

Service Charge Operating Report

Shopping Centres

SCOR 2022

 **bellrock**
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 **technical &
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1. Introduction

Welcome to the 2022 edition of the Service Charge Operating Report (SCOR) for Shopping Centres, which is the 11th edition in the series.

We have largely come out the “other side” of the Covid pandemic, or at least have moved into the era of “living with it”. No sooner was this the case than the war on Ukraine commenced, and we are already seeing the consequences of this conflict manifest themselves in global, and UK-wide, inflation levels that we have not seen in a generation. Much of the source data for our cost benchmarking and the compliance analysis was issued before the war on Ukraine when we were in the throes of the pandemic. We are still therefore, looking at figures that cannot be seen as existing within a stable environment. Consequently, now, more than ever, we would ask readers of SCOR to treat these cost results with caution.

This year's edition of the research provides new compliance metrics for assessing whether service charge accounting documents prepared at 50 UK shopping centres comply with the increased presentation and disclosure requirements of the 2018 RICS Professional Statement.

SCOR for Shopping Centres 2022 also benchmarks the service charge costs at UK shopping centres by analysing them according to the new Cost Classes and Categories specified by the RICS Professional Statement, including 2022 budgetary cost information for a representative sample of 83 UK shopping centres that fall within the UK's 100 largest by total gross lettable floor area. SCOR for Shopping Centres normally includes a

longitudinal cost analysis for three years of costs, but due to current unstable environment we find ourselves in, this analysis has been omitted again this year, as it was last year.

The dataset 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 Shopping Centres 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.

2. Methodology



The data for SCOR's core cost benchmarking was obtained from analysis of service charge budgets supplied to occupiers at 83 UK retail shopping centres within the UK's 100 largest by total gross lettable area. The publication of many "2022" end-of-period service charge certificates has been delayed, resulting in SCOR 2022's cost data being obtained from analysis of annual budgets of service charge costs which included at least six months of 2022. The decision to focus exclusively on budgetary data was not ideal but seen as a necessary modification. All costs are reported as gross costs, i.e. inclusive of VAT.

The SCOR dataset is unbiased and representative as it includes cost information for any shopping centre that Bellrock Real Estate dealt with where complete budgetary information was available for at least six months of 2022. 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.

Due to the fact that 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. A member of the Data Entry team at Bellrock 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 gross lettable area of each centre, 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 than if the difference were higher.

Another important methodological issue for retail premises is the reporting of marketing costs. At a number of UK shopping centres, the landlord makes a contribution towards this type of service charge cost, effectively reducing the net cost for occupiers. As a result, service charge budgets and certificates may merely report the "net" marketing spend as a single line item, rather than showing two separate figures for the "gross" marketing cost and the offsetting credit for the landlord's contribution. If a budget or

certificate does not detail the landlord's contribution to marketing, it is almost impossible for an occupier to ascertain the total "gross" annual marketing expenditure planned or actually incurred for the centre. To provide an accurate cost benchmark for marketing, SCOR for Shopping Centres reports the "net" marketing cost for each centre, but the research team urges occupiers to carefully review leases and service charge reconciliations for details about landlord contributions to marketing.

A third issue relates to the reporting of the cost per sq. ft., especially when "weighted" apportionment tables are often utilised in the UK shopping centre retail sector. Such weighted apportionment matrices reduce the proportional service charge percentage paid by larger "anchor" tenants and means that each retail occupier may pay a differing cost per sq. ft. SCOR for Shopping Centres calculates cost per sq. ft. by dividing "total cost" by "total area" and therefore does not take into account any weighting that the landlord and their managing agent may apply. This means that SCOR's cost per sq. ft. will not apply to certain occupiers, since those benefiting from a weighted apportionment will pay a lower rate, and similarly, those impacted by an adverse weighting will incur a higher rate.

One final methodological issue relates to the calculation of median costs for certain types of costs. Not all buildings have 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 shopping centres, whereas a blank entry will not. As a result, in order to prevent distorted figures, SCOR's analysis of the specific RICS Cost Category "Major works" and the wider RICS Cost Class "Exceptional Expenditure" specifically excluded amounts of "0" when calculating their median costs.

2.1 The Dataset

Detailed cost analysis was undertaken for 83 UK shopping centres within the UK's 100 largest, by total gross lettable area. Table 1 and Figures 1, 2 and 3 provide descriptive information about the cost benchmarking dataset.

Figure 1 shows that, for analysis purposes, the properties were split into three size bandings; those up to 600,000 sq. ft., from 600,001 sq. ft. up to 1,200,000 sq. ft. and those above 1,200,000 sq. ft.

Figure 2 illustrates that nearly one fifth of the shopping centres (14) were within Greater London.

In regard to the age of the shopping centres, the dataset was split into four groupings as illustrated in Figure 3.

Cost Year	No. of Shopping Centres	Type of Document	Total Area sq.ft.	Total Service Charge Cost
2022	83	Service Charge Budget	67,320,488 sq. ft.	£449,542,343

Table 1. Characteristics of the cost benchmarking dataset for SCOR for Shopping Centres 2022.

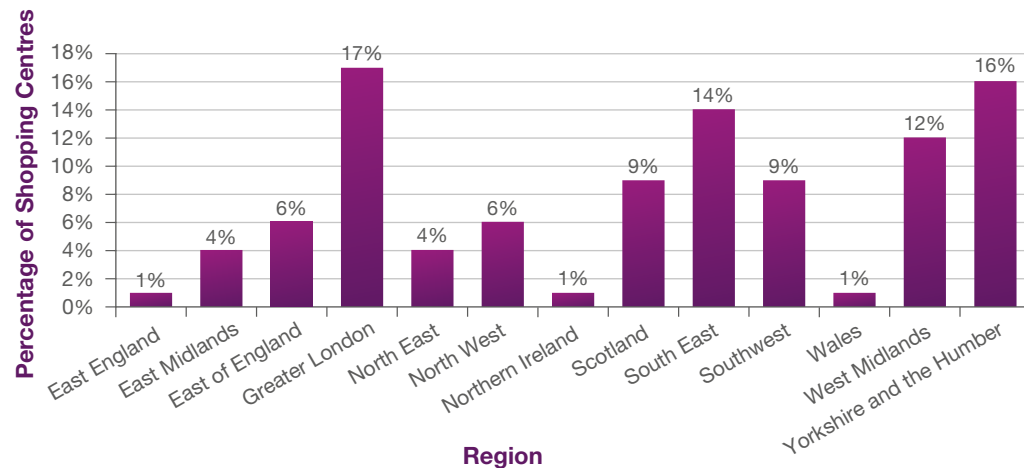


Figure 2. Geographical location of the shopping centres in the dataset.



Figure 1. Property sizes (in sq.ft.) of all the shopping centres in the dataset.

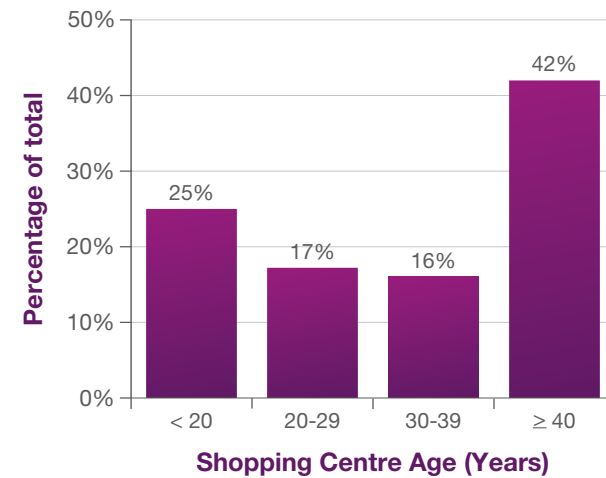


Figure 3. Age of the shopping centres in the dataset.

3. Findings and Analysis

3.1 Overall Cost Benchmarking

Figure 4 and Table 2 show the lower quartile, median and upper quartile service charge costs, in £ per sq.ft., for shopping centres in (Greater) London and the Rest of the UK. Based upon these median figures, occupiers in (Greater) London typically pay just over 30% more than tenants in the rest of the UK.

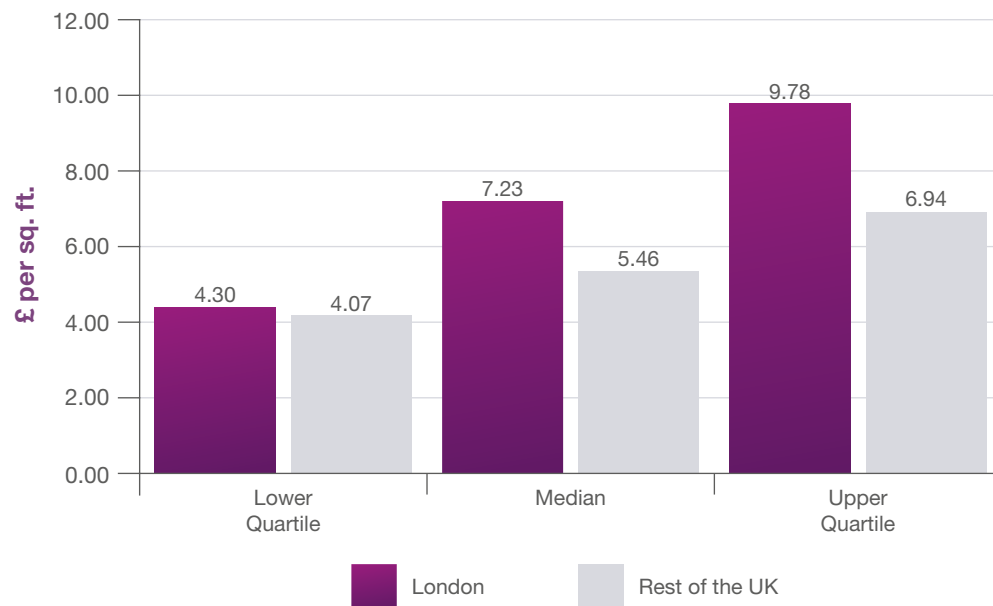


Figure 4. Total service charge costs compared between shopping centres located in London and ROUK

£ Per sq. ft.	London	ROUK
Lower Quartile	4.30	4.07
Median	7.23	5.46
Upper Quartile	9.78	6.94

Table 2. Total service charge costs compared between shopping centres located in London and ROUK



3.2. RICS Cost Class Benchmarking

3.2.1 RICS Cost Class Benchmarking - Irrespective of Location

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

Figure 5 illustrates total cost for the 83 centres by Cost Class, and highlights that Soft services, Hard services and Management represent 43%, 17%, and 19% of the total service charge, respectively.

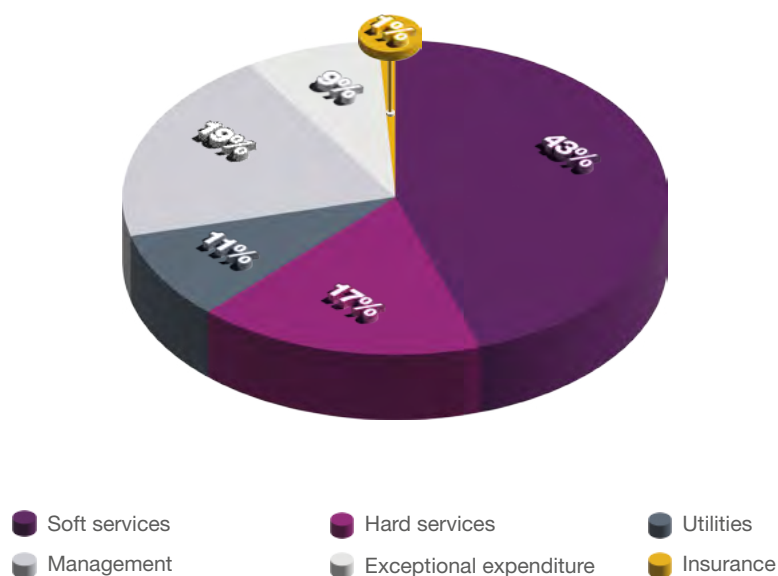


Figure 5. Percentage of total service charge costs per RICS Cost Class across the whole dataset.

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

Figures 6.1 and 6.2 compare the relative importance of each type of Cost Class budget figure within London and the Rest of the UK. Soft services account for a larger percentage of total cost in (Greater) London than the Rest of the UK, (44% versus 42%). However, Management accounts for a smaller proportion of total cost in (Greater) London than in the Rest of the UK (18% versus 20%).

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. This table also includes information about Miscellaneous Charges and Income.

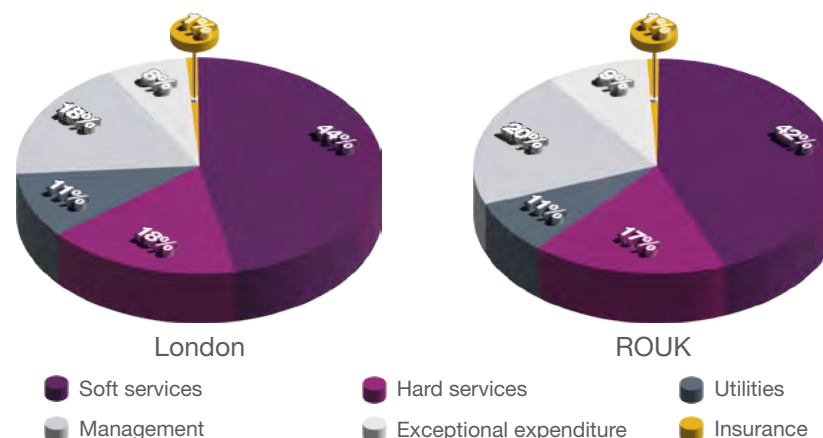


Figure 6.1. Percentage of total service charge costs per RICS Cost Class in shopping centres located in London.

Figure 6.2. Percentage of total service charge costs per RICS Cost Class in shopping centres located in ROUK.

£ Per sq. ft.	Lower Quartile		Median		Upper Quartile	
RICS Cost Class	London	ROUK	London	ROUK	London	ROUK
Management	0.96	0.86	1.52	1.07	2.09	1.41
Utilities	0.46	0.34	0.85	0.51	1.37	0.79
Soft services	2.17	1.70	2.92	2.23	3.56	2.84
Hard services	0.72	0.51	1.12	0.80	1.55	1.00
Insurance	0.00	0.00	0.01	0.01	0.03	0.02
Exceptional expenditure	0.21	0.17	0.59	0.37	1.52	0.93
Miscellaneous charges	0.00	0.00	0.00	0.00	0.00	0.00
Income	-0.15	-0.08	-0.03	-0.03	-0.02	-0.01
Quartiles of total costs	4.30	4.07	7.23	5.46	9.78	6.94

Table 3. Service charge costs across RICS Cost Classes split between London and the Rest of the UK.

3. Findings and Analysis

3.2.3 RICS Cost Class Benchmarking - by Shopping Centre Size (Rest of the UK Only)

In order to evaluate the impact of shopping centre size on total service charge cost, and how costs differ across the RICS Cost Classes, this section analyses the differences in costs across shopping centres classified into one of three size categories. This analysis was not carried out on the 14 (Greater) London centres as the results would not be meaningful due to the small sample size.

Median costs (£ per sq. ft.)	ROUK		
RICS Cost Class	≤ 600,000 sq.ft. (33 Centres)	600,001 - 1,200,000 sq.ft. (28 Centres)	≥ 1,200,001 sq.ft. (8 Centres)
Management	0.92	1.27	1.43
Utilities	0.42	0.60	0.78
Soft services	1.94	2.57	3.04
Hard services	0.60	0.85	1.03
Insurance	0.01	0.01	0.01
Exceptional expenditure	0.36	0.34	1.08
Miscellaneous charges	0.00	0.00	0.00
Income	-0.02	-0.04	-0.13
Medians of total costs (£ per sq. ft.)	4.32	6.03	7.40

Table 4. Service charge costs across RICS Cost Classes by shopping centre size in the Rest of the UK

Table 4 and Figure 7 illustrate that, in the Rest of the UK, as the size of the shopping centre increases, the service charge budgeted costs increase, which would seem counter-intuitive. The total increase from the smallest centres' banding to the largest is c.70%. This discrepancy has increased from 60% observed in the 2021 Report.

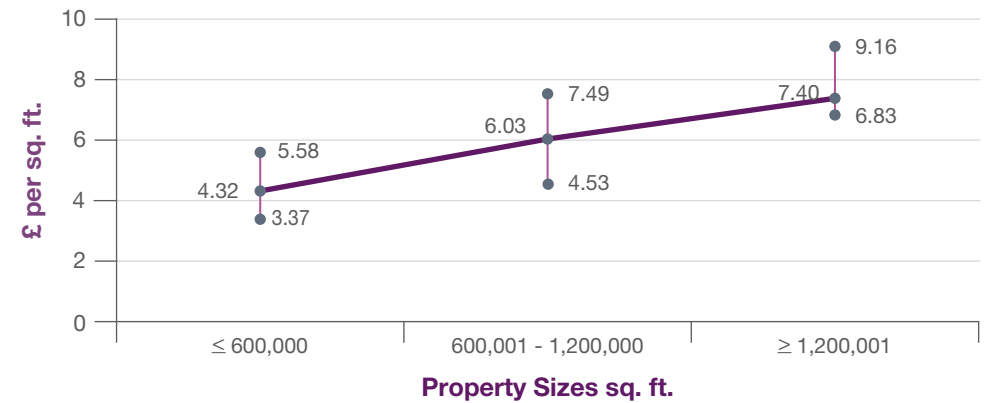


Figure 7. Quartiles of service charge costs by shopping centre size in the Rest of the UK



3.2.4 RICS Cost Class Benchmarking - by Shopping Centre Age (Rest of the UK Only)

To investigate the impact of shopping centre age on each type of RICS Cost Class, the centres in the Rest of the UK were classified into four age categories as shown in Table 5.

Median costs (£ per sq. ft.)	ROUK			
RICS Cost Class	< 20 Yrs (18 Centres)	20-30 Yrs (12 Centres)	30-40 Yrs (10 Centres)	≥ 40 Yrs (29 Centres)
Management	1.03	1.41	1.21	0.96
Utilities	0.45	0.62	0.60	0.48
Soft services	2.49	2.71	2.74	1.91
Hard services	0.73	0.85	0.87	0.76
Insurance	0.01	0.02	0.00	0.01
Exceptional expenditure	0.34	0.37	0.93	0.33
Miscellaneous charges	0	0	0	0
Income	-0.03	-0.07	-0.02	-0.02
Medians of total costs (£ per sq. ft.)	5.23	6.62	5.80	4.44

Table 5. Service charge costs across RICS Cost Classes by shopping centre age in the Rest of the UK.

Table 5 and Figure 8 illustrate that the age of a shopping centre does not help to explain cost variations between centres.



Figure 8. Quartiles of service charge costs by shopping centre age in the Rest of the UK.



3. Findings and Analysis

3.3. RICS Cost Category Benchmarking

This section analyses eleven material RICS Cost Categories; Management fees, Site management resources, Electricity, Security, Cleaning & sustainability, Landscaping & environment, Mechanical & electrical services, Lifts & escalators, Fabric repairs & maintenance, Marketing & promotions and Major works.

3.3.1 RICS Cost Category Benchmarking - Irrespective of Location

Figure 9 shows the proportion of budgeted costs of each of the eleven selected Cost Categories across the 83 centres. Of these, 37% of the total cost was incurred on just two Cost Categories: Cleaning & sustainability and Security (both of which are contained within the Soft services Cost Class). The Total cost of management (adding the Management fees to the Site management resources) accounts for a further 19% of the total. As mentioned in the methodology section, Marketing & promotions is analysed on a “net” basis, after deducting the Landlord’s contribution to this Cost Category.

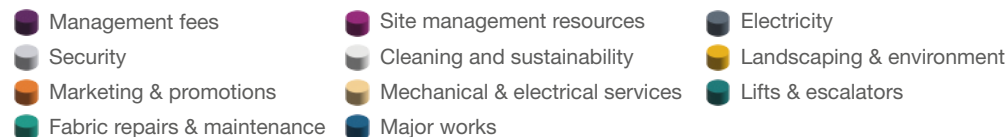
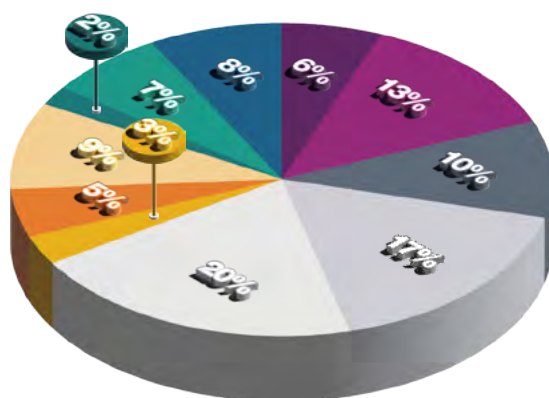
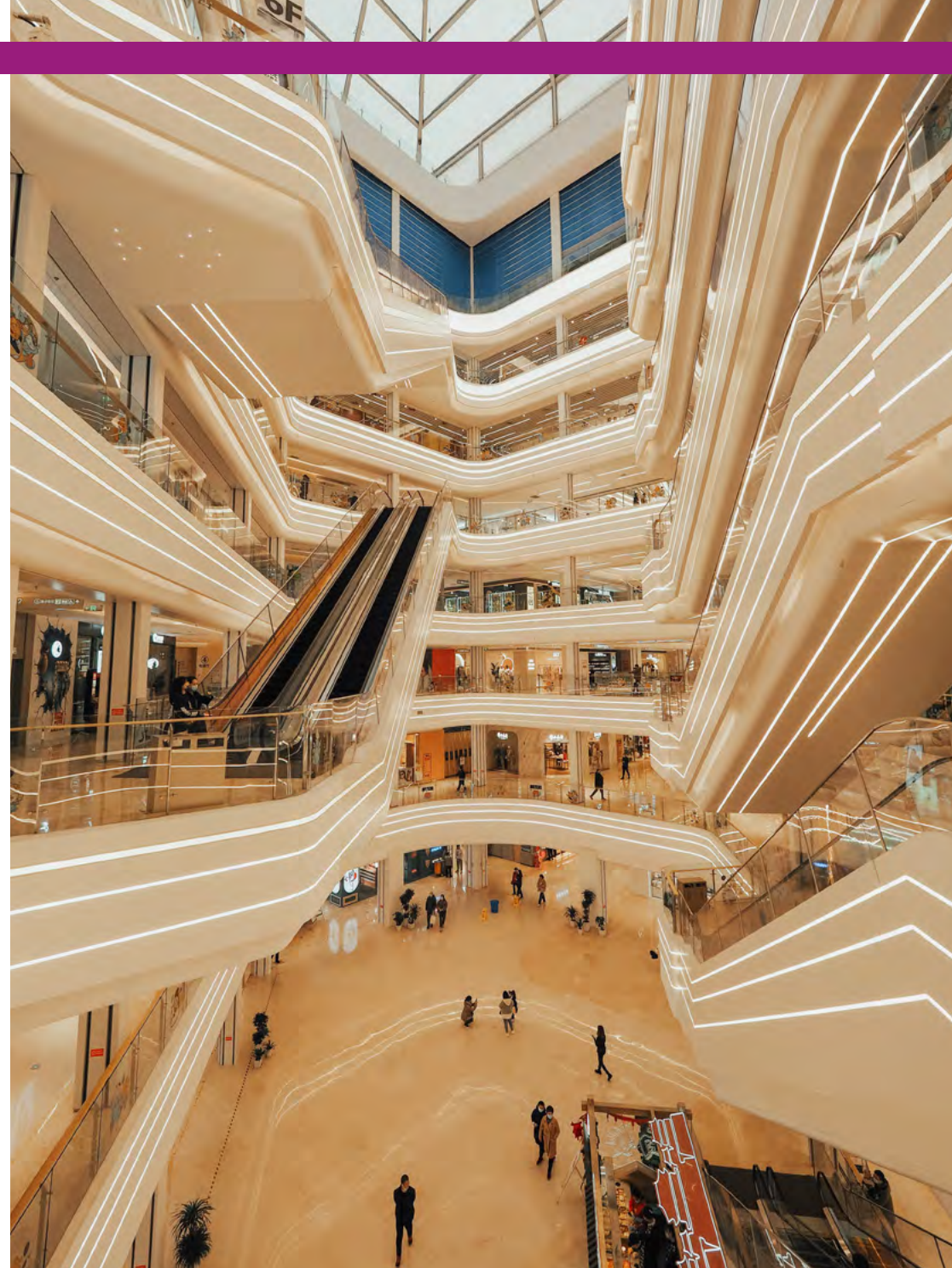


Figure 9. Percentage of total service charge costs per selected RICS Cost Categories across the whole dataset



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

Figures 10.1 and 10.2 illustrate the costs split by Cost Category in (Greater) London and the Rest of the UK, respectively. The results indicate that Fabric repairs & maintenance shows a material reduction in its percentage contribution to the total costs between (Greater) London and the Rest of the UK, 12% in the capital against 5% elsewhere. There is a material increase in Mechanical and electrical services in its contribution between (Greater) London and the Rest of the UK; 5% against 10%, respectively.

Table 6 shows the quartiles of service charge costs by selected RICS Cost Category across London and the Rest of the UK, the results are given in £ per sq. ft.

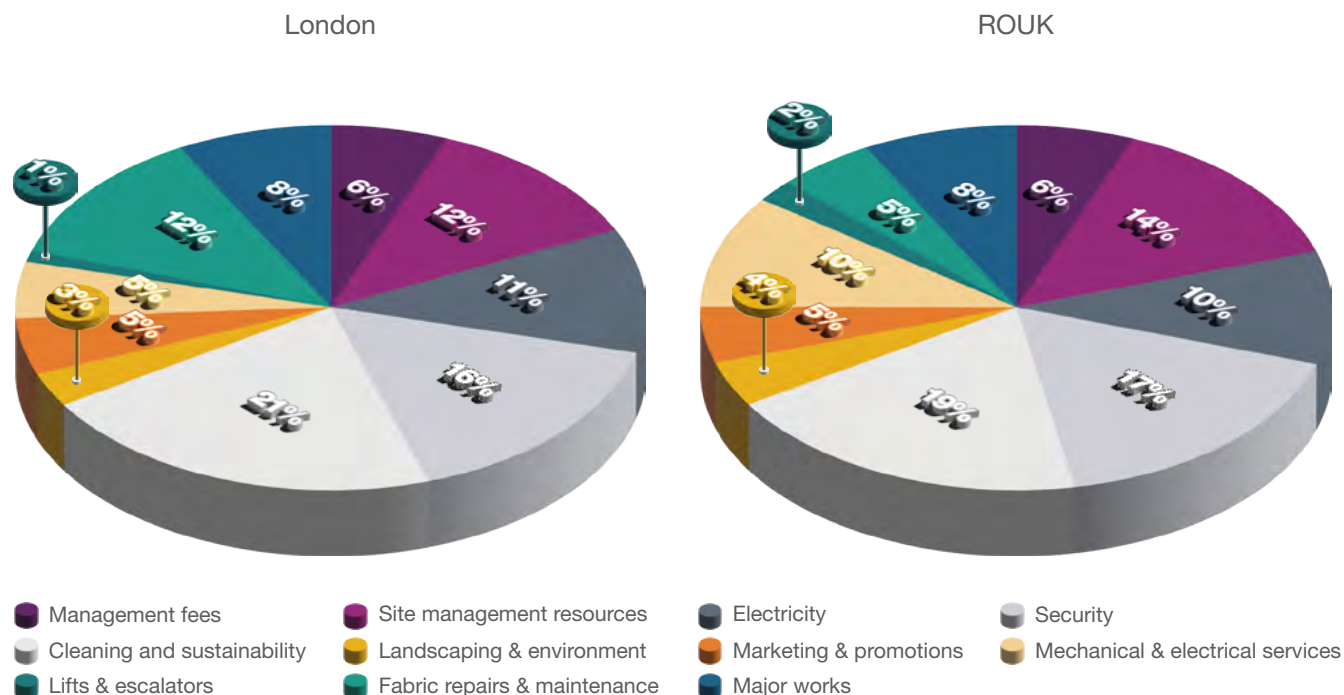


Figure 10.1. Percentage of total service charge costs per selected RICS Cost Categories in shopping centres in London

Figure 10.2. Percentage of total service charge costs per selected RICS Cost Categories in shopping centres in the Rest of the UK

£ Per sq. ft.	Lower Quartile		Median		Upper Quartile	
RICS Cost Category	London	ROUK	London	ROUK	London	ROUK
Management fees	0.39	0.27	0.49	0.36	0.64	0.42
Site management resources	0.57	0.52	0.86	0.69	1.35	0.99
Electricity	0.38	0.29	0.74	0.44	1.21	0.63
Security	0.98	0.74	1.25	0.90	1.52	1.14
Cleaning and sustainability	0.90	0.65	1.20	0.94	1.90	1.23
Landscaping & environment	0.14	0.09	0.23	0.14	0.32	0.26
Marketing & promotions	0.02	0.06	0.13	0.18	0.26	0.37
Mechanical & electrical services	0.32	0.31	0.39	0.51	0.92	0.70
Lifts & escalators	0.05	0.05	0.10	0.08	0.17	0.12
Fabric repairs & maintenance	0.09	0.09	0.20	0.16	0.93	0.26
Major works	0.39	0.17	0.62	0.38	1.84	0.84
Quartiles of total costs	4.30	4.07	7.23	5.46	9.78	6.94

Table 6. Service charge costs across selected RICS Cost Categories split between London and the Rest of the UK

3. Findings and Analysis

3.3.3 RICS Cost Category Benchmarking - by Shopping Centre Size (Rest of the UK Only)

Table 7 illustrates the impact of shopping centre size on selected RICS Cost Categories. Once again, this analysis was not carried out on the shopping centres in (Greater) London due to the small number of centres within this geographical location.

Centre size does appear to materially affect costs across the budgeted costs as a whole with the largest contributors to this increase being Major works, Site management resources and Electricity.

Median costs (£ per sq. ft.)	ROUK		
RICS Cost Category	≤ 600,000 sq.ft. (33 Centres)	600,001 - 1,200,000 sq.ft. (28 Centres)	≥ 1,200,001 sq.ft. (8 Centres)
Management fees	0.29	0.36	0.39
Site management resources	0.54	0.77	1.00
Electricity	0.31	0.49	0.69
Security	0.87	0.92	1.04
Cleaning & sustainability	0.76	1.05	1.16
Landscaping & environment	0.13	0.16	0.31
Marketing & promotions	0.15	0.29	0.33
Mechanical & electrical services	0.40	0.64	0.62
Lifts & escalators	0.06	0.10	0.10
Fabric repairs & maintenance	0.17	0.13	0.18
Major works	0.37	0.33	0.88
Medians of total costs (£ per sq. ft.)	4.32	6.03	7.40

Table 7. Service charge costs across selected RICS Cost Categories by shopping centre size in the Rest of the UK



3.3.4 RICS Cost Category Benchmarking - by Shopping Centre Age (Rest of the UK only)

Table 8 illustrates that there is no clear correlation between the age of a shopping centre and the costs of services delivered.

Median costs (£ per sq. ft.)	ROUK			
RICS Cost Category	< 20 Yrs (18 Centres)	20-30 Yrs (12 Centres)	30-40 Yrs (10 Centres)	≥ 40 Yrs (29 Centres)
Management fees	0.29	0.38	0.40	0.33
Site management resources	0.68	0.96	0.75	0.60
Electricity	0.38	0.49	0.48	0.40
Security	0.95	1.12	1.04	0.76
Cleaning & sustainability	1.01	1.37	1.20	0.88
Landscaping & environment	0.14	0.18	0.20	0.12
Marketing & promotions	0.26	0.27	0.29	0.15
Mechanical & electrical services	0.54	0.58	0.42	0.46
Lifts & escalators	0.07	0.12	0.08	0.06
Fabric repairs & maintenance	0.14	0.16	0.14	0.17
Major works	0.49	0.37	0.80	0.33
Medians of total costs (£ per sq. ft.)	5.23	6.62	5.80	4.44

Table 8. Service charge costs across selected RICS Cost Categories by age of shopping centre in the Rest of the UK

4. Compliance with the 2018 Professional Statement

4.1 The Compliance Metrics

Based upon a review of 50 annual statements of service charge expenditure whose fiscal year commenced on or after 1 April 2019, this section presents compliance analysis investigating whether select accounting presentation and disclosure requirements of the 2018 RICS Professional Statement Code have been adopted by managing parties.

SCOR analyses 17 “must”, “should” and “other” compliance metrics from the RICS Professional Statement that evaluate the main accounting and administrative requirements of the Professional Statement and could be identified via an unbiased, “binary” review (i.e. “yes” it is included, or “no” it is absent) of the content within the annual service charge accounts. As the leases for many properties do not permit the creation of a sinking or reserve fund, no metrics measure the accounting requirements in this area. Each of the 17 metrics are described in more detail in Table 9.

The metrics include 4 “musts”, 12 “shoulds”, and 1 “other” requirement as per the language used within the Professional Statement. As the 1 “other” requirement included within the Professional Statement is neither a “must” or a “should”, (“Openness and transparency can be further enhanced by the inclusion of a balance sheet or cash reconciliation”) each property’s annual service charge accounts were ranked out of a total compliance score of 16 (i.e. the 4 “must” and 12 “should”), with separate reporting of compliance for the 1 “other” requirement.

The characteristics of the compliance dataset are provided in Table 10, which includes £257,936,042 of expenditure for 50 shopping centres, managed by 14 different managing agents.

Years	No. of Buildings	Types of Document	Total SC Cost
2020-2021	50	Service Charge Certificates	£257,936,042

Table 10: Characteristics of the dataset used for the compliance analysis 2022

No.	Requirement	Must/Should	Measurement
1	The Professional Statement requires that fees be set on a fixed-price basis (Section 4.1.3.2, page 14)	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 18)	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 22)	Must	Clear statement – yes/no
4	Interest earned on service charge accounts must be credited to the service charge account after appropriate deductions have been made (Section 4.5.10, page 27)	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 27-28)	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 25)	Should	Cost classes Binary coding – yes/no
7	... and cost category level (Section 4.5.5, page 25)	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 23)	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 4.5.6, page 26)	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 23)	Should	Binary coding – yes/no
11	Other information includes: A statement detailing how insurance claims are accounted for (Section 4.5.2, page 23)	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 23)	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 23) 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 statement (section 4.5.3.2, page 24)	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. 24)	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 11)	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 24)	Other	Binary coding – yes/no

Table 9: Metrics for assessing service charge accounting compliance with the RICS Professional Statement

4.2 Compliance Results for 2022

When assessing the results in Table 11 on the next page, it is disappointing to note that compliance was less than 70% for two of the four “must” requirements of the Professional Statement (Metrics 1-4 in Table 11), with the “crediting of interest earned” and clearly disclosing that management “fees [were] set on a fixed-price basis” achieving the highest results at 76% and 88% compliance, respectively. While three of these “must” metrics are specifically listed under the Professional Statement’s list of “mandatory” requirements (RICS, 2018, p.9), the statement also “requires that [management] fees be set on a fixed-price basis” (RICS, 2018, p.14) so this metric is also classified as a “must” rather than merely a “should”.

In terms of the 12 “should” requirements, the overall results appear to demonstrate a lack of commitment to abiding by the recommendations of the RICS Professional Statement, with compliance for only 5 of the 12 metrics exceeding 80%. However, these results were obtained from a limited sample of 50 UK Shopping Centres, and more detailed longitudinal analysis is required before compliance trends can be clearly established for the industry.

While compliance with all 12 of the “should” metrics is important, some are more critical than others. For the most critical metrics, a compliance rate of less than 100% harms the overall 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.



4. Compliance with the 2018 Professional Statement

The “relatively” low level of compliance in certain critical areas, such as including a “Statement that accrual or cash accounting used” (metric 8: 82%) and to certify that the accounts represent actual expenditure incurred in supplying services in accordance with the lease (metric 13: 80% and metric 14: 42%, respectively), are concerning, since this information is essential for determining whether the accounts provide “true and fair” and faithfully representative information for occupiers. Further analysis 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 PS”, shows the accounting records for 16 of the 50 shopping centres (32%) included a certification that referred to compliance with the RICS Professional Statement, but failed to mention that the expenditure 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 essential that the certification wording states that all expenditure is being recovered in accordance with the terms of the lease, and additionally, where practicable, then refers to compliance with the RICS Professional Statement. This issue was also apparent during last year’s compliance analysis (26.2% of the 42 certificates included in SCOR 2021 had the same issue) and is easily rectified.

Compliance with metric 16, that the accounts should be supported by an independent review in line with the ICAEW Technical Release, was 70%. While this might appear to be a reasonable level of compliance, especially as many commercial leases do not require a year-end independent accounting review, 3 of the 35 independent accountant’s reports provided (8.6%) included a qualified conclusion (i.e. opinion) regarding the inappropriate use of accrual accounting. In each situation, the sums inappropriately accrued were material, which serves to demonstrate the value of independent review and highlights a potential service charge accounting issue that requires further investigation. If 8.6% of the 35 certificates independently reviewed included inappropriate use of accrual accounting, were similar levels of accounting inaccuracy incorporated within the 15 certificates not subject to professional scrutiny? 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 in the relevant financial year.

Compliance with certain other “should” accounting requirements, such as providing the financial statements within four months of the year end (metric 5: 28%), that the person approving the accounts should be appropriately qualified and their status made clear (metric 15: 72%), and stating how insurance claims are accounted for (metric 11: 40%), should not be too onerous for professional managing parties to abide by, and it is surprising that compliance falls short in each of these areas.

In terms of the 17th metric, the inclusion of a balance sheet, no document included such an accounting statement, which is disappointing as a balance sheet provides transparency as to the magnitude of end-of-period assets, liabilities, and reserves. In addition, the provision of a balance sheet tracks 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.

Requirement	Must/ Should	Compliance out of 50	
		No.	%
1. Fixed Management Fee	M	44	88.0%
2. Apportionment matrix is provided for each unit in the property	M	34	68.0%
3. Statement that service charge monies are held in one or more discrete bank accounts	M	29	58.0%
4. Interest earned credited to the service charge account	M	38	76.0%
5. Timeliness Compliant (date) - annual accounts produced within four months of year end	S	14	28.0%
6. Cost Classes Used	S	47	94.0%
7. Cost Categories Used	S	42	84.0%
8. Statement that accrual accounting or cash basis used	S	41	82.0%
9. Schedule of accruals and prepayments.	S	32	64.0%
10. Description of Variances	S	49	98.0%
11. Statement about how insurance claims are accounted for	S	20	40.0%
12. Statement about whether owner has waived exemption to charge VAT	S	35	70.0%
13. Statement that accounts represent the actual expenditure incurred in supplying services	S	40	80.0%
14. Statement that amounts seeking to be recovered are in accordance with the lease and where practicable the PS	S	21	42.0%
15. Approver should be an appropriately qualified and qualified person. Status of person should be made clear	S	36	72.0%
16. Accounts should be supported by an independent review in line with ICAEW Technical Release	S	35	70.0%

Table 11: Compliance against 16 “must and “should” accounting requirements of the Professional Statement

Figure 11 provides the overall compliance rankings for each of the 50 certificates against the 16 “must” and “should” metrics of the 2018 Professional Statement. For the sample, the mean and median compliance rankings for the certificates were 11.1 and 12.5 out of 16, respectively.

While it is difficult to generalise from such a small sample of 50 centres, it is clear that compliance levels vary, although the majority of documents scored on the higher end of the ranking scale. Only 5 documents (10%) complied with all 16 requirements, and all complied with at least one. 66% of documents complied with 10 or more metrics, 74% complied with 8 or more metrics, and only 10% complied with 4 or fewer of the requirements analysed.

As was discussed last year, prior editions of SCOR for Shopping Centres monitored compliance over a narrow range of metrics, so it is difficult to provide analysis about compliance trends. What is clear is that most managing parties are trying hard to improve the relevance, representational faithfulness, and comparability of information contained within service charge accounts. However, for some, there is work to be done in order to meet both the mandatory and “best practice” requirements contained in the Professional Statement. Year-end accounting reconciliation certificates for UK shopping centres continue to grow in length but lack comparability, due to differences in presentation and the omission of key information about accounting principles and policies. The annual service charge accounts should present critical and comparable accounting information about service charge expenditure in a “RICS compliant” manner that embodies best practice, and we are not there yet.

SCOR will continue to monitor compliance against the key accounting aspects of the 2018 Professional Statement, and longitudinal compliance information will be included when sufficient trend data is compiled.

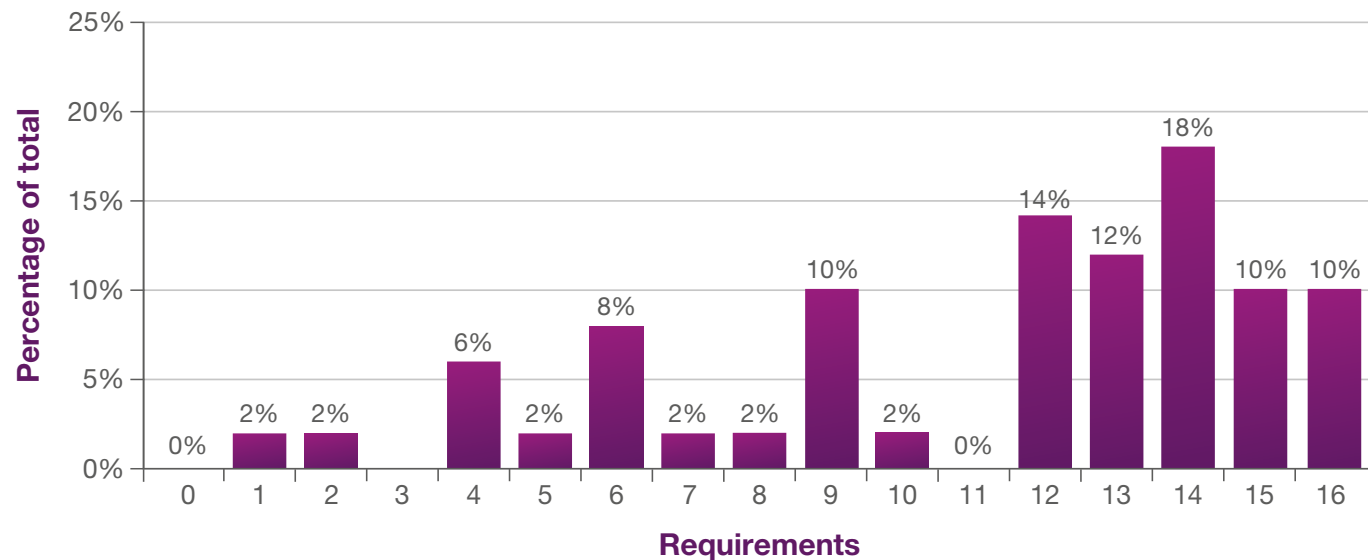


Figure 11: Compliance rankings against 16 accounting requirements of the 2018 Professional Statement



5. 2022 Shopping Centre Service Charges at a Glance

In analysing the 2022 budgeted service charge costs for 83 UK shopping centres within the UK's 100 largest in terms of total lettable floor area, the results were as follows:

- ▶ The medians of the 2022 total service charge for shopping centres in London and the Rest of the UK were £7.23 and £5.46 per sq. ft., respectively.
- ▶ The most significant RICS Cost Classes, in terms of budgeted costs, are Soft services, Hard Services and Management, representing 43%, 17%, and 19% of total budgeted costs, respectively.

At a glance, Tables 3 and 6 (below) show the quartiles of service charge budgeted costs across RICS Cost Classes and selected Cost Categories split between London and the Rest of the UK.

An analysis of service charge budgeted costs in the Rest of the UK showed that the age of a shopping centre did not have a material effect on its overall service charge costs or the way they were split across different RICS cost lines.

However, the size of the shopping centres, in the Rest of the UK, did have a material effect on the 2022 budgeted costs. The difference, in the medians of the budgeted service charge costs, from the smallest centres to the largest, was c.70%.

Similar to last year, the compliance results for SCOR's 16 "must" and "should" accounting requirements were relatively disappointing, especially when one considers that many shopping centre landlords and managing agents are actively trying to improve occupier satisfaction.

£ Per sq. ft.	Lower Quartile		Median		Upper Quartile	
RICS Cost Class	London	ROUK	London	ROUK	London	ROUK
Management	0.96	0.86	1.52	1.07	2.09	1.41
Utilities	0.46	0.34	0.85	0.51	1.37	0.79
Soft services	2.17	1.70	2.92	2.23	3.56	2.84
Hard services	0.72	0.51	1.12	0.80	1.55	1.00
Insurance	0.00	0.00	0.01	0.01	0.03	0.02
Exceptional expenditure	0.21	0.17	0.59	0.37	1.52	0.93
Miscellaneous charges	0.00	0.00	0.00	0.00	0.00	0.00
Income	-0.15	-0.08	-0.03	-0.03	-0.02	-0.01
Quartiles of total costs	4.30	4.07	7.23	5.46	9.78	6.94

Table 3. Service charge costs across RICS Cost Classes split between London and the Rest of the UK.

Supplying timely, transparent, comparable, and well-presented accounting information is essential for reducing the potential for disputes between tenant 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
- ▶ Including a certifying statement that the amounts seeking to be recovered are in accordance with the lease.
- ▶ Providing a statement that service charge monies are held in one or more discrete bank accounts.

Of the 70% of centres where the accounts included an independent accountant's report, 8.6% (3 of 35) received a qualified opinion regarding the inappropriate use of accrual accounting. While these reports are often produced for the benefit of the landlord and/or managing agent, the conclusions about accrual accounting suggest that tenants should routinely review these statements and scrutinise reconciliation certificates and transaction lists 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 should help to promote "best practice" use of accrual accounting and reduce the likelihood of "hidden reserves" being created at the tenant's expense.

£ Per sq. ft.	Lower Quartile		Median		Upper Quartile	
RICS Cost Category	London	ROUK	London	ROUK	London	ROUK
Management fees	0.39	0.27	0.49	0.36	0.64	0.42
Site management resources	0.57	0.52	0.86	0.69	1.35	0.99
Electricity	0.38	0.29	0.74	0.44	1.21	0.63
Security	0.98	0.74	1.25	0.90	1.52	1.14
Cleaning and sustainability	0.90	0.65	1.20	0.94	1.90	1.23
Landscaping & environment	0.14	0.09	0.23	0.14	0.32	0.26
Marketing & promotions	0.02	0.06	0.13	0.18	0.26	0.37
Mechanical & electrical services	0.32	0.31	0.39	0.51	0.92	0.70
Lifts & escalators	0.05	0.05	0.10	0.08	0.17	0.12
Fabric repairs & maintenance	0.09	0.09	0.20	0.16	0.93	0.26
Major works	0.39	0.17	0.62	0.38	1.84	0.84
Quartiles of total costs	4.30	4.07	7.23	5.46	9.78	6.94

Table 6. Service charge costs across selected RICS Cost Categories split between London and the Rest of the UK.

SCOR reports also available for **Offices** and **Retail Parks**



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