Service Charge Operating Report

Shopping Centres

SCOR 2023

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1. Foreword

Welcome to the 2023 edition of the *Service Charge Operating Report (SCOR) for Shopping Centres*, which is the 12th edition in the series.

SCOR for Shopping Centres 2023 benchmarks the service charge costs at UK shopping centres by analysing them according to the Cost Classes and Categories specified by the RICS Professional Standard (formerly Statement) *Service charges in Commercial Property*, including 2023 budgetary cost information for a representative sample of 89 UK shopping centres that fall within the UK's 100 largest by total gross lettable floor area.

In last year's publication, I mentioned the challenging inflationary backdrop, which continues to persist albeit hopefully the worst of it is now behind us. That said, with the continuing war in Ukraine, as well as the ongoing conflict in the Middle East, we are still looking at figures that cannot be seen as existing within a stable environment. Consequently, we would ask readers of SCOR to treat these cost results with caution, noting particularly the evident shift, and well-documented volatility, within Utilities.

In addition, building upon last year's introduction of new compliance metrics for assessing whether service charge accounting documents comply with the increased presentation and disclosure requirements of the RICS Professional Standard, we have provided further analysis in this year's edition. Whilst we are conscious of the sample size (42 UK shopping centres), it seems clear that compliance continues to represent something of a challenge to the industry. This is something that must be grappled with, and I would encourage 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.

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, with an acknowledged duty of care to both occupiers and their landlords. Similarly, if occupiers are to ascribe meaningful value to an independent review of the service charge accounts then the liability issue needs to be solved and far greater clarity is required around the terms and scope. The inclusion of the transaction listing on which the independent review has been based would also be an aid to transparency.

Finally, 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.

– 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 89 of the UK's 100 largest shopping centres by total lettable floor area. As last year, the publication of many "2023" end-of-period service charge certificates 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 SCOR dataset is unbiased and representative as it includes cost information for any shopping centre 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. 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 area (NIA) of each building, 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.

Another important methodological issue for retail premises is the reporting of Marketing costs. At a number of UK shopping centres, the landlord makes a substantial 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 lacking such an adjustment will incur a higher rate.

One final methodological issue relates to the calculation of median costs for certain types of costs. Not all buildings 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 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 89 UK retail shopping centres within the UK's 100 largest in terms of their total lettable floor area service. Table 1 and Figures 1, 2 and 3 provide descriptive information about the cost benchmarking dataset.

Figure 1 illustrates that nearly one fifth of the shopping centres (15) were within Greater London (London) and another fifth (15) in the South East of England.

Figure 2 shows that, for analysis purposes, the properties were split into three size groupings: those up to 600,000 sq. ft., from 600,001 sq. ft. up to 1,200,000 sq. ft. and those above 1,200,001 sq. ft.

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
2023	89	Service Charge Budget	72,365,571 sq. ft.	£536,374,119.70

Table 1. Characteristics of the cost benchmarking dataset for SCOR for Shopping Centres 2023.

Figure 2. Property sizes (in sq.ft.) of shopping centres in the dataset.

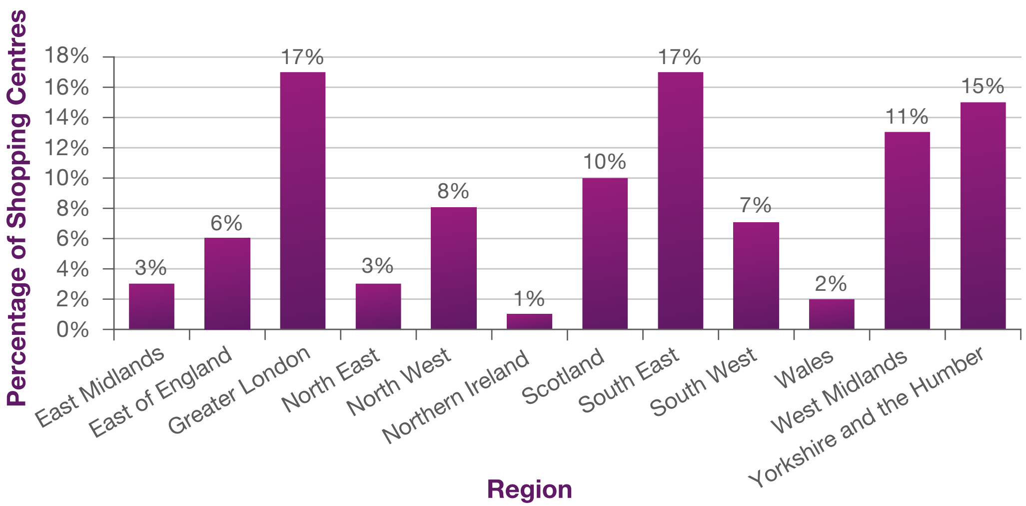


Figure 1. Geographical location of shopping centres in the dataset.

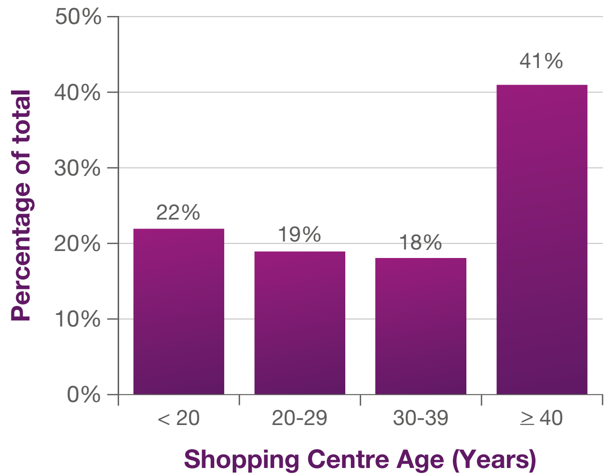


Figure 3. Age of shopping centres in the dataset.

3. Findings and Analysis

3.1 Overall Cost Benchmarking

Table 2 and Figure 4 show the lower quartile, median and upper quartile service charge costs, in £ per sq. ft., for shopping centres in London and the Rest of the UK. Based upon these median figures, occupiers in London pay just under 13% more than tenants in the rest of the UK - this is a narrower differential in the median figures than in 2022 (30%).

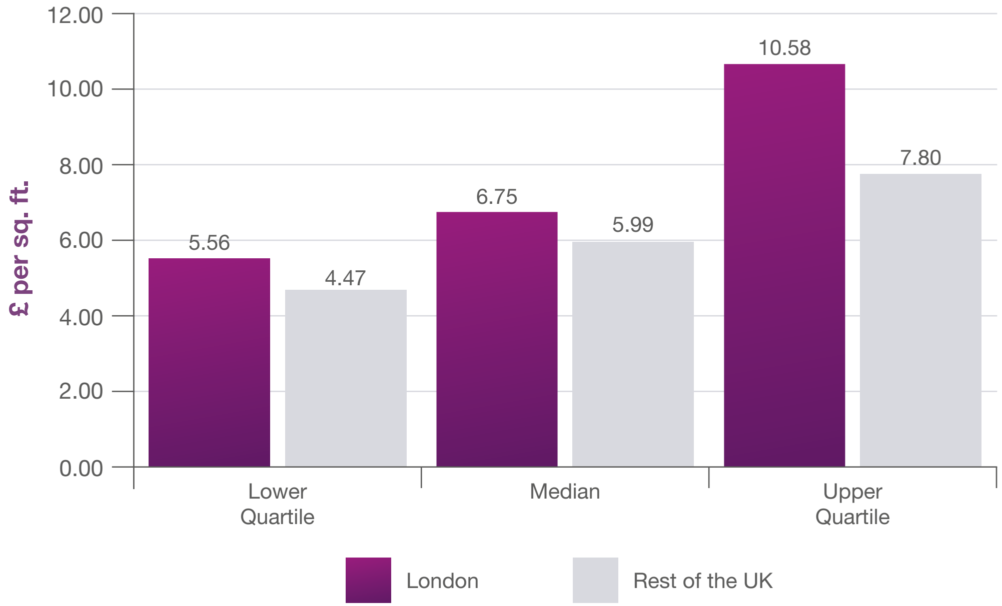


Figure 4. Total service charge costs compared between shopping centres located in London and ROUK.

£ Per sq. ft.	London		ROUK	
	2023	2022	2023	2022
Lower Quartile	5.56	4.30	4.47	4.07
Median	6.75	7.23	5.99	5.46
Upper Quartile	10.58	9.78	7.80	6.94

Table 2. Total service charge costs compared between shopping centres located in London and ROUK across 2022 and 2023.

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, as they tend to be negative contributors to the service charge costs.

Figure 5 illustrates the costs for the 89 centres by RICS Cost Class, and highlights that Soft services, Management and Hard services represent 42%, 17%, and 16% of the total service charge, respectively.

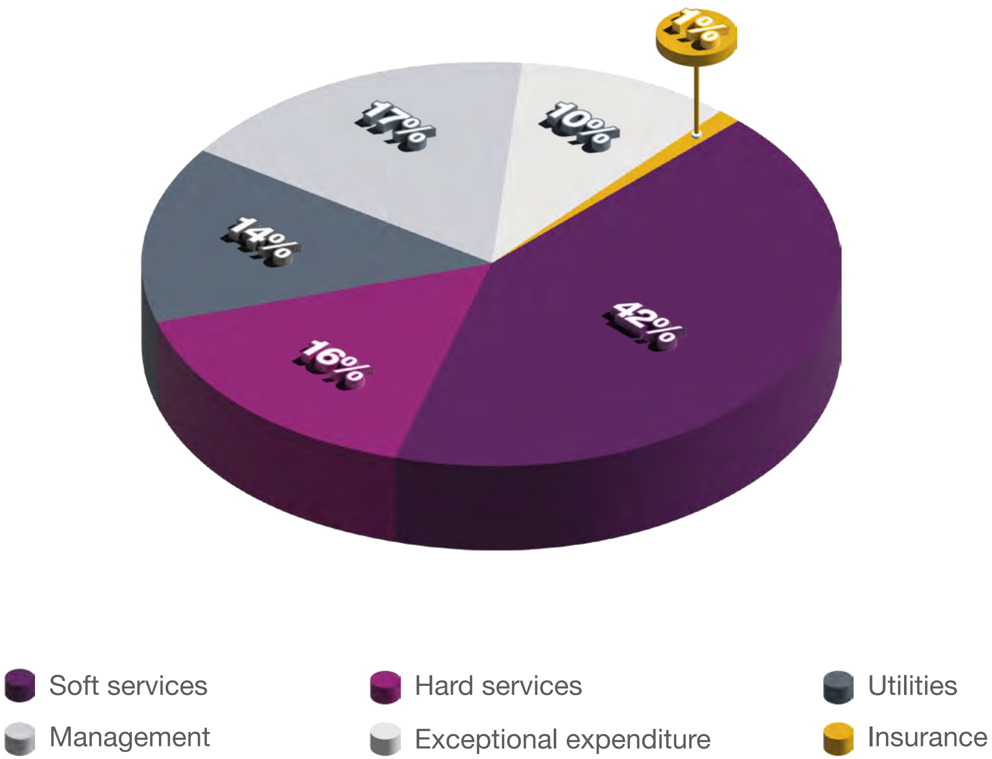


Figure 5. Percentage of total service charge costs per RICS Cost Class across the whole dataset.

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

Figures 6.1 and 6.2 compare the relative impact on the total budgeted costs that each RICS Cost Class type has within the 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, (44% versus 41%). However, Management accounts for a smaller proportion of the total cost in London than in the Rest of the UK (13% versus 18%).

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.

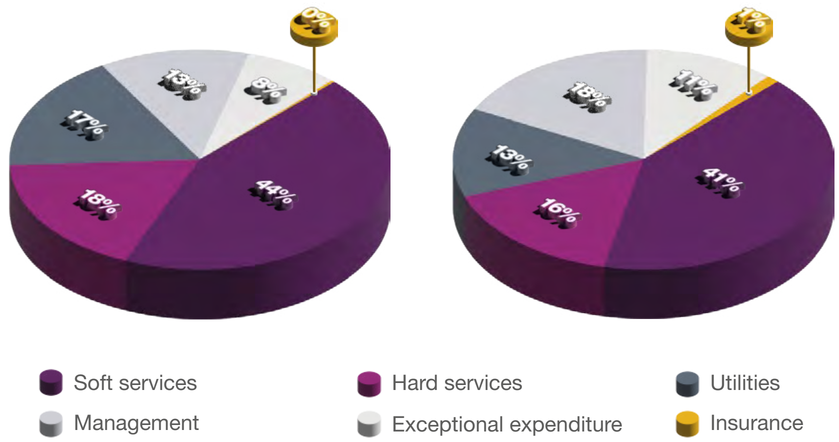


Figure 6.1. Percentage of total service charge costs per RICS Cost Class for shopping centres located in London.

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

£ Per sq. ft.	Lower Quartile		Median		Upper Quartile	
RICS Cost Class	London	ROUK	London	ROUK	London	ROUK
Management	0.66	0.82	1.01	1.12	2.90	1.46
Utilities	0.47	0.54	0.86	0.79	1.59	1.04
Soft services	1.48	1.86	3.22	2.52	7.06	3.23
Hard services	0.54	0.60	1.16	0.92	2.43	1.16
Insurance	0.00	0.00	0.01	0.01	0.03	0.03
Exceptional expenditure	0.38	0.21	0.74	0.55	1.26	1.15
Miscellaneous charges	0.00	0.00	0.00	0.00	0.00	0.00
Income	-0.12	-0.07	-0.04	-0.04	-0.02	-0.01
Quartiles of total costs	5.56	4.47	6.75	5.99	10.58	7.80

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

3.2.3 RICS Cost Class Benchmarking – by Shopping Centre Size (Rest of the UK only)

To evaluate the impact of shopping centre size on total service charge cost, and how those costs spread 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 15 London centres as the results would not be statistically meaningful due to the small sample size.

Of note, Utilities has seen rises of between 35% and 55% (depending on centre size) from 2022 - 2023.

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 (£ per sq. ft.). The total increase from the smallest centres' banding to the largest is c. 60%. This discrepancy is not materially different from the 2022 Report.

Median costs (£ per sq. ft.)	ROUK		
RICS Cost Class	≤ 600,000 sq.ft. (34 Centres)	600,001 - 1,200,000 sq.ft. (31 Centres)	≥ 1,200,001 sq.ft (9 Centres)
Management	0.96	1.21	1.50
Utilities	0.65	0.87	1.06
Soft services	2.05	2.74	3.04
Hard services	0.75	1.00	1.02
Insurance	0.01	0.01	0.01
Exceptional expenditure	0.52	0.66	1.26
Miscellaneous charges	0.00	0.00	0.00
Income	-0.02	-0.04	-0.07
Medians of total costs (£ per sq. ft.)	4.96	6.46	8.04

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

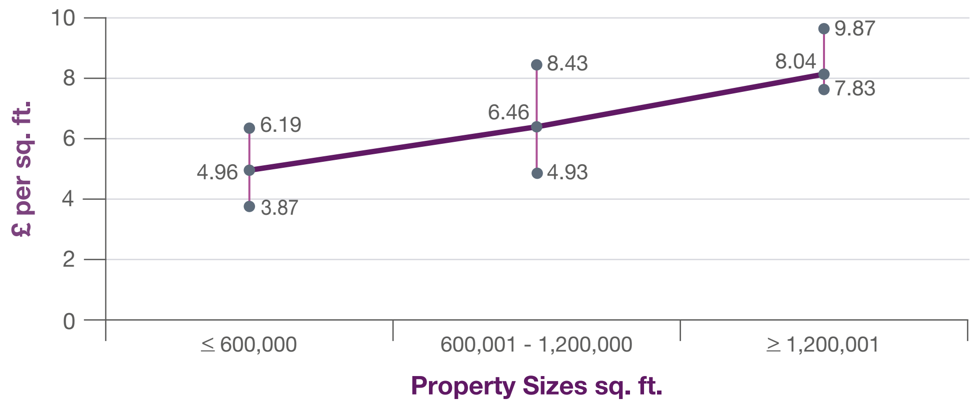


Figure 7. Quartiles of service charge costs by shopping centre size in the Rest of the UK.

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 RICS Cost Class, the centres in the Rest of the UK were classified into four age categories as shown in Table 5.

Table 5 and Figure 8 illustrate that the age of a shopping centre does not appear to have a material impact on the budgeted service charge costs.

Median costs (£ per sq. ft.)	ROUK			
RICS Cost Class	< 20 Yrs (18 Centres)	20-29 Yrs (14 Centres)	30-39 Yrs (12 Centres)	≥ 40 Yrs (30 Centres)
Management	1.02	1.38	1.16	1.01
Utilities	0.51	1.11	0.75	0.79
Soft services	2.8	3.13	2.93	2.02
Hard services	0.72	0.92	0.94	0.94
Insurance	0.01	0.02	0.01	0.01
Exceptional expenditure	0.34	0.99	0.54	0.58
Miscellaneous charges	0.00	0.00	0.00	0.00
Income	-0.03	-0.06	-0.02	-0.03
Medians of total costs (£ per sq. ft.)	5.37	7.86	6.50	5.04

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

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

3.3. RICS Cost Category Benchmarking

This section analyses eleven RICS Cost Categories that have the greatest effect on the overall service charge costs; 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 RICS Cost Categories across the 89 centres. Of these, 37% of the total cost was incurred on just two RICS Cost Categories: Cleaning & sustainability and Security (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 17% of the total. As mentioned in the methodology section, Marketing & promotions is analysed on a "net" basis, after deducting any Landlord contribution.

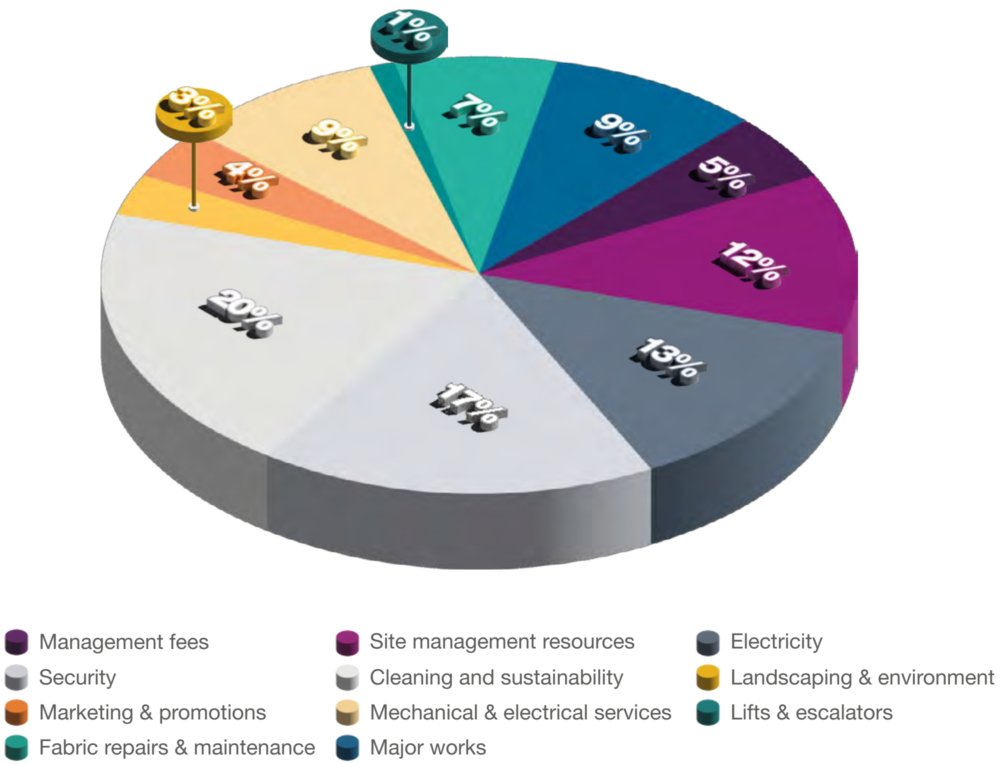
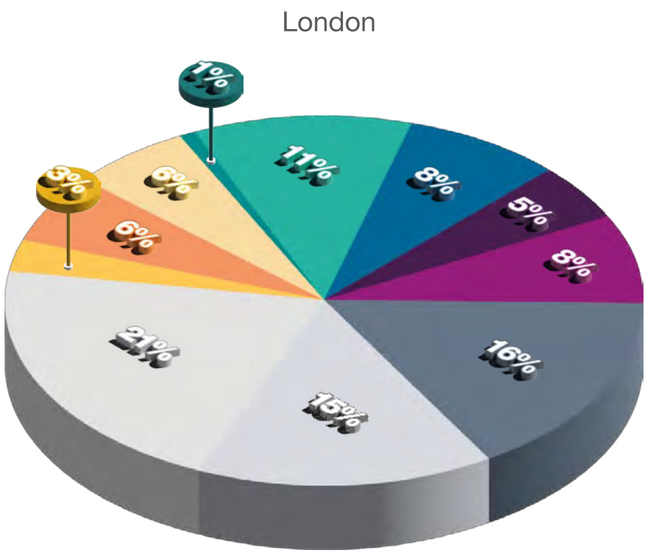


Figure 9. Percentage of total service charge costs per selected RICS Cost Categories across the whole dataset

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 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 totals costs between London and the Rest of the UK, 11% in the capital against 4% elsewhere. There is an increase in the Total cost of management in its contribution between London and the Rest of the UK; 13% against 19%, respectively.

Table 6 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.



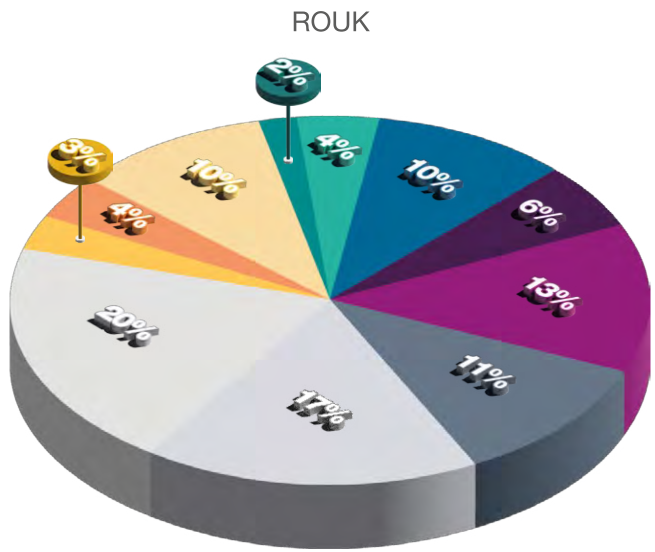


Figure 10.1. Percentage of total service charge costs per selected RICS Cost Categories in shopping centres in London.

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	0.37	0.25	0.44	0.37	0.61	0.42
Site management resources	0.62	0.50	0.86	0.66	1.25	1.02
Electricity	0.47	0.42	0.76	0.65	1.52	0.85
Security	1.14	0.81	1.36	0.97	1.68	1.25
Cleaning and sustainability	1.00	0.74	1.59	1.11	2.17	1.49
Landscaping & environment	0.14	0.10	0.22	0.14	0.38	0.26
Marketing & promotions	0.02	0.05	0.07	0.18	0.37	0.32
Mechanical & electrical services	0.24	0.31	0.65	0.57	0.98	0.81
Lifts & escalators	0.04	0.06	0.11	0.08	0.15	0.12
Fabric repairs & maintenance	0.09	0.10	0.30	0.16	0.56	0.31
Major works	0.33	0.22	0.83	0.54	1.71	0.97
Quartiles of total costs	5.56	4.47	6.75	5.99	10.58	7.80

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

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 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 (in quantum) to this increase being Site management resources, Electricity, Cleaning & sustainability and Major works.

Median costs (£ per sq. ft.)	ROUK		
RICS Cost Category	≤ 600,000 sq.ft. (34 Centres)	600,001 - 1,200,000 sq.ft. (31 Centres)	≥ 1,200,001 sq.ft (9 Centres)
Management fees	0.30	0.38	0.43
Site management resources	0.57	0.75	1.02
Electricity	0.50	0.70	0.91
Security	0.94	0.98	1.18
Cleaning & sustainability	0.96	1.23	1.35
Landscaping & environment	0.13	0.17	0.19
Marketing & promotions	0.12	0.27	0.32
Mechanical & electrical services	0.39	0.69	0.79
Lifts & escalators	0.06	0.11	0.11
Fabric repairs & maintenance	0.20	0.14	0.18
Major works	0.52	0.38	1.22
Medians of total costs (£ per sq. ft.)	4.96	6.46	8.04

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 appears to be no correlation between the age of a shopping centre and the variation in costs of services delivered, reflecting the results in 3.2.4.

Median costs (£ per sq. ft.)	ROUK			
RICS Cost Category	< 20 Yrs (18 Centres)	20-29 Yrs (14 Centres)	30-39 Yrs (12 Centres)	≥ 40 Yrs (30 Centres)
Management fees	0.32	0.41	0.39	0.35
Site management resources	0.59	0.91	0.74	0.59
Electricity	0.42	0.81	0.66	0.64
Security	0.96	1.21	1.06	0.92
Cleaning & sustainability	1.15	1.55	1.36	0.97
Landscaping & environment	0.18	0.15	0.31	0.12
Marketing & promotions	0.24	0.27	0.25	0.09
Mechanical & electrical services	0.38	0.70	0.55	0.55
Lifts & escalators	0.07	0.11	0.11	0.07
Fabric repairs & maintenance	0.14	0.14	0.29	0.18
Major works	0.37	0.86	0.54	0.56
Medians of total costs (£ per sq. ft.)	5.37	7.86	6.50	5.04

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 RICS Professional Standard

4.1 The Compliance Metrics

Based upon a review of the most recent annual statements of service charge expenditure at 42 of the UK's top 100 shopping centres by total lettable floor area, this section presents compliance analysis reviewing whether select accounting presentation and disclosure requirements of the RICS Professional Standard have been adopted. While 42 certificates 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 certificates that cover at least six months of the most recent "SCOR financial year", which in this case is 2022. As a result, the population of relevant certificates available for yearly analysis is reduced. All certificates meeting the SCOR selection criteria are included, unless they are deemed to be "incomplete" and missing relevant information.

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) of the text and numeric content within the annual service charge accounting statement. As the leases for many properties do not allow 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 9.

The 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 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 "musts" and 12 "shoulds"), with separate reporting of compliance for the 1 "other" requirement.

The characteristics of the compliance dataset are provided in Table 10.

No.	Requirement	Must/ Should	Measurement
1	The Professional Standard requires that management fees be set on a fixed-price basis (Section 4.1.3.2, page 20)	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 28)	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 36)	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 44)	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 45)	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 41) ...	Should	Cost classes Binary coding – yes/no
7	... and cost category level (Section 4.5.5, page 41)	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 36)	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 (Sections 4.5.4 & 4.5.6, pages 40 & 42)	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 36)	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 36)	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 37) 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 37)	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. 38)	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 16)	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 40)	Other	Binary coding – yes/no

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

Years	No. of Buildings	Types of Document	Total SC Cost	No. of Property Owners represented	No. of Managing Agents represented
2021-2023	42	Service Charge Certificates	£237,705,172	31	13

Table 10: Characteristics of the dataset used for the compliance analysis 2023.

4.2 Compliance Results for 2023

Table 11 (overleaf) provides the compliance results for each of the 16 "must" and "should" metrics for the 42 shopping centres analysed for *SCOR 2023*, together with the comparative results from *SCOR 2022's* analysis of 50 shopping centres.

When assessing the results in Table 11, while it is disappointing that in 2023 there was less than 80% compliance with all of the four "must" requirements of the Professional Standard (metrics 1-4 in Table 11), the results appear comparatively better than last year (70%). This year, clearly disclosing that management "fees [were] set on a fixed-price basis" and the provision of a full apportionment matrix achieved the highest compliance results at 78.6% for both metrics. While three of these "must" metrics are specifically listed under the Professional Standard's list of "mandatory" requirements (RICS, p.9), the standard also "requires that [management] fees be set on a fixed-price basis" (RICS, p.14) so SCOR classifies this as a "must" rather than merely a "should".

In terms of the 12 "should" requirements, the overall results appear to demonstrate some commitment to abiding by the recommendations of the RICS Professional Standard, with compliance for 5 of the 12 metrics exceeding 80%. However, these results were obtained from a limited sample of 42 of the largest UK Shopping Centres, and more detailed longitudinal analysis is required before compliance trends can be clearly established for the industry.

Compliance with all 12 of the "should" metrics appear the same or marginally improved from last year. As was mentioned last year, compliance with some of these "should" requirements are more critical, and arguably basic areas for accountability and transparency 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.

The "relatively" low level of compliance in certain critical areas, such as including a "Statement that accrual or cash accounting used" (metric 8: 83.3% this year, 82.0% in SCOR 2022) and to certify that the accounts represent actual expenditure incurred in supplying services in accordance with the lease (metric 13: 71.4% and metric 14: 54.8%, respectively), are concerning, since this information is essential for determining whether the accounts provide "true and fair" and faithfully representative information for occupiers. 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 PS", the accounting records for 7 of the 42 shopping centres (16.7%) included a certification that referred to compliance with the RICS Professional Standard, but **failed** to mention that the expenditure seeking to be recovered was in accordance with the ***lease***. While this type of certification issue declined this year (2022: 32.0%), as the lease is the contractual document that governs the service charge agreement between the parties, it is vital 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 Standard.

Compliance with metric 16, that the accounts should be supported by an independent review in line with the ICAEW Technical Release, was 76.2%. While this might appear to be a reasonable result, especially as many commercial leases do not include provisions requiring a year-end independent accounting review, 4 of the 32 independent accountants' reports provided (12.5%) included a ***qualified conclusion*** (i.e. opinion) regarding the inappropriate use of accrual accounting (8.6% in SCOR 2022). In each situation, the sums inappropriately accrued were material, demonstrating the value of independent review and highlighting a potential service charge accounting issue requiring further investigation. If 12.5% of the 32 certificates independently reviewed included inappropriate use of accrual accounting, could it be that similar misuse of year-end accruals occurred within the 10 certificates not subject to review by professional accountants. SCOR's results in this area indicate that accrual accounting continues to present a challenging issue for the commercial service charge sector, and managing parties need to do more to prevent inappropriate 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: 38.1%), that the person approving the accounts should be appropriately qualified and their status made clear (metric 15: 71.4%), and stating how insurance claims are accounting for (metric 11: 50%), are not overly onerous requirements for professional managing parties, 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, only 1 of 42 documents included such an accounting statement (2.4%), 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 any fund balances), benefits the auditing process, and assists during the handover of the service charge accounts to a new agent.

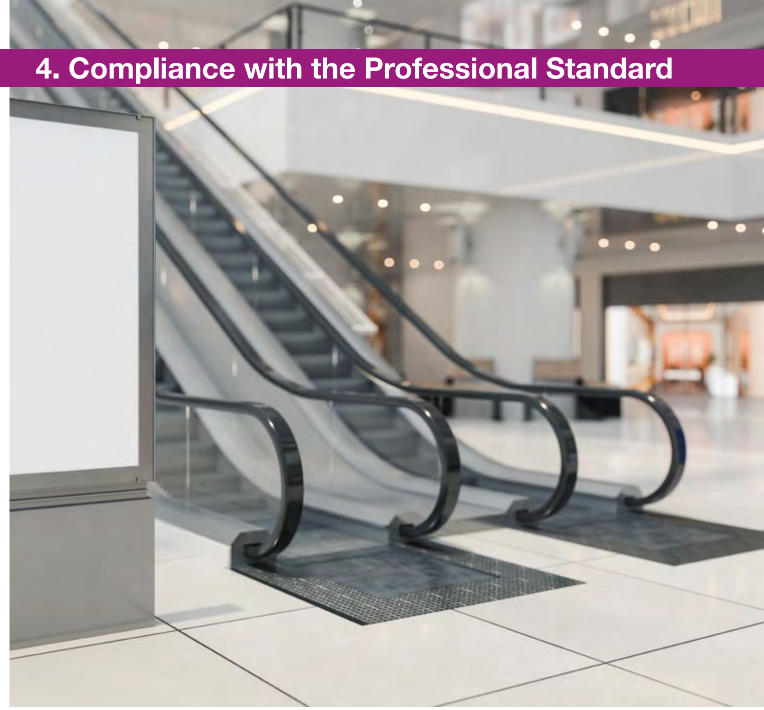
Figure 11 illustrates the overall compliance rankings for each of the 42 certificates against the 16 "must" and "should" metrics of the Professional Standard, together with comparison information from SCOR 2022. For this year's analysis, the mean and median compliance rankings per certificate were 11.8 and 12.5 out of 16, respectively (in *SCOR 2022*, 11.1 and 12.5).

While it is difficult to generalise from such a small sample of 42 centres, it is clear that compliance levels vary, although the majority of documents scored on the higher end of the ranking scale. Only 3 documents (7.1%) complied with all 16 requirements, and all complied with at least three. 83.3% of documents complied with 10 or more metrics (66.0% in SCOR 2022), 85.7% complied with 8 or more metrics (74% last year), and only 4.8% complied with 4 or fewer of the requirements analysed (10% last year).

While these overall compliance "scores" for the 42 certificates appear weighted towards higher rankings, a disclaimer or caveat must be placed against some of these results. Of the 42 certificates, 4 that achieved a final ranking score of either "15" or "16" were given a qualified basis of conclusion within their respective independent accountants' report for inappropriate use of accrual accounting. In all four 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 Professional Standard ***does not*** guarantee that a true and fair report of annual expenditure is presented to occupiers. SCOR's compliance analysis has also helped to reveal back-to-back instances of qualified accounting opinions for accruals-based accounting errors at certain centres, with no subsequent corrections, commentary, or prior year adjustments within the accounts. 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 in ensuring 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 inappropriate accruals for expenditure in one period are corrected once the associated work/service is actually performed, what happens if, for example, the

Requirement	Must/Should	SCOR 2023		SCOR 2022	
		Compliance out of 42		Compliance out of 50	
		No.	%	No.	%
1. Fixed Management Fee	M	33	78.6%	44	88.0%
2. Apportionment matrix is provided for each unit in the property	M	33	78.6%	34	68.0%
3. Statement that service charge monies are held in one or more discrete bank accounts	M	31	73.8%	29	58.0%
4. Interest earnt credited to the service charge account	M	28	66.7%	38	76.0%
5. Timeliness Compliant (date) - annual accounts produced within four months of year end	S	16	38.1%	14	28.0%
6. Cost Classes Used	S	41	97.6%	47	94.0%
7. Cost Categories Used	S	39	92.9%	42	84.0%
8. Statement that accrual accounting or cash basis used	S	35	83.3%	41	82.0%
9. Schedule of accruals and prepayments.	S	29	69.0%	32	64.0%
10. Description of Variances	S	40	95.2%	49	98.0%
11. Statement about how insurance claims are accounted for	S	21	50.0%	20	40.0%
12. Statement about whether owner has waived exemption to charge VAT	S	36	85.7%	35	70.0%
13. Statement that accounts represent the actual expenditure incurred in supplying services	S	30	71.4%	40	80.0%
14. Statement that amounts seeking to be recovered are in accordance with the lease and where practicable the PS	S	23	54.8%	21	42.0%
15. Approver should be an appropriately qualified and qualified person. Status of person should be made clear	S	30	71.4%	36	72.0%
16. Accounts should be supported by an independent review in line with ICAEW Technical Release	S	32	76.2%	35	70.0%

Table 11: Compliance against 16 "must and "should" accounting requirements of the Professional Standard.



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, p. 32). 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 occupiers.

As discussed last year, prior editions of *SCOR for Shopping Centres* monitored compliance over a narrow range of metrics, so it is difficult to provide reliable data 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 many, there is work to be done in order to meet both the mandatory and "best practice" requirements contained in the Professional Standard. 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 the industry is not there yet.

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

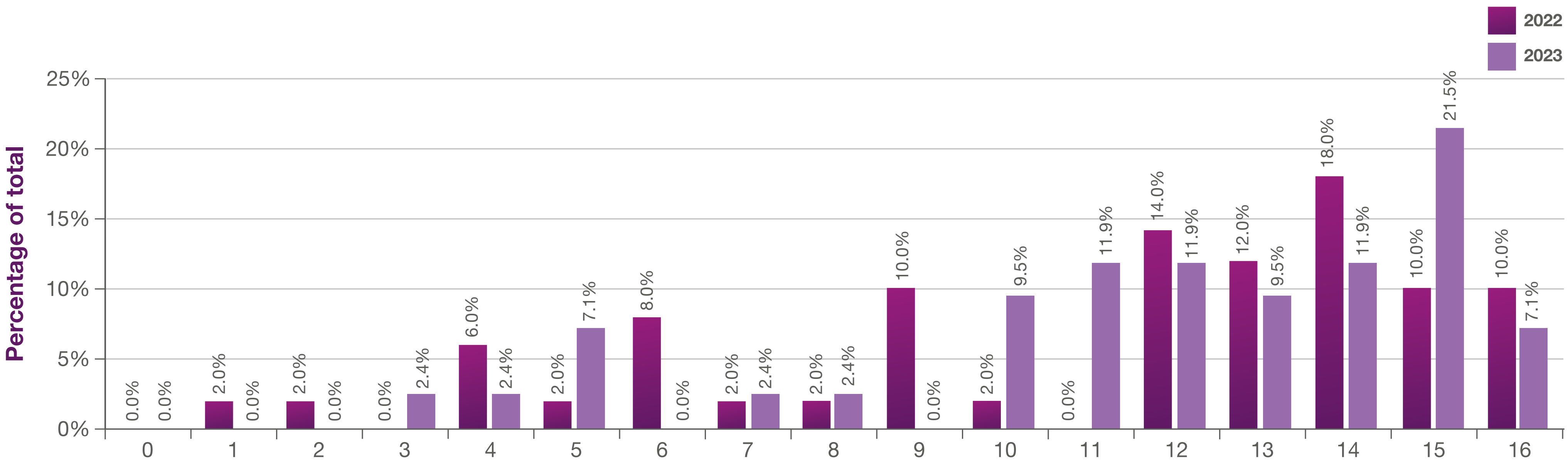


Figure 11: Compliance rankings against 16 accounting requirements of the Professional Standard: SCOR 2023 and 2022 data

4.3 Marketing & Promotions: Transparency around Landlord Contributions

At most multi-let UK shopping centres, the service charge lease provisions specify landlord contributions towards Marketing & promotions costs, and as a result, the Professional Standard states that "the service charge budget and accounts should be transparent and…include the gross marketing and promotional expenditure and the contribution from the owner and clearly show the net contribution due from the occupiers" (RICS, p.36). As a result, the "gross" amount, together with an additional line item showing the offsetting landlord's contribution, should be separately disclosed *within the Marketing & promotions cost category* within the annual accounts. "Best practice" would also appear to require an accompanying accounting policy note that explains the basis for the landlord's contribution in line with the requirements within the lease. Despite "best practice" in this area being clear, SCOR 2023's compliance analysis of 42 annual service charge accounts reviewed, found a variety of presentation and disclosure practices for Marketing & promotions as shown in Table 12.

Within the accounting statements analysed, 38 of 42 (90.5%) included marketing and promotions expenditure. Of the 38 certificates with these costs, 28 (73.7%) showed the gross amount of this expenditure, together with the offsetting amount from the landlord under the Marketing & promotions cost category.

One certificate (2.6%) included both amounts but reported the landlord's contribution under "Income" rather than Marketing & promotions. For the remaining 9 certificates (23.8%), it proved impossible to identify the gross amount of the Marketing & promotion costs, even in situations where the document mentioned a contribution from the landlord. In terms of explaining the basis for the calculation of the landlord's contribution, practice was also mixed. Some certificates included a formal disclosure note that clearly explained the landlord's obligation for such costs, while others just mentioned the percentage amount within the description of variances.

The appropriate accounting presentation and disclosure of Marketing & promotions expenditure is clearly important to all parties. For the occupier, it is critical to know the amount of these costs, and whether the landlord has fulfilled contractual requirements to contribute to this expenditure. For the landlord, disclosing the financial support given to promote the centre may also help to attract and retain retail tenants as well as show compliance with the leases. To give an indication of the support offered at the 29 centres where gross and net amounts were provided, the total landlord contributions were £6,719,411 or 45.7% of the £14,697,579 of gross annual Marketing & promotions costs, and effectively added 3.74% of landlord provided "value" to the net total service charges of £179,457,040 at the 29 centres.

Accounting Presentation of Marketing & Promotions (M&P)	No.	%	% of certs that included M&P cost
Gross M&P and offsetting landlord's contribution disclosed within M&P cost category	28	66.7%	73.7%
Gross M&P cost included within M&P cost category, landlord's contribution shown under "Income" rather than M&P	1	2.4%	2.6%
M&P costs shown but impossible to determine landlord's contribution	9	21.4%	23.7%
No M&P cost incurred at the centre	4	9.5%	
Total	42	100.0%	100.0%

Table 12: Accounting presentation for Marketing & promotions.

5. 2023 Shopping Centre Service Charges at a glance

In analysing the 2023 budgeted service charge costs for 89 of the UK's 100 largest shopping centres in terms of total lettable floor area, the results were as follows:

- The medians of the 2023 total service charge for shopping centres in London and the Rest of the UK were £6.75 and £5.99 per sq. ft., respectively.
- The most significant RICS Cost Classes, in terms of budgeted costs, are Soft services, Management, and Hard services; representing 42%, 17%, and 16% of total budgeted costs, respectively.

At a glance, Tables 3 and 6 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 a shopping centre, in the Rest of the UK, did have a material effect on the 2023 budgeted costs. The difference, in the medians of the budgeted service charge costs, from the smallest centres to the largest, was c. 60%.

The compliance results for SCOR's 16 "must" and "should" accounting requirements continue to disappoint, especially when one considers that many shopping centre 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 tenant and landlord. However, SCOR's compliance results suggest that improvements in accounting are 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.
- Providing a statement that service charge monies are held in one or more discrete bank accounts.

Of the 76.2% of centres where the accounts included an independent accountant's report, 12.5% (4 of 32) 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 must routinely review these statements and scrutinise certificates and transaction lists (if available) for any annual service charge expenditure related to works and services not carried out during the service charge year. Such reviews may require third party professional assistance and the cooperation of managing parties but will ultimately help to reduce "hidden reserve accruals" being created at the tenants' expense.

£ Per sq. ft.	Lower Quartile		Median		Upper Quartile	
RICS Cost Class	London	ROUK	London	ROUK	London	ROUK
Management	0.66	0.82	1.01	1.12	2.90	1.46
Utilities	0.47	0.54	0.86	0.79	1.59	1.04
Soft services	1.48	1.86	3.22	2.52	7.06	3.23
Hard services	0.54	0.60	1.16	0.92	2.43	1.16
Insurance	0.00	0.00	0.01	0.01	0.03	0.03
Exceptional expenditure	0.38	0.21	0.74	0.55	1.26	1.15
Miscellaneous charges	0.00	0.00	0.00	0.00	0.00	0.00
Income	-0.12	-0.07	-0.04	-0.04	-0.02	-0.01
Quartiles of total costs	5.56	4.47	6.75	5.99	10.58	7.80

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

£ Per sq. ft.	Lower Quartile		Median		Upper Quartile	
RICS Cost Category	London	ROUK	London	ROUK	London	ROUK
Management fees	0.37	0.25	0.44	0.37	0.61	0.42
Site management resources	0.62	0.50	0.86	0.66	1.25	1.02
Electricity	0.47	0.42	0.76	0.65	1.52	0.85
Security	1.14	0.81	1.36	0.97	1.68	1.25
Cleaning and sustainability	1.00	0.74	1.59	1.11	2.17	1.49
Landscaping & environment	0.14	0.10	0.22	0.14	0.38	0.26
Marketing & promotions	0.02	0.05	0.07	0.18	0.37	0.32
Mechanical & electrical services	0.24	0.31	0.65	0.57	0.98	0.81
Lifts & escalators	0.04	0.06	0.11	0.08	0.15	0.12
Fabric repairs & maintenance	0.09	0.10	0.30	0.16	0.56	0.31
Major works	0.33	0.22	0.83	0.54	1.71	0.97
Quartiles of total costs	5.56	4.47	6.75	5.99	10.58	7.80

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

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