Service Charge Operating Report

Retail Parks

SCOR 2023

bellrock
consulting | real estate

1. Foreword

Welcome to the 2023 edition of the *Service Charge Operating Report (SCOR) for Retail Parks*.

SCOR for Retail Parks 2023 benchmarks the service charge costs at UK retail parks by analysing them according to the Cost Classes and Categories specified by the Royal Institution of Chartered Surveyors (RICS) Professional Standard (formerly Statement) – Service charges in commercial property. The research includes 2023 budgetary cost information for a representative sample of 81 UK retail parks that fall within the UK's 100 largest by total gross lettable floor area.

In the foreword to this year's publication of Shopping Centres SCOR, I highlighted the need for the RICS to seize the initiative in the forthcoming edition of the RICS Professional Standard by taking further positive steps to support greater transparency and compliance, particularly in the certification of service charge costs.

Over the years, I have reviewed the receipts, vouchers and/or other supporting accounting records on numerous occasions. In some instances, this has been reassuring but, in far too many cases, this has revealed a multitude of issues, some of which have been of material quantum.

I have lost count of the number of accruals that I have seen (and continue to see) which are, at best, "questionable" and, at worst, wholly inappropriate. Some of these "accruals" have only come to light as part of a review of the expenditure listing and would perhaps be better described as "unauthorised retentions", if not hidden reserves!

Whilst the RICS has taken positive steps in this area, I still believe that more can and needs to be done to raise transparency and standards. During a recent review of the supporting financial records at a retail park, several fundamental issues came to light, including costs relating to a different property and expenditure seemingly linked to some recent redevelopment! However, most significantly, in terms of quantum, was the apparent inclusion of a five-figure sum for the replacement of a particular item.

Upon questioning the (well-known) agent, it became apparent that the item in question had been damaged, yet no insurance claim had seemingly been made until we highlighted the issue. This has now been resolved but, to my mind, it raises broader questions - was this an oversight, down to inexperience, or the result of something potentially far more worrying? After all, this is not the first time that I have encountered this type of issue.

Whatever the reason, it highlights the need for greater transparency and for a duty of care to be extended to occupiers. In this instance, no supporting commentary had been provided and none of the issues could have been identified from the Statement of Service Charge Expenditure prepared by the managing, or should I say, landlord's agent. As I have written and spoken about previously, the industry needs to continue to evolve, with agents increasingly moving away from viewing themselves / acting as a landlord's agent, in favour of being a "managing agent", potentially operating in a quasi-independent capacity.

The inclusion of a transaction listing with the expenditure reconciliation may have gone some way to alerting us to some of these issues but, for me, it highlights that we have further work to do as an industry if we are to protect occupiers and avoid statutory legislation.

Finally, the datasets and methodology used are described in more detail in the next section, but it must be noted that the research findings presented here are not designed to be used by industry stakeholders as justification for modifying current service charge costs. Regardless of these limitations, SCOR's benchmarks provide a starting point for more transparent and constructive cost negotiations and discussions.

Once again academic oversight for SCOR for Retail Parks is provided by Dr Andrew Holt, Metropolitan State University of Denver, and we hope that you find this latest edition useful for both managing and monitoring your service charge costs.

– Russell Heath *BSc (Hons) MRICS*,
Head of Occupier Services

2. Methodology – Dr Andrew Holt, Metropolitan State University, Denver

The data for SCOR's core cost benchmarking was obtained from analysis of service charge budgets supplied to occupiers at 81 of the UK's 100 largest retail parks by total net lettable floor area (NLA). As last year, the publication of many "2023" end-of-period service charge reconciliations have been delayed, resulting in SCOR 2023's cost data being obtained from analysis of annual budgets of service charge costs which included at least six months of 2023. The decision to focus exclusively on budgetary data is not ideal but is seen as a necessary modification.

The dataset is unbiased and representative as it includes cost information for any retail park that Bellrock Real Estate deals with where complete budgetary information was available for at least six months of 2023. As a result, no self-selection or bias was used in establishing the dataset, and a unique population of properties was used for the analysis.

Since many source documents do not use the RICS cost classification system, cost data is entered into Bellrock's service charge system under the exact naming conventions used within each document. Bellrock's Data Supervisor then allocates the costs to the correct RICS mandated Cost Category, thus allowing the research to compare like with like. This "modified" data is then exported from the Bellrock database and, using the NLA of each park, is converted into £ per sq. ft. figures. The median has long been the average employed by SCOR to represent the figures as, by its nature, it eliminates "outliers" (very high or very low figures). Lower quartiles and upper quartiles - the first signifying the figure that 25% of the buildings fall below and the latter the figure that 25% of the buildings are more expensive than - are also shown. The quartiles also give an idea of the spread of the costs, the smaller the difference between the two figures suggests a more bunched up data set.

One methodological issue relates to the calculation of median costs for certain types of costs. Not all retail parks incur all types of costs during a specific year, and sometimes an absence of cost is entered on the document as an amount of "0" or merely left blank. This inconsistency in accounting has the potential to distort the cost analysis. For example, where an amount is entered as "0", it will impact the calculation of the median cost for the entire population of retail parks, whereas a blank entry will not. As a result, in order to prevent distorted figures, SCOR's analysis of the RICS Cost Category "Major works" and the wider RICS Cost Class "Exceptional expenditure" specifically excluded amounts of "0" when calculating their median costs as did the RICS Cost Category "Marketing & promotions" and the RICS Cost Class "Insurance".

The data for the compliance analysis was obtained from analysis of the annual statements of service charge expenditure prepared at 58 of the UK's 100 largest retail parks.

SCOR's compliance data was drawn from an unbiased and representative dataset, as it included data for any location that Bellrock Real Estate deals with, where a complete statement of annual service charge expenditure was available for a fiscal year that included a six-month period falling in the 2022 calendar year. As a result, no self-selection or bias was used in establishing the dataset, and a unique population of properties was used for the compliance analysis.

While having a representative dataset is crucial, it is also vital that information is collected and analysed in a neutral manner, free from researcher bias and inaccuracy. In terms of data collection, all of SCOR's compliance data was obtained from analysis of the primary accounting documents provided to commercial occupiers. Supplementary information, such as data contained within covering letters and additional attachments (i.e. "service charge packs" and "appendices"), was also reviewed where relevant. As data was hand collected by the research team from actual service charge documents, there is no potential for third-party bias in terms of manipulation or selective exclusion of documents. Furthermore, all available service charge data for the given period is included, unless underlying source documents are deemed to be incomplete.

In terms of analysis, content analysis was used to obtain the compliance data, which often requires some degree of subjective interpretation on behalf of the research team. In practice, the potential for bias in this type of work is remote as it requires limited interpretation by the researcher. The data codification required for the compliance analysis is primarily binary in nature and unproblematic, especially when a document provides explanatory information. Judging the efficacy of such information might be contentious in theory, but in practice the nature of the service charge renders the analysis relatively straightforward. Hence, most of the data could be utilised directly, and the resulting compliance analysis provides a valid examination of current service charge accounting and certification practices.

While a major part of SCOR's data collection and analysis is performed by a research team at Bellrock, the work is closely monitored by an independent academic supervisor. This position has been held by Dr. Andrew Holt (Professor of Accounting at Metropolitan State University of Denver) since the inception of the various SCOR reports. His academic oversight helps to create the current set of rigorous cost benchmarking and compliance measurement methodologies, serves to monitor and oversee the objectivity of the data collection and statistical analysis process, and assists the team in the interpretation and write-up of the research findings and conclusions.

2.1 The Datasets

Detailed cost analysis was undertaken for 81 UK retail parks within the UK's 100 largest in terms of NLA. Table 1 and Figures 1 and 2 provide descriptive information about the cost benchmarking dataset.

Figure 1 shows the geographical spread of the retail parks included in the dataset. Figure 2 shows that, for analysis purposes, the properties were split into three size groupings: those up to 250,000 sq. ft., from 250,001 sq. ft. up to 300,000 sq. ft. and those above 300,301 sq. ft. These boundaries were chosen so that the dataset splits roughly into thirds.

Cost Year	Number of Retail Parks	Types of Document	Total Area (Sq. Ft.)	Total Service Charge Cost
2023	81	Service Charge Budget	24,666,819	£61,205,198.13

Table 1. Characteristics of the cost benchmarking dataset for SCOR for Retail Parks 2023

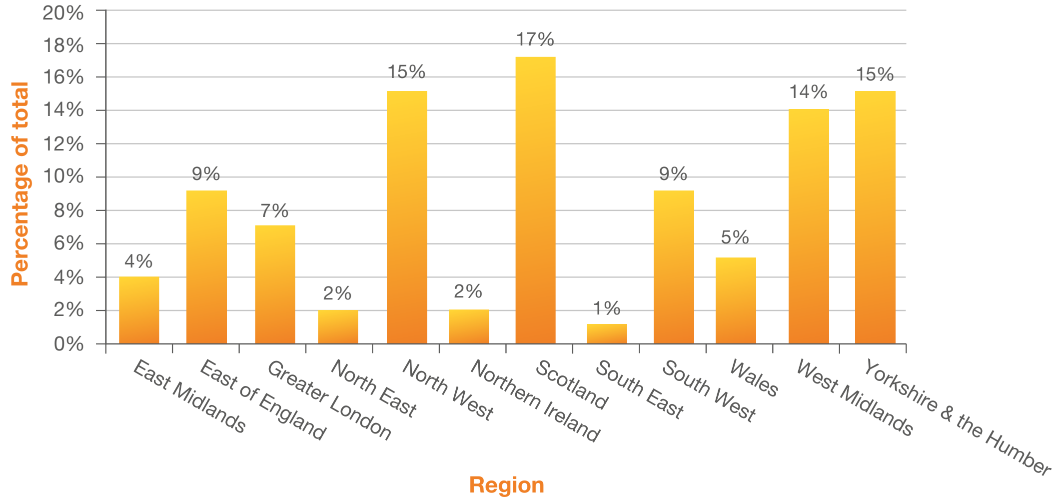

Figure 1. Geographical location of retail parks in the dataset.

Compliance analysis against 16 accounting requirements of the 2023 RICS Professional Standard was undertaken for 58 UK retail parks within the UK's 100 largest in terms of NLA. Table 2 provides descriptive information about the compliance benchmarking dataset.

Cost Year	Number of Retail Parks	Types of Document	Total Area (Sq. Ft.)	Total Service Charge Cost
2022	58	Annual statement of service charge expenditure ("Reconciliation")	17,999,831	£40,526,928

Table 2. Characteristics of the compliance dataset for SCOR for Retail Parks 2023

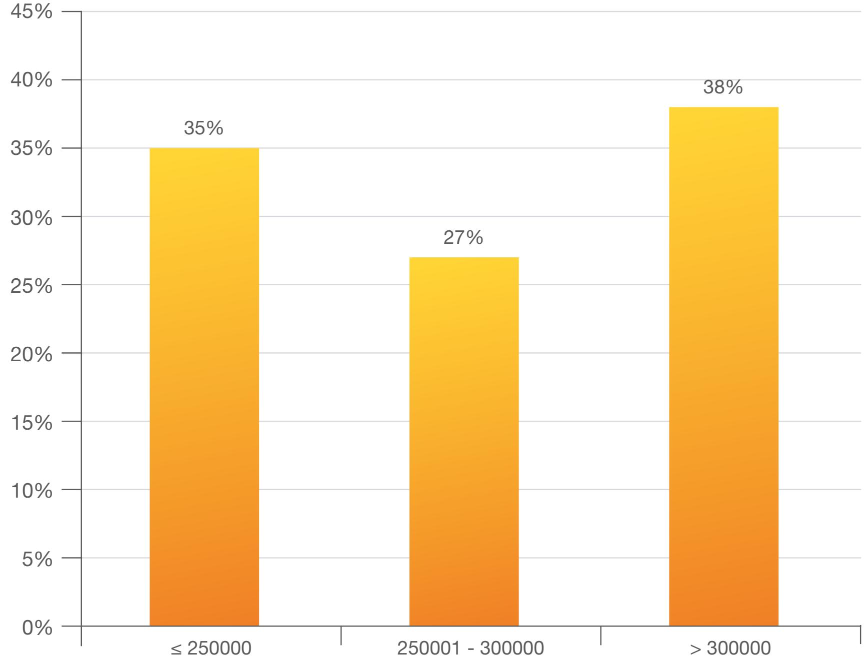

Figure 2. Property sizes (in sq.ft.) of retail parks in the dataset.

3. Findings and Analysis

3.1 Overall Cost Benchmarking

Figure 3 shows the lower quartile, median and upper quartile service charge costs, in £ per sq. ft., for retail parks in London and the Rest of the UK. It should be noted that only six of the retail parks were situated in the "London" area and, consequently, the median and quartiles for such a small dataset should be treated with caution.

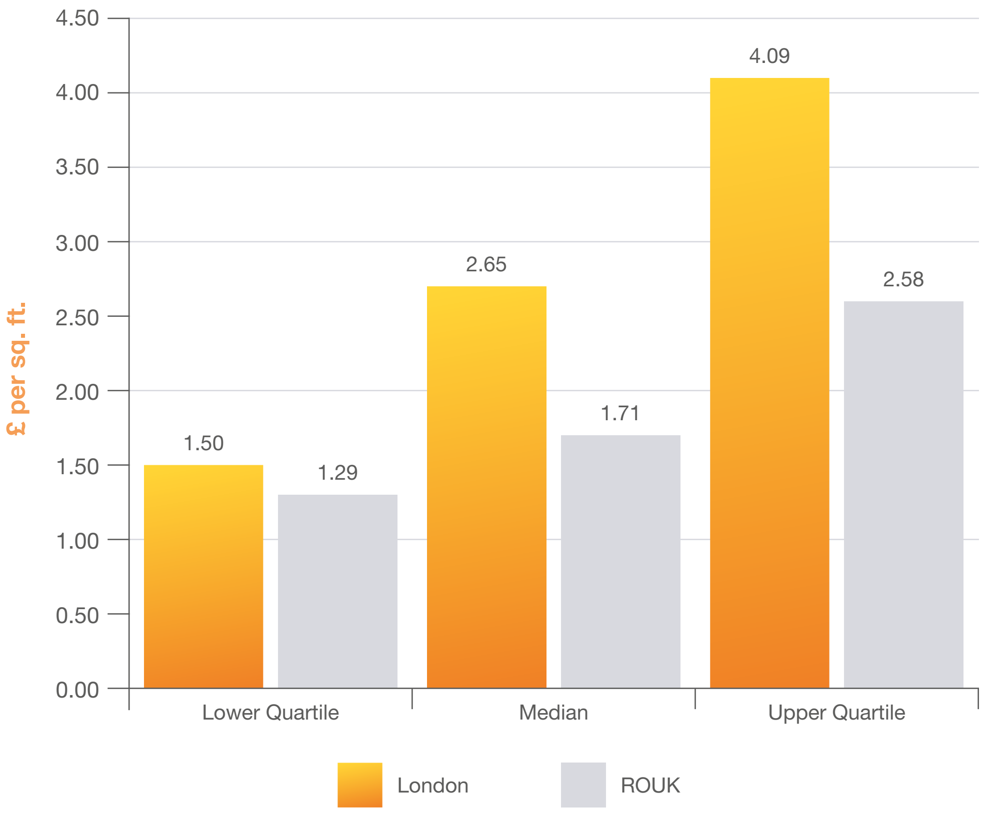

Figure 3. Total service charge costs compared between retail parks located in London and ROUK.

3.2. RICS Cost Class Benchmarking

3.2.1 RICS Cost Class Benchmarking – Irrespective of Location

In this analysis of budget figures by RICS Cost Class, two classes – Income and Miscellaneous charges – have been excluded.

Figure 4 illustrates the costs for the 81 centres by RICS Cost Class, and highlights that Soft services account for more than half of the service charge costs, with Management and Hard services making up a further 32%.

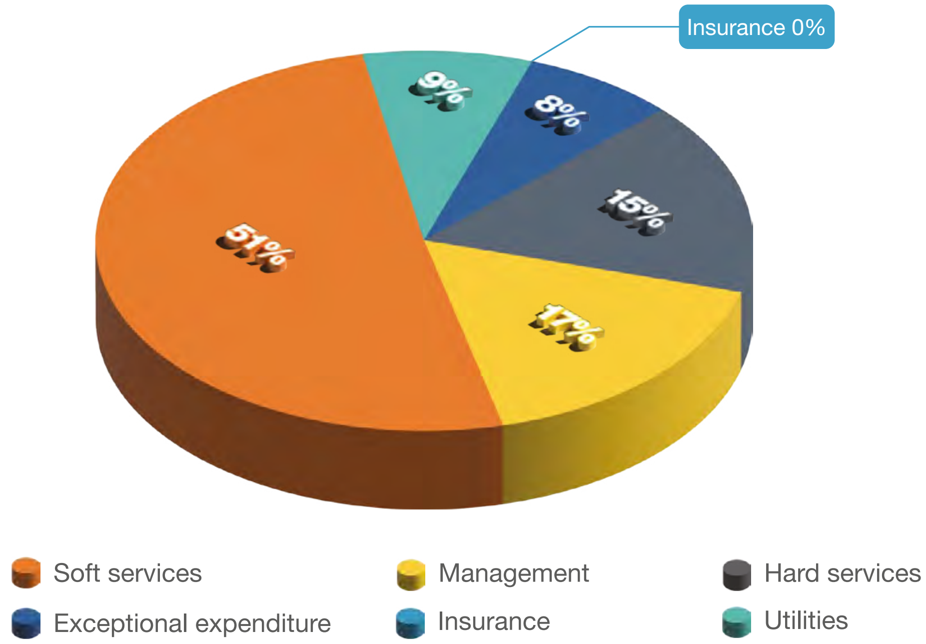

Figure 4. Percentage of total service charge costs per RICS Cost Class across the whole dataset.

3.2.2 RICS Cost Class Benchmarking – London and the Rest of the UK

Figures 5.1 and 5.2 compare the relative impact on the total budgeted costs that each RICS Cost Class type has within London and the Rest of the UK. Soft services account for a larger percentage of the total cost in London than the Rest of the UK, (55% versus 50%). However, Exceptional expenditure accounts for a smaller proportion of the total cost in London than the Rest of the UK (4% versus 8%).

Table 3 shows the quartiles of service charge costs by RICS Cost Class (in £ per sq. ft) for both London and the Rest of the UK.

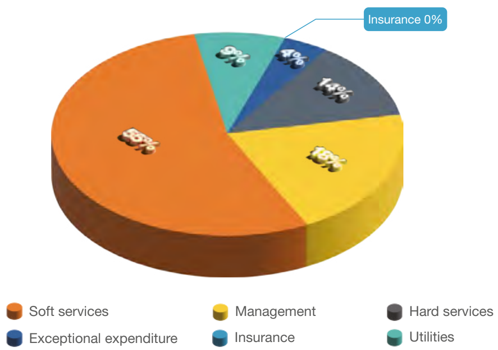

Figure 5.1. Percentage of total service charge costs per RICS Cost Class for retail parks located in London.

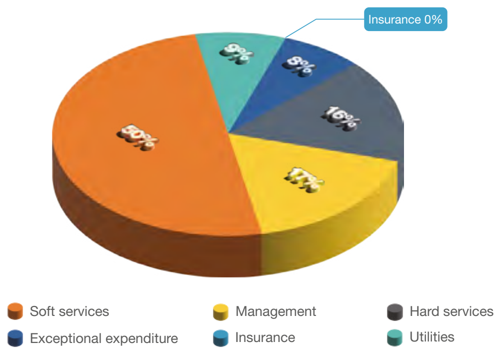

Figure 5.2. Percentage of total service charge costs per RICS Cost Class for retail parks located in ROUK.

£ Per sq. ft.	Lower Quartile		Median		Upper Quartile	
RICS Cost Class	London	ROUK	London	ROUK	London	ROUK
Management	0.20	0.16	0.47	0.23	0.75	0.48
Utilities	0.11	0.09	0.19	0.17	0.35	0.25
Soft services	0.57	0.56	1.55	0.85	2.43	1.30
Hard services	0.25	0.19	0.38	0.30	0.51	0.44
Insurance	0.01	0.00	0.01	0.01	0.02	0.01
Exceptional expenditure	0.10	0.12	0.13	0.25	0.13	0.54
Quartiles of total costs	1.50	1.29	2.65	1.71	4.09	2.58

Table 3. Service charge costs across RICS Cost Classes split between London and ROUK.

3.2.3 RICS Cost Class Benchmarking – by Retail Park Size (Rest of the UK only)

To evaluate the impact of retail park size on total service charge cost, and how those costs are spread across the RICS Cost Classes, this section analyses the differences in costs across retail parks classified into one of three size categories. This analysis was not carried out on the six London parks as the results would not be statistically meaningful due to the small sample size.

Table 4 and Figure 6 illustrate that, in the Rest of the UK, as the size of the retail park increases, the budgeted service charge costs, in general, increase (£ per sq. ft.). The total increase from the smallest parks' banding to the largest is c. 25%. The results also indicate that as park size increases so does the spread of the budgeted service charge costs.

Median costs (£ per sq. ft.)	ROUK		
RICS Cost Class	≤ 250,000 sq.ft.	250,001 - 300,000 sq.ft.	>300000 sq.ft.
	26 Parks	22 Parks	27 Parks
Management	0.21	0.23	0.29
Utilities	0.17	0.18	0.17
Soft services	0.80	0.75	1.05
Hard services	0.26	0.33	0.24
Insurance	0.01	0.01	0.01
Exceptional expenditure	0.15	0.21	0.48
Medians of total costs (£ per sq. ft.)	1.66	1.61	2.09

Table 4. Service charge costs across RICS Cost Classes by retail park size in ROUK.

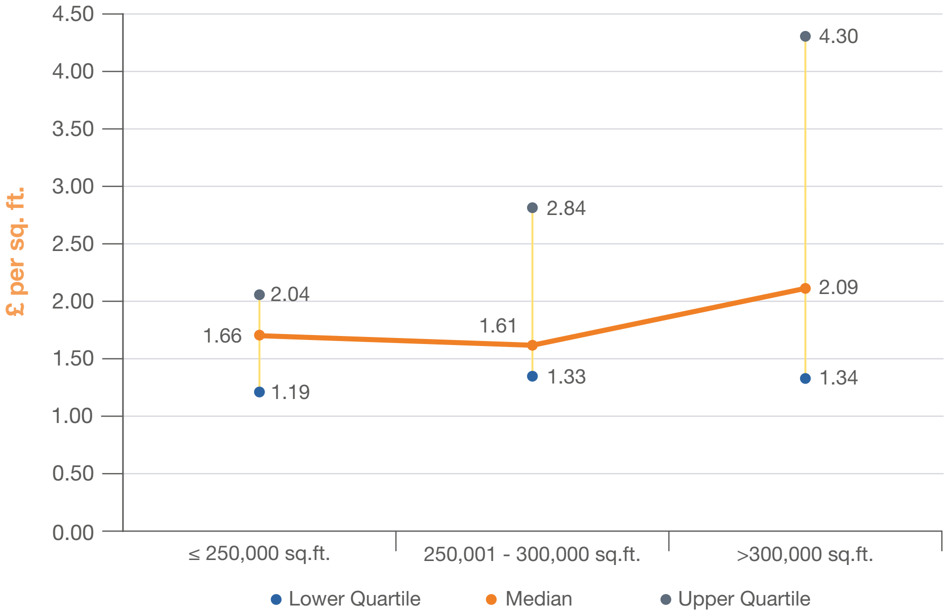

Figure 6. Quartiles of service charge costs by retail park size in ROUK.

3.3. RICS Cost Category Benchmarking

This section analyses ten RICS Cost Categories that together account for circa 98% of the total budgeted service charge costs. These categories are: Management fees, Site management resources, Electricity, Security, Cleaning & sustainability, Landscaping & environment, Marketing & promotions, Mechanical & electrical services, Fabric repairs & maintenance, and Major works.

3.3.1 RICS Cost Category Benchmarking – Irrespective of Location

Figure 7 shows the proportion of budgeted costs of each of the ten selected RICS Cost Categories across the 81 parks. Of these, 45% of the total cost was incurred on just two RICS Cost Categories: Security and Cleaning & sustainability (both of which are contained within the Soft services RICS Cost Class). The Total Cost of Management (summing the Management fees and the Site management resources) accounts for a further 16% of the total.

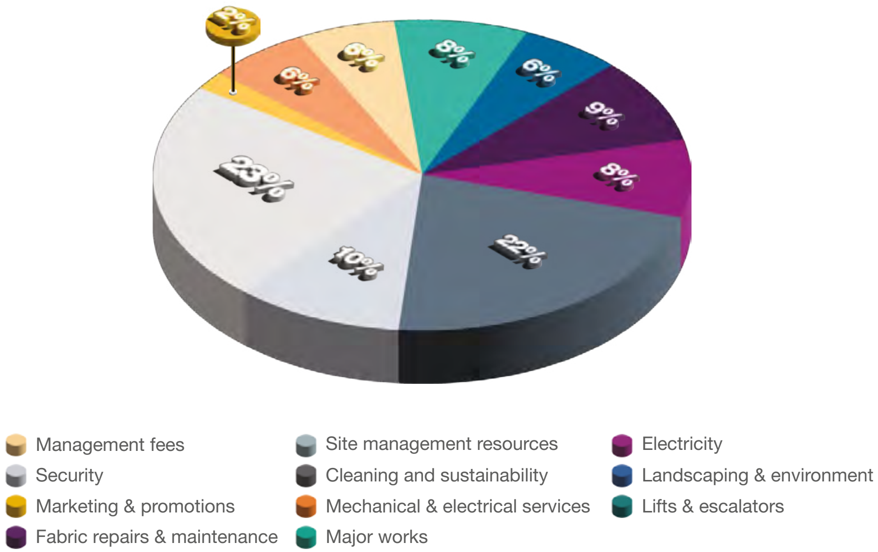

Figure 7. Percentage of total service charge costs per selected RICS Cost Categories across the whole dataset.

3.3.2 RICS Cost Category Benchmarking – London and the Rest of the UK

Figures 8.1 and 8.2 illustrate the costs split by Cost Category in London and the Rest of the UK, respectively. The results indicate that Cleaning & sustainability shows a reduction in its percentage contribution to the total costs between London and the Rest of the UK, 27% in the capital against 21% elsewhere. There is an increase in the Major works category between London and the Rest of the UK; 4% against 8%, respectively.

Table 5 shows the quartiles of service charge costs by selected RICS Cost Categories across London and the Rest of the UK, the results are given in £ per sq. ft.

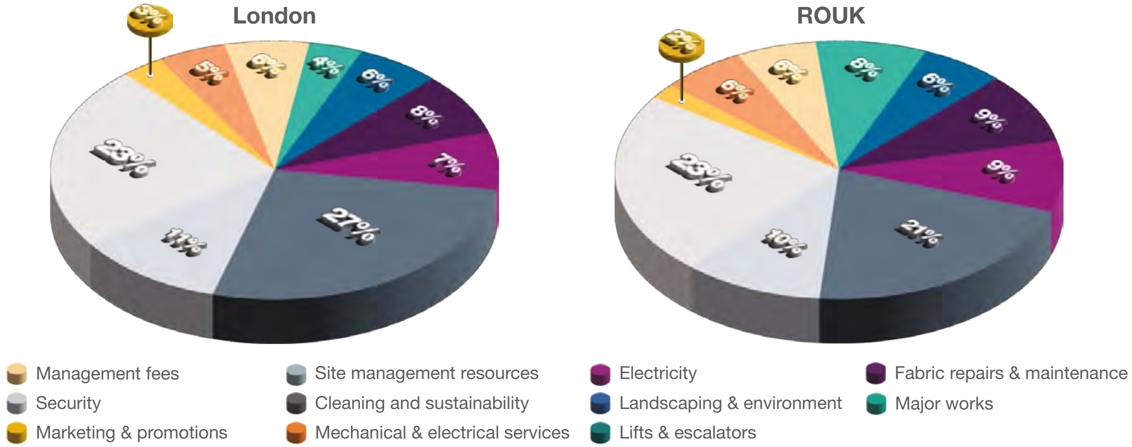

Figure 8.1. Percentage of total service charge costs per selected RICS Cost Categories in retail parks in London.

Figure 8.2. Percentage of total service charge costs per selected RICS Cost Categories in retail parks in ROUK.

£ Per sq. ft.	Lower Quartile		Median		Upper Quartile	
RICS Cost Category	London	ROUK	London	ROUK	London	ROUK
Management fees	0.11	0.09	0.18	0.12	0.25	0.17
Site management resources	0.06	0.05	0.27	0.09	0.47	0.29
Electricity	0.11	0.09	0.17	0.15	0.25	0.23
Security	0.11	0.14	0.64	0.46	1.02	0.74
Cleaning & sustainability	0.39	0.24	0.71	0.35	1.05	0.53
Landscaping & environment	0.11	0.06	0.13	0.09	0.22	0.15
Marketing & promotions	0.06	0.02	0.08	0.04	0.12	0.08
Mechanical & electrical services	0.06	0.05	0.08	0.10	0.20	0.19
Fabric repairs & maintenance	0.17	0.10	0.19	0.17	0.33	0.25
Major works	0.10	0.13	0.13	0.29	0.13	0.53
Quartiles of total costs	1.50	1.29	2.65	1.71	4.09	2.58

Table 5. Service charge costs across selected RICS Cost Categories split between London and ROUK.

3.3.3 RICS Cost Category Benchmarking – by Retail Park Size (Rest of the UK only)

Table 6 illustrates the impact of retail park size on the ten selected RICS Cost Categories. Once again, this analysis was not carried out on the retail parks in London due to the small number of parks within this geographical location.

Centre size does appear to affect costs across certain cost categories. Site management resources sees nearly a threefold increase from the smallest to the largest parks with Major works more than doubling.

Median costs (£ per sq. ft.)	ROUK		
RICS Cost Category	≤ 250,000 sq.ft.	250,001 - 300,000 sq.ft.	>300000 sq.ft.
	26 Parks	22 Parks	27 Parks
Management fees	0.11	0.11	0.12
Site management resources	0.06	0.09	0.17
Electricity	0.16	0.13	0.15
Security	0.43	0.32	0.55
Cleaning & sustainability	0.34	0.30	0.36
Landscaping & environment	0.08	0.13	0.08
Marketing & promotions	0.02	0.05	0.05
Mechanical & electrical services	0.11	0.10	0.09
Fabric repairs & maintenance	0.16	0.21	0.14
Major works	0.22	0.21	0.48
Medians of total costs	1.66	1.61	2.09

Table 6. Service charge costs across ten selected RICS Cost Categories by retail park size in ROUK.

4. Compliance with the 2023 RICS Professional Standard

4.1 The Compliance Metrics

Based upon a review of the most recent annual statement of service charge expenditure at 58 of the UK's largest retail parks by NLA, this section presents compliance analysis investigating whether select accounting presentation and disclosure requirements of the 2023 RICS Professional Standard have been adopted.

While 58 reconciliations may appear to be a relatively low sample size, it must be remembered that annual reconciliation certificates need only be published within four months of the financial year end and SCOR only considers reconciliations that cover at least six months of the most recent "SCOR compliance year", which in this case is the financial/calendar year 2022. As a result, the population of applicable reconciliations available for yearly analysis is obviously reduced. All reconciliations meeting the SCOR selection criteria are included, unless they are deemed to be "incomplete".

SCOR uses 17 "must", "should" and "other" compliance metrics from the RICS Professional Standard to evaluate the main accounting and administrative requirements of the Professional Standard. Each of these can be identified via an unbiased, "binary" review (i.e. "yes" it is included, or "no" it is absent manner) of the text and numeric content within the annual service charge accounting statement. As the leases for many properties do not require the creation of a sinking or reserve fund, no metrics measure the accounting disclosures required in this area. Each of the 17 metrics are described in more detail in Table 7.

The compliance metrics include 4 "musts", 12 "shoulds", and 1 "other" requirement as per the language used within the Professional Standard. As the 1 "other" requirement included within the Professional Standard ("Openness and transparency can be further enhanced by the inclusion of a balance sheet or cash reconciliation") is neither a "must" nor a "should", each property's annual service charge accounts were ranked out of a total compliance score of 16 (i.e. the 4 "musts" and 12 "shoulds"), with separate reporting of compliance with the 1 "other" requirement.

The characteristics of the compliance dataset were discussed earlier in Section 2.1.

No.	Requirement	Must/ Should	Measurement
1	The Professional Standard requires that fees be set on a fixed-price basis (Section 4.1.3.2, page 23)	Must	Binary coding – yes/no
2	Ensure that a service charge apportionment matrix for the property is provided annually to all tenants. Clearly shows the basis and method of calculation, and the total apportionment per schedule for each unit within the property. (Section 4.2.4, page 32)	Must	Binary coding – yes/no
3	Service charge monies must be held in one or more discrete [or virtual] bank accounts (Section 4.5, page 41)	Must	Clear statement – yes/no
4	Interest earnt on service charge accounts must be credited to the service charge account after appropriate deductions have been made (Section 4.5.10, page 50)	Must	Binary coding based upon evidence – yes/no
5	Timeliness - Detailed statements of actual expenditure, together with accounting policies and explanatory text, should be issued within four months of the service charge year end (Section 4.5.12, page 51)	Should	Binary coding – yes/no
6	Industry Standard Cost Classifications should be used in reporting budget and actual expenditure. As a minimum acceptable level of reporting, service charge budgets and statements of actual expenditure should be prepared at cost class level … (Section 4.5.5, page 46)	Should	Cost classes Binary coding – yes/no
7	…and cost category level (Section 4.5.5, page 46)	Should	Cost category Binary coding -yes/no
8	Service charge accounts should include a comprehensive list of accounting policies and principles including: whether the accounts are prepared on an accruals or where permitted, the cash basis (Section 4.5.1, page 41)	Should	Clear statement of whether accounts are prepared on an accrual or cash basis Yes/no
9	Where the accounts are prepared on an accruals basis, they should be accompanied by a schedule of opening and closing prepayments and accrued expenses (Section 4.5.4 & 4.5.6, page 46 & 48)	Should	Binary coding – yes/no
10	An analysis of any material variances between budget and actual expenditure, with a detailed commentary to explain trends and variances where significant (section 4.5.2, page 42)	Should	Binary coding – yes/no
11	Other information includes: A statement detailing how insurance claims are accounted for (Section 4.5.2, page 42)	Should	Clear statement on insurance claims – yes/no
12	Other information: Whether the owner has waived the exemption to charge VAT (opted to tax) (Section 4.5.1, page 42)	Should	Statement of whether owner has waived exemption to charge VAT Yes/no
13	The accounts should be approved by or on behalf of the landlord as complying with the following statements: the accounts produced represent the actual expenditure incurred by the owner in supplying the services to the building (section 4.5.3.2, page 43) and	Should	Clear statement – yes/no
14	That the expenditure the owner is seeking to recover is in accordance with the terms of the leases and where practicable, the provisions of the professional standard (section 4.5.3.2, page 43)	Should	Clear statement – yes/no
15	The approver should be an appropriately qualified and competent person with experience in dealing with service charges. The status of the person and the capacity in which they are acting should be made clear (section 4.5.3.2, p. 43)	Should	Clear statement of status and capacity – yes/no
16	Annual statements of service charge expenditure should be supported by an independent review of service charge accounts, such as specified with the ICAEW Technical Release (Section 3, principle 13, page 18)	Should	Includes an Independent Accountants' report – yes/no
17	Openness and transparency can be further enhanced by the inclusion of a balance sheet or cash reconciliation (Section 4.5.4, page 46)	Other	Binary coding – yes/no

Table 7. Metrics for assessing service charge accounting compliance with the RICS Professional Standard.

4.2. Compliance results for Retail Parks 2023

As this is the second year of analysing retail park compliance, it is important to draw comparisons with last year's data from SCOR for Retail Parks 2022, although doing so requires two caveats. Firstly, the compliance data for SCOR 2022 was collected from the first financial statements prepared on or after 1 April 2019, (i.e. the financial years 2019-2020), which are approximately two years apart from the 2022 financial data used for SCOR 2023. Secondly, the sample of annual reconciliation statements used in each year's SCOR were not obtained from exactly the same population of retail parks. As a result, there was a degree of churn in the population of retail parks analysed, preventing detailed analysis of longitudinal compliance. SCOR intends to include longitudinal compliance analysis when statistically significant datasets are available.

Table 8 provides the compliance results for each of the 16 "must" and "should" metrics for the 58 retail parks analysed this year, together with the comparative results for the 50 retail parks analysed in SCOR for Retail Parks 2022.

Requirement	Must/Should	SCOR 2023		SCOR 2022	
		Compliance out of 58		Compliance out of 50	
		Data: 2022 FY		Data: 2019-20 FY	
		No.	%	No.	%
1. Fixed Management Fee	M	48	82.8%	42	84.0%
2. Apportionment matrix is provided for each unit in the property	M	42	72.4%	31	62.0%
3. Statement that service charge monies are held in one or more discrete bank accounts	M	47	81.0%	36	72.0%
4. Interest earnt credited to the service charge account	M	51	87.9%	44	88.0%
5. Timeliness Compliant (date) - annual accounts produced within four months of year end	S	28	48.3%	26	52.0%
6. Cost Classes Used	S	55	94.8%	45	90.0%
7. Cost Categories Used	S	58	100.0%	48	96.0%
8. Statement that accrual accounting or cash basis used	S	47	81.0%	39	78.0%
9. Schedule of accruals and prepayments*	S	37*	66.1%*	39	78.0%
10. Description of Variances	S	55	94.8%	45	90.0%
11. Statement about how insurance claims are accounted for	S	21	36.2%	10	20.0%
12. Statement about whether owner has waived exemption to charge VAT	S	47	81.0%	40	80.0%
13. Statement that accounts represent the actual expenditure incurred in supplying services	S	50	86.2%	44	88.0%
14. Statement that amounts seeking to be recovered are in accordance with the lease and where practicable the PS	S	35	60.3%	27	54.0%
15. Approver should be an appropriately qualified and qualified person. Status of person should be made clear	S	40	69.0%	37	74.0%
16. Accounts should be supported by an independent review in line with ICAEW Technical Release	S	35	60.3%	39	78.0%
** As 2 certificates in SCOR 2023 used the cash basis, Metric 9 was ranked out of 56 certificates*					
	Total	**58**		**50**	
Includes a balance sheet		**0**	**0.0%**	**0**	**0.0%**
Qualified basis for opinion within independent accounting report		**4**	**11.4%**	**0**	**0.0%**

Table 8: Compliance against 16 "must" and "should" accounting requirements of the Professional Standard.

While three of these "must" metrics are specifically listed under the Professional Standard's list of "mandatory" requirements (RICS, 2023, p.15 & 16), the Standard also "requires that [management] fees be set on a fixed-price basis" (RICS, 2023, p.23) so SCOR classifies this as a "must" rather than merely a "should".

When compared to the disappointing results from SCOR 2022, it is encouraging that 2023 compliance with three of the four "must" requirements of the Professional Standard reached or exceeded 81% (Metrics 1-4 in Table 11). This year, only the provision of a full apportionment matrix failed to achieve this level (72.4%), with the highest compliance result being the crediting of interest earnt to the service charge account at 87.9%. Of the 87.9% (51 of 58) of reconciliations that included a clearly articulated accounting policy to credit interest earnt, only 80.4% (41 of 51) recognised and included an amount of interest income on the face of the service charge expenditure report. The conclusion from this observation is that either no interest was actually earnt on service charge monies or the amount was not accounted for in accordance with the prescribed accounting policy. While in many cases the amount of interest income could be deemed immaterial from an accounting perspective, SCOR would suggest that, if the amount of interest earnt was zero, the preparing accountant clearly report that fact to reduce confusion.

In terms of compliance with the 12 "should" requirements, the overall results for 2023 demonstrate a commitment to abiding by the recommendations of the RICS Professional Standard, with compliance for 6 of the 12 metrics either meeting or exceeding 75% (SCOR 2022: 7 of 12 exceeded 75%). However, as these results were obtained from a limited sample of 58 UK retail parks, more work is required before compliance trends can be clearly established for the retail park sector.

While compliance with all 12 of the "should" metrics is important, there are some that are more critical than others, and any compliance rate of less than 100% potentially harms the information content and quality of the resulting accounting document. Furthermore, poor compliance in any area suggests a departure from "best practice", something the RICS is attempting to prevent in order to improve the overall relevance, reliability, and comparability of UK service charge accounts.

The "relatively" low level of compliance in certain critical areas, such as "Statement that accrual accounting used" (Metric 8: 81.0%) and to certify that the accounts represent actual expenditure incurred in supplying services in accordance with the lease (Metric 13: 86.2% and Metric 14: 60.3%, respectively), are still concerning, since this information is essential for determining the preparation basis for the accounting information and whether the accounts provide "true and fair" and faithfully representative information for occupiers. The importance of complying with Metric 13 is especially relevant this year, since 2 annual statements of service charge expenditure (3.4%) were prepared using a cash basis, rather than the more common accrual method. If the cash basis is used, it is difficult for an occupier to compare annual expenditure against retail parks where expenses are calculated using the preferred accrual basis, and there will obviously be no need to provide a schedule of opening or closing accrued or prepaid amounts. While differences in the accounting basis used may limit user understandability of the resulting information, these situations are surprisingly rare, due in large part to the almost overwhelming use of accrual accounting for preparing UK annual service charge accounts. What is more critical, however, is that 13.4% of the 58 accounting statements analysed failed to include an accounting policy explaining the accounting basis for the calculation of annual expenditure incurred. In these situations, the occupier does not know what accounting basis was used and what additional explanatory disclosures should be supplied by the preparing accountant, and a result, the information lacks credibility and usefulness from a user perspective.

In terms of metric 14, that the accounts should include a "statement that the amounts seeking to be recovered are in accordance with

the lease and where practicable the Professional Standard (PS)", it was surprising that a number of the "non-compliant" certification statements still certified compliance with the RICS Professional Standard, but then failed to specifically mention that the amounts seeking to be recovered were in accordance with the lease. As the lease is the contractual document that governs the service charge agreement between the parties, it is vital that the certification statement primarily refers to it, and additionally, where practicable, compliance with the RICS Professional Standard. Many of these same issues are unchanged from last year, as can be seen from SCOR 2022's comparative compliance results included in Table 8.

Compliance with metric 16, that the accounts should be supported by an independent review in line with the ICAEW Technical Release, was 60.3% (SCOR 2022: 78.0%). This is a disappointing, but perhaps unsurprising result, as many commercial leases do not include supporting provisions requiring a year-end independent accounting review. However, the situation appears more critical considering that 4 of the 35 independent accountant's reports (11.4%) included a qualified conclusion for either the inappropriate use of accrual accounting or an inability to review the accounting work of the prior managing agent or preparing accountant (SCOR 2022: 0.0%). Of these, 8.6% (3 of 35) received a qualified opinion for inappropriate use of accrual accounting.

In terms of the qualified opinion regarding accrual accounting, the sums inappropriately accrued were material, demonstrating the value of independent review and highlighting a potential service charge accounting issue requiring further investigation. If 11.4% of the 35 reconciliations independently reviewed required qualified conclusions, and 3 of these 4, included inappropriate use of accrual accounting, one wonders whether similar accounting issues might be present within the 23 reconciliations not subject to review by professional accountants. SCOR's results in this area indicate that accrual accounting presents a challenging and ongoing issue for the commercial service charge sector, and managing parties need to do more to prevent accruals being included for works not carried out during the relevant financial year.

Finally, compliance with certain other accounting requirements, such as providing the financial statements within four months of the year end (Metric 5: 48.3%), that the person approving the accounts should be appropriately qualified and their status made clear (Metric 15: 69.0%), and stating how insurance claims are accounted for (Metric 11: 36.2%), should not be too onerous for professional managing parties to abide by. It is surprising that we still see compliance fall short in these areas, as we also observed in SCOR for Retail Parks 2022.

In terms of the 17th metric, the inclusion of a balance sheet, none of the 58 documents analysed this year included this type of accounting statement (2022: 0%) which continues to disappoint as a balance sheet provides transparency about the magnitude of end-of-period assets, liabilities, and reserves. In addition, the provision of a balance sheet keeps track of the changes between opening and closing accrued and prepaid amounts (and sinking fund balances), benefits the auditing process, and assists during the handover of the service charge accounts to a new agent.

Figure 9 provides the overall compliance rankings for each of SCOR 2023 and SCOR 2022's 58 and 50 reconciliations respectively, against the 16 "must" and "should" metrics of the 2023 Professional Standard. For this year's analysis, the mean and median compliance rankings per reconciliations were 12.1 and 14.0 out of 16, respectively (in SCOR 2022, 11.8 and 14.0). While it is difficult to generalise from such a small population of only 58 retail parks, it is clear that compliance levels vary, although the majority of documents scored on the higher end of the ranking scale. 17.2% of documents fully complied with all 16 requirements and none failed to comply in any way (SCOR 2022: 0.0% and 0.0%, respectively). 46 documents (79.3%) complied with 10 or more metrics (SCOR 2022: 39 and 78.0%), 86.2% complied with 8 or more metrics (SCOR 2022: 82.0%), and only 8.6% complied with 4 or fewer of the RICS requirements (SCOR 2022: 12.0%).

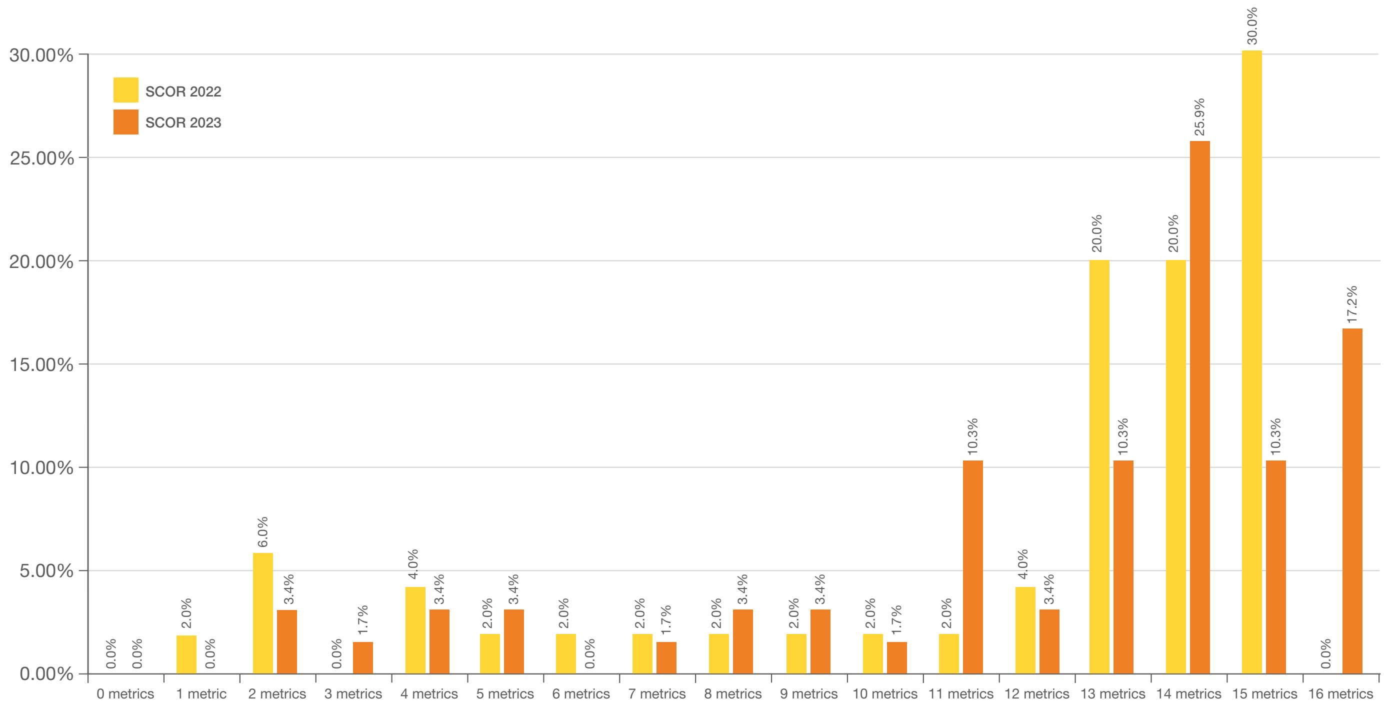

Figure 9: Retail Park Compliance rankings against 16 accounting requirements of the 2023 Professional Standard.

While these overall compliance "scores" for the 58 reconciliations appear weighted towards higher rankings, a disclaimer or caveat must be placed against some of these results. Of the 58 reconciliations, 3 that achieved a final ranking score of either "13" or "14" were given a qualified basis of conclusion within their respective independent accountants' report for inappropriate use of accrual accounting. In all three cases, expenditure for the financial year included material accrued amounts for work not undertaken during that period. This observation reinforces the need for independent accounting scrutiny of service charge accounts, and also suggests that compliance with all of the accounting requirements of the Professional Standard does little to guarantee that a true and fair report of annual expenditure is presented to occupiers. SCOR recommends that a future edition of the RICS Professional Standard should include guidance on how to issue accounting corrections in these circumstances, and the accounting firms involved need to go further to ensure that such errors are prevented in the first place, or subsequently corrected in a transparent manner. While some parties in the industry do view this as an insignificant issue, since "excessive" inappropriate accruals for expenditure in one period are corrected once the associated work/service is actually performed, what happens if the work is never performed or one of the occupiers that contributed to this amount leaves the building? The Professional Standard clearly states that "where provision for future expenditure is to be made within the service charge accounts such sums should not be included as accruals", [as accruals] "are expenses for goods and services actually incurred in a period" (RICS, 2023, p. 61). If no expenditure has been incurred, costs should not be accrued into the service charge period, and where this does happen, an accounting adjustment must be made otherwise it negatively impacts the cash flow of retail occupiers.

4.3. Comparative Compliance Results – Retail Parks v Shopping Centres and Offices

As SCOR for Retail Parks has sister publications that monitor compliance in other areas, it is interesting to assess comparative compliance levels at UK multi-let office buildings and shopping centres. SCOR for Shopping Centres 2023 and SCOR for Offices 2023 included compliance results for the same time period and metrics as SCOR for Retail Parks, and these overall comparative results are shown in Table 9.

Requirement	Must/ Should	SCOR Retail Parks 2023: Compliance for 58 Retail Parks No.	%	SCOR Shopping Centres 2023: Compliance for 42 Shopping Centres No.	%	SCOR Offices 2023: Compliance for 65 Offices No.	%
1. Fixed Management Fee	M	48	82.8%	33	78.6%	41	63.1%
2. Apportionment matrix is provided for each unit in the property	M	42	72.4%	33	78.6%	31	47.7%
3. Statement that service charge monies are held in one or more discrete bank accounts	M	47	81.0%	31	73.8%	32	49.2%
4. Interest earnt credited to the service charge account	M	51	87.9%	28	66.7%	32	49.2%
5. Timeliness Compliant (date) - annual accounts produced within four months of year end	S	28	48.3%	16	38.1%	24	36.9%
6. Cost Classes Used	S	55	94.8%	41	97.6%	43	66.2%
7. Cost Categories Used	S	58	100.0%	39	92.9%	49	75.4%
8. Statement that accrual accounting or cash basis used	S	47	81.0%	35	83.3%	39	60.0%
9. Schedule of accruals and prepayments.	S	37*	66.1%*	29	69.0%	35	53.8%
10. Description of Variances	S	55	94.8%	40	95.2%	44	67.7%
11. Statement about how insurance claims are accounted for	S	21	36.2%	21	50.0%	17	26.2%
12. Statement about whether owner has waived exemption to charge VAT	S	47	81.0%	36	85.7%	40	61.5%
13. Statement that accounts represent the actual expenditure incurred in supplying services	S	50	86.2%	30	71.4%	34	52.3%
14. Statement that amounts seeking to be recovered are in accordance with the lease and where practicable the PS	S	35	60.3%	23	54.8%	26	40.0%
15. Approver should be an appropriately qualified and qualified person. Status of person should be made clear	S	40	69.0%	30	71.4%	27	41.5%
16. Accounts should be supported by an independent review in line with ICAEW Technical Release	S	35	60.3%	32	76.2%	38	58.5%
*As 2 certificates in SCOR for Retail Parks 2023 used the cash basis of accounting, Metric 9 was ranked out of 56 certificates.							
Annual accounts included a balance sheet		0	0.0%	1	2.4%	4	1
Qualified basis for opinion within independent accounting report		4	11.4%	4	12.5%	9	23.7%

Table 9: Comparative Compliance against 16 “must” and “should” accounting requirements of the 2023 Professional Standard.

In terms of drawing conclusions from the comparative "sector-based" compliance analysis in Table 9, care must be taken, as the 42 properties used for the UK shopping centre analysis were all within the UK's top 100 UK shopping centres by NLA, and the 58 retail parks were all within the UK's 100 largest by NLA. In contrast the compliance data from the 65 UK offices merely represented the properties whose complete accounting documents were available for scrutiny by the researchers. As a result, the population of UK office buildings included accounting documents prepared by a wider range of providers, including a number of smaller operators and managing parties. In contrast, the retail park and shopping centre accounting documents were prepared by a narrower range of larger commercial managing agents, who should have greater resources and occupier pressure to comply with the RICS's increased accounting requirements. Across the 16 metrics reported in Table 4, there are clear differences between the overall level of compliance between the commercial retail and office sectors. In addition, the results for retail parks closely mirror those for shopping centres across many metrics, although there are differences.

What is clear is that improvement is needed in many areas of accounting presentation and transparency, across all three sectors. This is especially evident in terms of the results of Metric 16, since the independent accounting reports of 11.4%, 12.5%, and 23.7% of commercial retail parks, shopping centres, and offices, respectively, included qualified opinions for accounting errors that mostly related to the inclusion of inappropriately accrued expenditure for works not conducted during the relevant accounting period. As was mentioned in the previous section of this document, this is a growing issue that must be addressed by the UK accounting profession and/or the RICS, to either eliminate the practice or provide guidance on how to correct such accounting deficiencies in a transparent manner that does not financially disadvantage tenants. This need is enhanced by the fact that most commercial leases lack detailed accounting provisions that govern such issues. To date, across the whole UK commercial service charge sector analysed by SCOR, the researchers have not seen a subsequent annual statement of expenditure formally correct, or restated accounts issued, at a property where a qualified independent accounting opinion was given. While service charge accounts are not required to be prepared in accordance with UK Generally Accepted Accounting Practice (GAAP), Financial Reporting Standard (FRS) 102, para 10.21 states that "to the extent practicable, an entity shall correct a material prior period error retrospectively in the first financial statements authorised for issue after its discovery" (Financial Reporting Council, 2022) and such corrections should take the form of disclosures that identify and explain the error, along with providing details about the amount of the correction. This is clearly the norm in professional accountancy, and SCOR recommends that the next edition of the RICS Professional Standard require that any service charge accounting errors identified within an independent review be corrected in a similar manner. While it is obviously better to issue original accounts without accrual-related errors, there is urgent need to establish "best practice" principles for correcting material errors in service charge accounts.

While it is useful to compare overall compliance results for each of the 16 metrics across the three sectors, Figure 10 illustrates the comparative compliance rankings per reconciliation expressed as a percentage of total documents included within the retail park, shopping centre, and office compliance datasets for the SCOR 2023 publications.

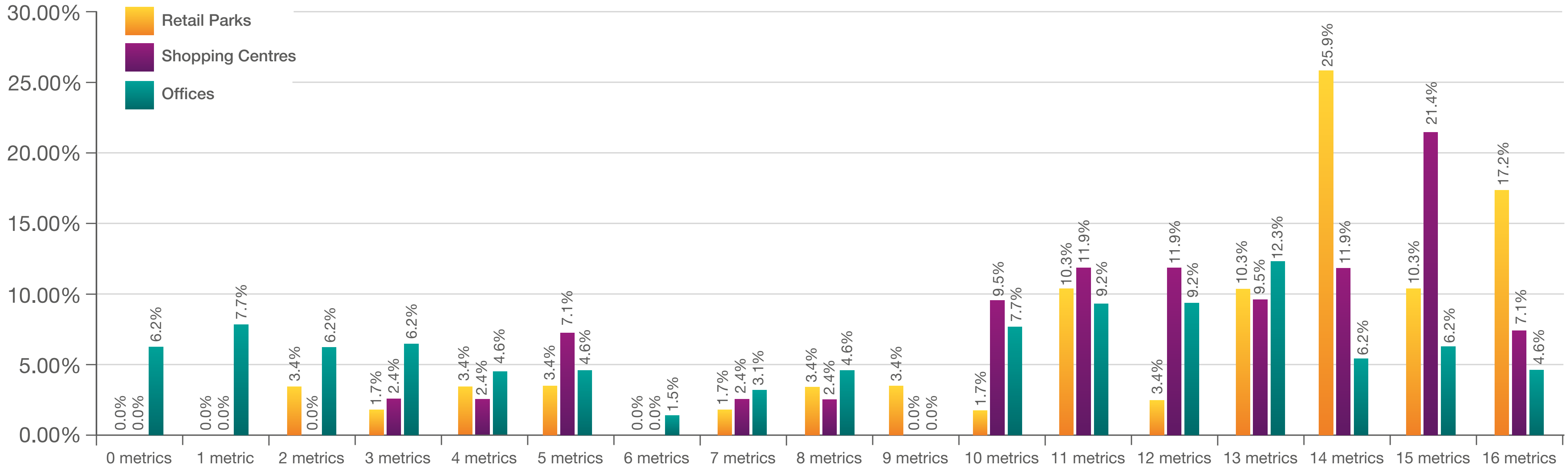

Figure 10: Compliance rankings against 16 accounting requirements of the 2023 Professional Standard

4. Compliance with the 2023 RICS Professional Standard

The overall compliance "scores" for the 58 retail park reconciliations appear weighted towards the higher end of the 16-metric ranking scale in a similar manner to that observed in the results for shopping centres. By way of contrast, the rankings for the accounting documents prepared for office buildings are much more varied, with a wider disparity in overall rankings, and a greater number of documents at the lower end of the compliance rankings. However, compliance with all of the accounting requirements of the Professional Standard has introduced a "boiler plate", "box ticking" mentality to compliance, and does not in itself guarantee that a true and fair report of annual expenditure is presented to occupiers. Each of SCOR 2023's three sister publications have highlighted that some of the very "best" annual accounting statements of expenditure (i.e. complying with 13, 14, 15 or even 16 of the RICS accounting requirements) were given qualified opinions within their respective independent accountants reports for including inappropriate and material amounts of accrued expenditure. As a result, the same health warning should be repeated about using individual metrics to assess overall accounting quality, and to once again stress the importance of independent review and oversight of service charge accounts.

While this was not an issue at the retail parks analysed, SCOR's compliance analysis at UK shopping centres and offices revealed back-to-back instances of qualified accounting opinions for accruals-based accounting errors at certain locations, with no subsequent corrections, commentary, or prior year adjustments within the accounts. As was discussed earlier, the longer this practice goes on, the more urgent is regulatory action to prevent or correct it. Left unchecked, it increases the potential for dispute and distrust between parties.

5. 2023 Retail Park Service Charges at a glance

In analysing the 2023 budgeted service charge costs for 81 of the UK's 100 largest retail parks in terms of NLA, the results were as follows:

- The medians of the 2023 total service charge for retail parks in London and the Rest of the UK were £2.65 and £1.71 per sq. ft., respectively.
- The most significant RICS Cost Class, in terms of budgeted costs, is Soft services, representing 51% of the total, with Management and Hard services making up a further 32%.
- In regard to RICS Cost Categories, 45% of the total budgeted cost was incurred on just two: Security and Cleaning & sustainability (both of which are contained within the Soft services RICS Cost Class). In addition, the "Total Cost of Management" – summing the Management fees and the Site management resources – accounts for a further 16%.

At a glance, Tables 3 and 5 show the quartiles of Service charge budgeted costs across RICS Cost Classes and ten selected Cost Categories split between London and the Rest of the UK.

£ Per sq. ft.	Lower Quartile		Median		Upper Quartile	
RICS Cost Class	London	ROUK	London	ROUK	London	ROUK
Management	0.20	0.16	0.47	0.23	0.75	0.48
Utilities	0.11	0.09	0.19	0.17	0.35	0.25
Soft services	0.57	0.56	1.55	0.85	2.43	1.30
Hard services	0.25	0.19	0.38	0.30	0.51	0.44
Insurance	0.01	0.00	0.01	0.01	0.02	0.01
Exceptional expenditure	0.10	0.12	0.13	0.25	0.13	0.54
Quartiles of total costs	1.50	1.29	2.65	1.71	4.09	2.58

Table 3. Service charge costs across RICS Cost Classes split between London and ROUK.

£ Per sq. ft.	Lower Quartile		Median		Upper Quartile	
RICS Cost Category	London	ROUK	London	ROUK	London	ROUK
Management fees	0.11	0.09	0.18	0.12	0.25	0.17
Site management resources	0.06	0.05	0.27	0.09	0.47	0.29
Electricity	0.11	0.09	0.17	0.15	0.25	0.23
Security	0.11	0.14	0.64	0.46	1.02	0.74
Cleaning & sustainability	0.39	0.24	0.71	0.35	1.05	0.53
Landscaping & environment	0.11	0.06	0.13	0.09	0.22	0.15
Marketing & promotions	0.06	0.02	0.08	0.04	0.12	0.08
Mechanical & electrical services	0.06	0.05	0.08	0.10	0.20	0.19
Fabric repairs & maintenance	0.17	0.10	0.19	0.17	0.33	0.25
Major works	0.10	0.13	0.13	0.29	0.13	0.53
Quartiles of total costs	1.50	1.29	2.65	1.71	4.09	2.58

Table 5. Service charge costs across selected RICS Cost Categories split between London and ROUK.

5. 2023 Retail Park Service Charges at a glance

In line with the compliance results from UK shopping centres and multi-let offices, it is clear that some managing parties at UK retail parks are trying hard to improve the relevance, representational faithfulness, and comparability of the information contained within service charge accounts. However, for some, further work is needed to meet both the mandatory and "best practice" requirements contained in the Professional Standard. As a result, the compliance results for some of SCOR's 16 "must" and "should" accounting requirements continue to disappoint, especially when one considers that many retail park landlords and managing agents are actively trying to improve occupier satisfaction. Supplying timely, transparent, comparable, and well-presented accounting information is essential for reducing the potential for disputes between occupier and landlord. However, SCOR's compliance results suggest that accounting improvement is needed in many areas, especially in terms of:

- The timely delivery of annual service charge accounts
- Providing a certifying statement that the amounts seeking to be recovered are in accordance with the lease.
- A statement about how insurance claims are accounted for
- Supporting the accounts by including an independent review in line with the ICAEW Technical Release.

The average year end accounting reconciliation for a UK retail park is certainly getting longer in length, but often includes repeated accounting information that uses different formats and layout and often includes pages of "boiler plate" disclosures and information about a property that is largely irrelevant to most occupiers.

Of the 60.3% of centres where the accounts were supported by an independent accountant's report, 11.4% (4 of 35) received a qualified opinion, and 8.6% (3 of 35) received this for inappropriate use of accrual accounting. While these independent accountants reports are often produced for the benefit of the landlord and/ or managing agent, the conclusions about accrual accounting suggest that tenants must routinely review these statements and scrutinise reconciliations and transaction lists (if available) for any annual service charge expenditure related to works and services not carried out during the financial year. Such reviews may require third party professional assistance and the cooperation of managing parties but may ultimately help to reduce "hidden reserve accruals" being created at the tenant's expense.

SCOR reports also available for **Offices** and **Shopping Centres**

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