



Briefing Paper (Ref: FGB2019/001)

Service Charge Audit

Occupiers of large multi-let buildings, whether, office, retail parades, shopping centres or industrial terraces will usually be obliged to contribute towards a service charge for the upkeep, maintenance, servicing and administration of the contracts serving the non-exclusive (common) parts of the building, development or estate. The responsibility for providing these common services falls to the Landlord or their appointed Managing Agent.

In most cases, service charges are recovered on the basis of a Tenant paying their apportioned share of an annual budget - usually determined by the floor area percentages - with equal quarterly on-account payments being recovered from the Tenant. The lease will usually provide for a reconciliation of expenditure versus budget at the end of the service charge year and a refund provided or set off against future years' allocations where expenditure falls below the budget, or a balancing charge issued to recover the shortfall in the event that annual expenditure exceeds the previous year's budget. In addition to ongoing common services some leases may allow for a sinking fund to be created to accrue for major items of capital expenditure.

Service charges are a cash neutral, not-for-profit vehicle for the provision of common services to a property and the Landlord is only entitled to recover reasonable expenditure and for works undertaken and invoiced during the service charge year. Furthermore, Tenants can only be invoiced for the period when their lease is in effect, so works that arise after a tenancy has come to an end must be applied to the vacant unit and not the outgoing tenant. Service charges can have a significant impact on total occupational costs, it is important that the Landlord administers service charges properly and only attempts to recover expenditure which is permitted under the lease.

The Royal Institution of Chartered Surveyors has recently published a Professional Statement for all its members on the administration of service charges in commercial buildings and this sets out certain mandatory requirements on Managing Agents in terms of eligibility of items to be recovered; information that must be provided; and deadlines to meet when administering a service charge budget.

FG Burnett has an experienced Property Management team of 6 and has the expertise to review your lease documentation, service charge budgets and reconciliation accounts to ensure that you are not being asked to contribute to unnecessary or unreasonable expenditure.

For further information on our Service Charge Audit Service, please do not hesitate to contact Christopher Yannaghas on:

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