, at this time, exploratory in nature. The findings within this report are based upon a preliminary sample of 200 documents for 100 high cost buildings (by cost per sq. ft.) within the SCOR core dataset. The intention is for future editions of SCOR to extend this analysis across the entire dataset.

Figure 1: Geographical Analysis of SCOR Core Data by Region (total sq. ft.)

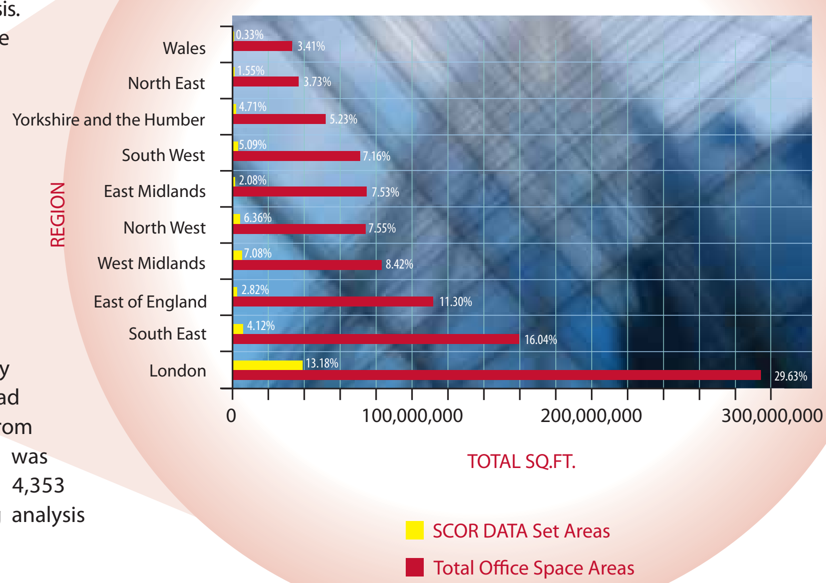


2.2. Data collection, analysis and audit

This research was carried out during 2010/11. The primary source data were the actual documents used for budgeting and certifying service charge expenditure and payments made. However, in order to provide rigorous analysis, the research also reviewed the supplementary information contained within covering letters and additional attachments. It is important to note that lease documents were not reviewed within this analysis. As documents typically cover different parts of the same calendar year, the analysis assigned each document to a year on the basis of whether its accounting period covered the majority of that year. For example, if a document covered the accounting period 01/04/07 to 31/03/08, it would be assigned the year 2007 as the majority of its period falls within that year.

For the period 1997-2011 it was possible to analyse 3,680 documents, including 1,987 certificates and 1,693 budgets for the core dataset of 756 buildings. Documents were available for the entire 1997-2011 period for a small number of buildings, but for many others there were years where the source documents had not been archived correctly or were still outstanding from the landlord or managing agent. This core dataset was supplemented with a total of 3,440 budgets and 4,353 certificates for the period 1998-2011 for undertaking analysis

Figure 2: SCOR Dataset Comparison to the Total Area of the England & Wales Office Space



into timeliness. As with the core dataset, documents relating to particular buildings were unavailable for certain periods.

As the source documents are prepared by various organisations, working on different buildings and for different managing agents and landlords, they naturally lack standardisation. This is especially so where the Code offers instructions about the general intent rather than a specific standardised process.

During the preparation of this report an audit was undertaken of the data collection, analysis and archiving process and clear parameters were established for the measurement of the accounting metrics. Each historical document included within prior research was re-visited and its content re-analysed before its data was allowed entry to the SCOR database. In addition, a sample of the SCOR documents and metrics were audited for input and calculation accuracy.

3. FINDINGS AND ANALYSIS

3.1. Service charge costs

SCOR's analysis of service charge costs uses a five year longitudinal sample of certificates from 618 buildings within the core dataset. For the period 2005-2009, the median unit service charge for 1,048 certificates is £5.19 per sq. ft., including VAT.

The upper and lower quartiles of this data are £7.82 per sq. ft. and £3.08 per sq. ft. respectively.

The average service charge cost for the sample certificates is £5.89 per sq. ft. By multiplying this figure by the total multi-let commercial office space derived in section 2.1 (689,575,130 sq. ft.), the size of the 2011 commercial service charge market in England Wales can be estimated at approximately £4.06 billion per annum.

As the principal variables of inflation, location, size, air conditioning and VAT do not explain a significant amount of variability, the upper quartile of £7.82 per sq. ft. could be used as a 'trigger' point for further monitoring of costs.

The total cost per sq. ft. from certificates varies widely. Values are skewed and so the usefulness of the average (mean) cost per sq. ft. is compromised and standard deviation may have limitations. The median as a measure of centrality is much more robust and therefore was the chosen as a metric for this analysis.

3.2. Code compliance metrics – timeliness of budgets and certificates

In terms of the timely preparation and delivery of budgets and certificates, the Code states that: "the manager will issue budgets to occupiers with an explanatory commentary at least one month prior to the start of the service charge year" (RICS 2006: 5) and: "the owner will submit certified accounting to the occupiers in a timely manner and in any event within four months of the end of the service charge year" (ibid: 13).

This report analyses the issue of timeliness using an extended and wider dataset in order to capture the full breadth and depth of this issue. Table 2 provides a breakdown of the 7,728 budgets and certificates (within the extended dataset of 1,397 buildings) that were analysed in terms of their timely delivery over the period 2005 and 2011 for which data was available. The first issue of note is the clarity of date stamping of the documents under consideration, as is reported in Table 2 below.

Table 2: Testable Documents (2005 – 2011)

			Total	
	Budgets	Certificates	Documents	%
Undated	2,159	2,638	4,797	**62.1%**
Clearly dated	1,277	1,654	2,931	**37.9%**
Total	**3,436**	**4,292**	**7,728**	

Table 2 shows that in 62.1% of this sample, both original documents, and any accompanying covering letter or attachment, failed to provide a clear date of issue or invoice date. Many documents do not record the date of issue or the accounting period to which they relate. Whilst the 2006 version of the Code does not require this, it might be argued that 'best practice' should. Where the usual practice is for a document (budget or certificate) to be produced under the cover of a separately dated letter, it is perhaps not unreasonable to accept that, in such circumstances, the date of issue is rarely recorded on the document itself. It is also plausible that such documentation may become detached from the covering letter during the subsequent administration process. Without this information, it is not possible to measure whether a document meets the Code's requirements in terms of timeliness.

How well do Landlords/ Managing Agents account for their use of our money?

Most areas of our business are subject to constant cost-management (with targets to reduce recurring costs), but our service charges continue to edge up and it is typically unclear as to how the money has been spent.

We have noticed an increasing traction of the Service Charge Code with larger landlords but this is not a universal trend and we would like to see a widespread adoption of the standards.

The biggest issue for us is the poor quality of accounting for service charge expenditure on the one hand, but also the cash management on the other. Clearly only 26% of the survey sample provide accounting for interest on cash balances and credit that to tenants. Less than two thirds show any apportionment in the accounts and only slightly more than one fifth use the appropriate classifications as provided in the Code. This broadly accords with our own experience and is very disappointing for a professional discipline, and does not reflect the accounting rigours we require from the remainder of our supply chain.

Julian D S Lyon MBA FRICS, Member of RICS Corporate Occupier Group

For the evaluation of timeliness, documents covering the period 2005-2010 were analysed. As Table 3 highlights, only 2,931 out of a total of 7,728 available documents contained dates.

Table 3: Clarity of Date of Issue on Documents

	2005	2006	2007	2008	2009	2010	2011	Total
Budgets	9	8	45	206	328	331	350	**1,277**
Certificates	53	131	333	465	474	198	0	**1,654**
Total	**62**	**139**	**378**	**671**	**802**	**529**	**350**	**2,931**

For those 2,931 documents that were dated, it was possible to analyse their timeliness by comparing their date of issue to the accounting period to which they related. Tables 4 and 5 provide the specific results for budgets and certificates respectively. Each table compares the number of Code compliant documents with the total number of testable documents.

Table 4: Compliant Budgets (2005 – 2011)

	2005	2006	2007	2008	2009	2010	2011	Total
Budgets	1	2	4	45	95	96	154	**397**
% of Testable documents	11.1	25.0	8.9	21.8	29.0	29.0	44.0	**31.1**

These results provide evidence suggesting that, particularly in the more recent years, there has been a significant improvement in the timely delivery of budgets with current performance at 44%.

Table 5: Compliant Certificates (2005 – 2010)

	2005	2006	2007	2008	2009	2010	2011	Total
Certificates	17	19	122	178	197	125	n/a	**658**
% of Testable documents	32.1	14.5	36.6	38.3	41.6	63.1	n/a	**39.8**

A similar finding is apparent in terms of certification timeliness with 41.6% compliance in 2009 and 63.1% in 2010.

It is important to note that this dataset comprises buildings that are actively managed from a service charge perspective. Part of PSL's remit is to review the timeliness of previous tenant data and to demand timely provision of budgets. The result is that data is biased towards improvement and it would only be possible to actively conclude that this improvement in timeliness applies across the industry and is a sole and direct consequence of the Code by researching a broader dataset.

3.3. Accounting metrics

As the service charges on a commercial building are not subject to residential legislation (except in instances where the building contains a dwelling), the accounting practices adopted and the information provided by management agents and landlords is effectively determined by the terms within the commercial lease. While reference to relevant lease clauses might appear to offer hope of accounting direction and guidance for managing agents, the wording of the average lease is often unclear.

From the documents analysed for this report, it is apparent that there is no consistent approach to the preparation, format, content and presentation used. Sections 48-51 of the Code state only that accounts should provide an "adequately detailed and comprehensive summary of items of expenditure, with full explanations of any material variations…against the budget" together with a report providing "a reasonably comprehensive level of detail" about current expenditure and "explanations of significant individual costs" and year-to-year variances (RICS 2006: 13). The precise meanings of "adequately detailed and comprehensive", "full explanations", "reasonably comprehensive level of detail" and "explanations of significant individual costs" are open to interpretation. As a result, it is no surprise that disputes may arise over what service charge accounts should disclose.

In terms of a prescribed format for accounting statements, the Code states that accounts should be in a "reasonably consistent format year-on-year" (ibid: 13). Inconsistencies may arise where a landlord or a managing agent changes during the lease period even though the Code specifies that "where the owner or managing agent was not responsible for earlier years, they will convert the data into a consistent format for comparison" (ibid:14). In such situations the format, content and length of accounting period of the accounts may change, with little explanation or detailed disclosure of the impact of the changes.

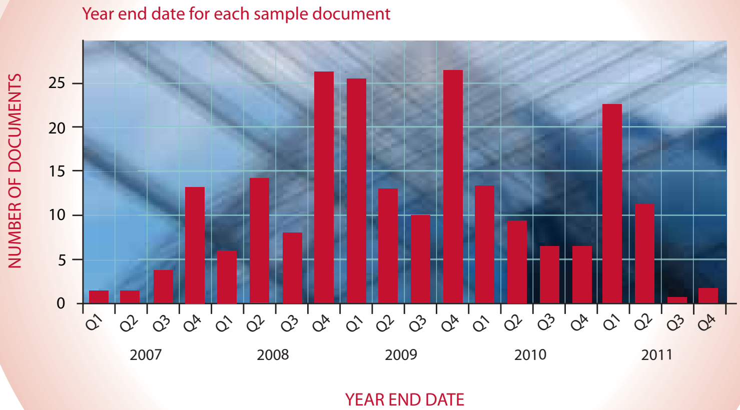
In order to fully assess the accounting content and quality of certificates and budgets, SCOR includes a section that benchmarks a range of accounting metrics, using data entirely obtained from the service charge documentation supplied to occupiers. These metrics assess the transparency, information content and Code compliance within each document by monitoring the following accounting issues:

- Accounting principles used
- Document sign-off process
- Use of cost classes, categories and codes
- Provision of additional disclosure notes and cost information
- The management fee
- The apportionment basis
- Interest received on service charge accounts
- Forward funding disclosures for sinking, reserve and depreciation funds

This report provides a preliminary analysis based upon the most recent certificate and budget for 100 buildings within the SCOR dataset (200 documents in total). This sample represents high cost building domains with an average annual service charge cost of approximately £1.1 million per annum, and includes documents prepared by different managing agents. 99.5% of these documents were issued subsequent to the latest version of the Code coming into effect (after April 1, 2007), and should comply with its recommendations. The accounting period to which each document relates varies, but the sample covers an interval of approximately five years, which provides an opportunity to observe the trend in document preparation.

3.3.1. Accounting principles

From an analysis of 100 certificates, it proved possible to ascertain whether the document was prepared using a cash, transaction or accruals basis in only 3% of the sample (2% cash and 1% accruals). Of the remaining 97% of certificates the accounting principles used to calculate the statement of service charge expenditure incurred for the period were neither formally disclosed nor explained. Although the accounting practices to be adopted are effectively determined by the terms within the lease, this wording is also often unclear.



A review of three commercial leases for buildings within the SCOR dataset finds that a statement of account for service charge monies should either capture 'the actual cost of the services and cost for the service charge year', the 'expenditure incurred' or the 'annual expenditure' which represents 'all costs expenses and outgoings reasonably and properly incurred'. It is unclear whether a certificate reporting the 'actual costs' covers the same expenses as one reporting the 'expenditure incurred' or 'annual expenditure'. This increases variability in interpretation, and thus practice, by accounting and legal professionals.

SCOR recommends that certificates disclose the accounting principles used during their preparation. Without this information, it is impossible to assess whether a certificate provides a cash-based account of periodic expenditure or an accruals-based estimate adjusted for accrued and prepaid expenses. SCOR also recommends that accruals should be the basis of best practice accounting for commercial service charges, as its use is dominant in financial accounting and required by the RICS Residential Code (see Holt, Eccles and Bennett, 2011).

3.3.2. Document sign-off process

The 2006 version of the Code does not specify best practice requirements for the appropriate sign-off process or independent audit for service charge certificates and budgets.

Of the 200 documents examined there was a noticeable variation in the certification and sign-off procedure. Many documents did not appear to be signed-off at all, others were signed by a member of the managing agents' team and only 7% were signed-off by a Chartered Surveyor. Of the 100 certificates analysed, 32% were signed off by a Chartered Accountant. In addition, the wording of the opinions attached to such signatures varied considerably.

This preliminary evidence highlights the doubts expressed by occupiers about the quality and accuracy of the service charge information they receive. The recommendation of this report is that certificates include a 'pro-forma' statement of opinion with specific sign-off obligations on behalf of both management agents and auditors. These would establish who is responsible for ensuring that the service charge expenditure is in accordance with the lease, and that charges are fairly incurred as two separate and separately audited processes.

3.3.3. Use of cost classes, categories and codes

The Code suggests that for transparency and information clarity, cost data should be presented using a three tier structure: cost classes, categories and codes, where classes are broken into categories, which in turn contain more precise definitions (codes) of costs incurred. In addition to a comprehensive layout, this structure provides an opportunity for convenient benchmarking on a like-to-like basis. In an attempt to evaluate compliance with the above requirement, the document analysis focused on identifying the presence of each tier of cost classification (classes, categories and codes) as well as assessing the consistent application of the Code's requirements throughout the entire document.

Although aspects of this analysis involved a degree of subjectivity, clearly defined criteria were established to ensure consistency. For the 200 documents, the analysis provided the following results:

- **32.0%** of documents (64) utilised the costs classes prescribed by the Code
- **35.5%** of documents (71) utilised the cost categories prescribed by the Code
- **90.0%** of documents (180) provided separate cost codes for each type of expenditure

These results imply poor levels of compliance with the Code's prescribed cost classification methodology. However, it is worth noting that there is a substantial difference between a document that partially utilises the Code's three cost classifications and provides a comprehensive description of costs, from a document that does neither. There are examples of documents that technically fail to meet all of the Code's requirements, but compensate by providing exceptional descriptive notes or a detailed analysis of variances, thus delivering required transparency, which is the ultimate objective of the Code. As a result, further analysis of the documents provided the following information:

- **56.5%** of the sample (113 documents) utilised only cost codes and failed to group them under cost classes and categories
- **21.5%** of the sample (43 documents) utilised all three cost classifications (classes, categories, and codes) in accordance with the Code
- **7.5%** of the sample (15 documents) contained codes and categories compliant with the Code, but failed to group them into cost classes
- **4.5%** of the sample (9 documents) provided only cost classes and codes
- **5.5%** of the sample (11 documents) utilised the Code's cost classes and categories, but failed to provide further detail about individual cost codes
- **1%** of the sample (2 documents) utilised only cost categories
- **0.5%** (1 document) only used cost classes with no further details about cost
- **3%** of the sample (6 documents) provided no detailed information on costs, except for the respective total cost figure

A transparent and consistent approach toward the presentation of service charge expenditure is an essential component of best practice principles. The Code recognises this and provides such a framework for the presentation of service charge cost information. It is clear that compliance with this framework is developing slowly and may conflict with the wider principles laid down in the Code. It is only through this type of benchmarking exercise that detailed insights can be revealed about both current levels of compliance with the Code's cost classification structure and the actual transparency within which expenditure is presented. This work will be extended in future editions of SCOR.

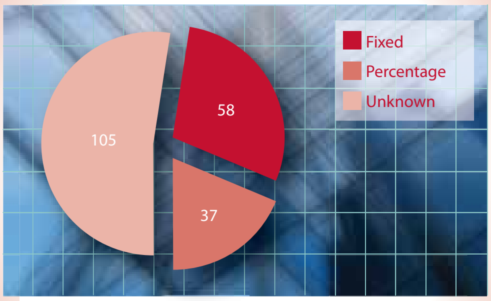
3.3.4. Additional disclosure of information on costs

Although it is important for a service charge budget or certificate to use the Code's cost classification framework, in many instances it may be appropriate to provide additional information or disclosures about the nature and reason for each type of expenditure. A non-descriptive list of definitions does not always provide sufficient information, especially if costs vary significantly from previous years or a new cost code or category has been added to total expenditure. The following results were obtained:

- 29% of the sample (58 documents) contained additional disclosures and information about costs
- 11% (22 documents) contained classes, categories and cost codes as well as provided further cost description in the form of notes or a separate schedule

Of the 29% of documents that provided additional disclosure notes, a number of these were presented in the form of periodic service charge reports that formed part of the budget or certificate. Some of these even included up to thirty pages of background information about the service charge and the building, although the majority of this data was non-financial in nature.

Management fee



3.3.5. Management fees

The Code states that "best practice requires that there will be transparency in the management fee charged" and that the total price for the management service will be "a fixed fee for a reasonable period of time" (ibid: 12). The analysis of management fees for the sample documents delivered the following results:

- In 29% of documents a fixed management fee was assessed
- In 18.5% of documents a percentage fee was applied
- For 54.5% of the documents it was impossible to determine the nature of the management fee

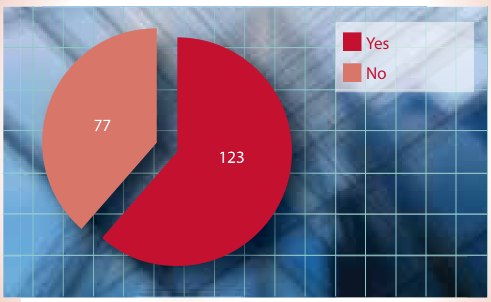
Clearly, the majority of the documents analysed failed to adequately disclose the basis for the calculation of the management fee. Additionally, 18.5% still charge a management fee based upon the percentage of total service charge expenditure.

Whilst the lease may specify a fixed percentage in terms of building level analysis, for only 22% of the 100 buildings surveyed did the matching budget and certificate both disclose the basis for calculating the management fee. For 51% of buildings only one document provided this information, and for 27% of buildings neither document supplied this crucial data.

3.3.6. Apportionment

For an occupier of a multi-let building, it is essential that service charge documents clearly disclose the basis for apportioning service charge costs between tenants. The Code states the budget and accounts should be issued with a report explaining the apportionment. As the chart shows, 61.5% (123 documents) provided minimum levels of detail regarding the apportionment used. Of these documents, the majority disclosed the percentage attributable to the occupier rather than an apportionment schedule for the entire property.

Apportionment clear



For the remaining 38.5% (77 documents) there was no evidence of either a detailed apportionment schedule or disclosure of the percentage attributable to the occupier.

The analysis was subsequently extended to consider whether the apportionment basis was routinely disclosed in both the budget and certificate for each of the 100 buildings. For 42% of the buildings analysed, the apportionment basis was disclosed in both the budget and certificate. Of the 58% of buildings where the apportionment basis was not disclosed in both documents, there were 26 and 13 instances respectively of where the budget and certificate failed to provide this information. In 19 instances, both of a building's documents failed to disclose the apportionment basis for the occupier.

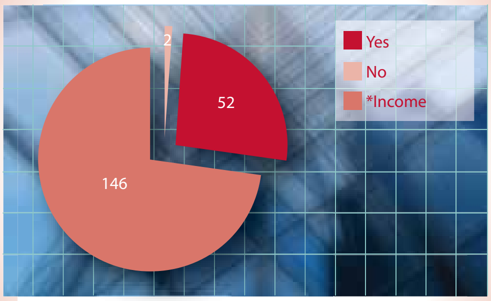
3.3.7. Interest on service charge accounts

The Code recommends that service charge monies are kept in separate bank accounts and that interest generated on such accounts should be credited to benefit of the occupiers.

The sample documents were analysed for their disclosure about the interest received on service charge accounts.

- 26% of the documents credited interest to the occupier's benefit
- 73% of the documents made no mention of interest
- 1% of the sample only mentioned 'Income', but failed to specify what type of income this represented

Bank interest



For 13% of buildings both the budget and certificate contained a provision for interest receivable. For 18% of buildings, interest was included within the certificate, but not mentioned in the budget. Interestingly, for 7% of buildings an amount of interest receivable was included in budget but failed to appear on the reconciling certificate.

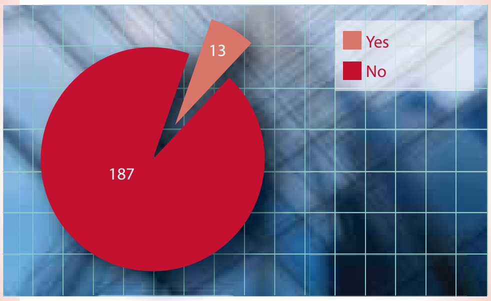
It is a recommendation of this report that any future version of the Code should require the disclosure of the current balance of the service charge bank account within the accompanying notes to the budget and accounts. This would allow a judgment to be made as to whether interest payments are due on these funds.

3.3.8. Forward funding disclosures for sinking, reserve and depreciation funds

Section D8 of the Code sets out a detailed framework of responsibilities for the owner or managing agent responsible for operating a sinking, reserve or depreciation fund. These include the following accounting-related issues:

- Sinking fund monies will be held in an interest-bearing account, held in Trust for the tenants and separate from the owner's own monies
- Clear disclosure of the calculation basis for any sinking fund contribution and the items to which it relates, including a realistic assessment of the anticipated life cycle of the item in question and accounting for the funds accumulated from previous service charge periods
- Disclosure of movements on the fund, together with the opening and closing balances and the amount of interest earned and tax paid in the period

Forward funding



As the amounts held in sinking and similar funds are rather substantial, disclosure of information mentioned above is essential for overall comprehensiveness and transparency of the charging process.

Of the 200 documents analysed, 13 included amounts relating to forward funding, and these funds were described in the following manner:

- Sinking fund (7 instances)
- Replacement fund (1 instance)
- Provisions (1 instance)
- Repair fund (1 instance)
- Contribution to plant replacement (1 instance)
- Reserves (1 instance)
- Other (1 instance) – document included contributions to three separate funds: sinking fund, depreciation fund and reserve fund

The definitions of a 'sinking fund', 'depreciation fund' and 'reserve fund' are introduced in an RICS information paper (2009). During this analysis, it proved impossible to ascertain the intention for the forward funding contributions within a majority of these documents, due to a lack of accompanying notes or additional narrative.

Only 2 of the 13 documents provided the current balance or periodic movements on the fund. Of these documents, one provided this information, together with disclosing the investment returns on the sinking fund.

The small number of documents containing forward funding makes in-depth analysis difficult, but it is clear that current disclosure levels about such funds are deficient and rarely match the requirements of the Code.

3.3.9. Conclusions on the accounting metrics

The preliminary analysis of the accounting metrics suggests positive developments in terms of presentation, comprehensiveness and transparency of information during the past few years. Recent documents provide more detailed cost descriptions, explain variances between projected and actual costs as well as comparisons across years. They also frequently refer to the Code, which is a significant step forward.

Yet there is still room for improvement. Documents lack standardisation, even when produced within the same organisation, which makes meaningful comparison impossible. This also requires tenants with more than one occupied building to deal with data presented in different styles. Further progress is also necessary in the disclosure of information, whether it relates to apportionment, routine costs or exceptional expenditures.

3.4. General conclusions

This report analyses issues of Code compliance and finds improved levels of transparency and information quality. There is clear evidence that best practice is becoming more established. There remain variances across landlords, buildings and regions and within different aspects of the service charge management process and, while the report finds pockets of best practice, improvements are still required.

SCOR's evidence suggests that the forthcoming revised version of the RICS Code will find an industry accepting the need for improvement and moving to achieve it. Continued industry measurement remains an important tool to monitor this improvement. SCOR will continue to be developed and expanded, allowing for inclusion of a wider dataset from a range of sources, with a view to offering a practical benchmarking service for landlords and tenants to use.

SCOR shows that there is a need for standardisation in data processing and presentation and provides practical advice in how to follow the Code. The immediate need is for training and we conclude that the RICS and/or academic institutions should develop a series of CPD courses in service charge management and accounting, aimed at providing service charge managers with the skills to achieve best practice, for occupiers to understand what data they may demand and how to interpret it.

SCOR provides a template of action points in which education is needed. However, there are also wider service charge issues on the horizon and a commitment to best practice requires all parties to examine the wider pressures that will bring change to building management. For example, proposed changes to lease accounting by the International Accounting Standards Board will impinge upon how tenants must record financial obligations under the life of their lease. Environmental pressures are already creating discussion over who should pay for sustainability 'improvements'. SCOR comments on the often vague terms found within leases and since it is the lease that drives the service charge, it is also subject to attention.

Finally, the service charge is a derived expense, based upon maintenance and operational functions carried out within the building and it is logical to recognise that reporting accurately upon these costs is only the end of a long process. How to effectively and efficiently manage a building is the larger picture in which service charges are but one part and the economic and environmental pressures on these complex and technical decisions is only going to increase. Providing education on how to manage buildings well is vital, and SCOR highlights areas where further training should improve the overall quality of service charge management.

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