

RealService Best Practice Group

Service Charge Code Compliance Index 2010

1. Overview

The RICS Code of Practice for Service Charges in Commercial Property and the RICS Service Charge Residential Management Code set out clearly what occupiers should expect by way of transparency of information about service charges and timeliness of budgeting and reporting.

The purpose of this new Index is to identify the extent of compliance with the Service Charge Codes among members of the RealService Best Practice Group (RSBPG).

2. Introduction

The RealService Best Practice Group worked in 2009 with the RICS, BCSC, BPF, Property Managers Association and CoreNet on a pilot project to measure compliance with the Service Charge Codes among RSBPG members.

The RSBPG has taken this work forward in 2010, with the continuing support of the BPF, and has applied lessons learned about data capture and analysis during the pilot study. Service charges continue to be an area of concern for occupiers and this initiative aims to identify how well the Service Charge Codes are being followed.

This report deals with trigger events occurring in 2009 or associated with service charges with year-end occurring in 2009. For this first year, the index focuses on three key areas identified in the Service Charge Codes:

1. **Budgets** - Submission of service charge budgets at least one month prior to the start of the financial year.
2. **Reconciled Statements** - Submission of reconciled financial service charge statements within four months after the end of the financial year (six months for residential property)
3. **Transfer of information** - Completion and transfer of service charge account packs to the new managing agent within four months after the completion of the sale of a property.

RSBPG members were also invited to optionally provide further data in respect of the following Code requirements

1. Mid-year forecast provision
2. Reporting on budget variance
3. Use of standard cost codes for reporting
4. Managing the property on a fixed-fee basis
5. Crediting interest to service charge account

3. Participants

The following 11 RealService Best Practice Group members provided data to the SCCI.

- British Land
- Broadgate Estates
- The Crown Estate
- DTZ
- GVA Grimley
- Mainstay Group
- Marchday and Storeys SSP
- PRUPIM
- RLAM
- SEGRO
- Stow Securities and Ashville Properties

The properties included in the SCCI include a broad sample of portfolio and property types covering the offices, industrial, shopping centre and residential sectors. In total, participants supplied data for over 1,000 properties. While some contributors provided evidence for their entire portfolio, others made part submissions to include, for example, one regional office. We hope to broaden the submissions in future years.

4. Collection, Validation and Verification of Data

Drawing on the experience of the pilot study, care has been taken by the RealService team, to devise a data collection model and analysis process that is simple and robust. Steps have been taken to ensure that only valid and accurate data is admitted. This has meant rejecting data that is incomplete for a number of reasons.

Data was collected in a prescribed format using a spreadsheet designed by RealService. Contributors were advised that data submitted would be audited for accuracy. Data submitted has been taken through three stages of checking.

- Firstly, each line of data was validated using an automated algorithm to see whether the key dates supplied fall within or outside pre-defined boundaries relating to the service charge year end.
- Secondly, each member's data has been globally checked for patterns which might indicate that the data could have been manipulated to demonstrate compliance.
- Thirdly, the budget and reconciliation dates were verified by independent Service Charges Specialist, Chris Oppe, who selected a sample of data records and requested that members provide proof of evidence. Members were asked to provide electronic copies of dated items, budgets, covering letters and/or reconciliations to confirm that the dates given in the spreadsheet returns were backed by evidence. Using guideline established during the pilot study, a minimum of 5% of properties were sampled. For members with smaller portfolios, up to 50% of the data was checked.

Each member's results were adjusted according to the accuracy of the sampling data selected by Chris Oppe for verification. For example, if a member had an unaudited score of, say, 80% compliance, and corroborating evidence was then supplied for 90% of the verified sample, the score would be adjusted to 72% compliance (i.e. 90% of 80% submitted).

5. Compliance Results

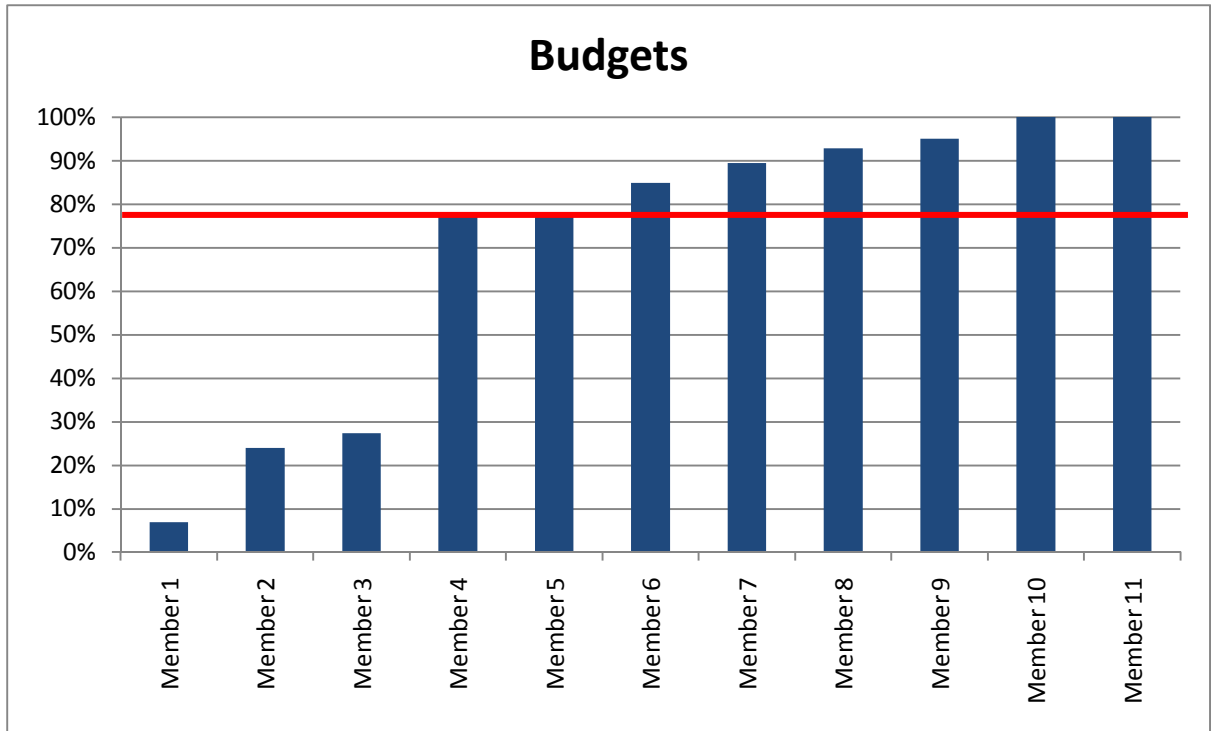
The results of the inaugural Service Charge Code Compliance Index including only data that meets the audit requirements is as follows

Compliance Issue	% Compliance	No. of properties in verified sample
Issue of Budgets	78%	1070 properties
Issue of Reconciliations	69%	879 properties
Transfer of Accounting Packs on Sale	83%	46 properties

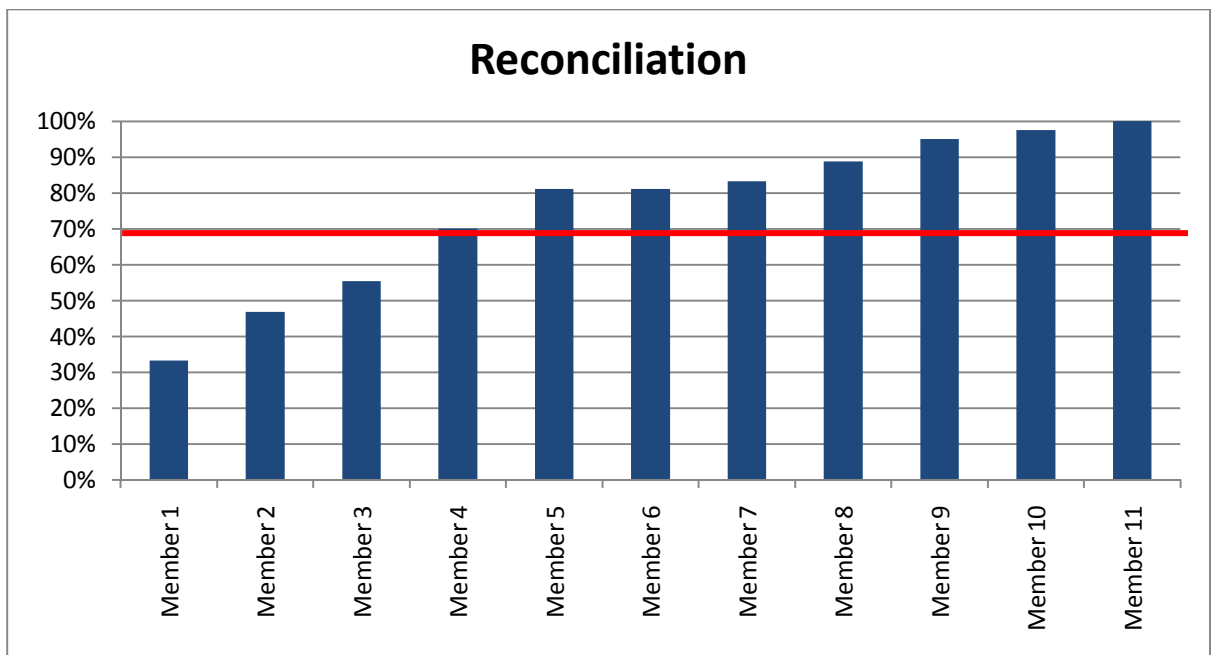
Other aspects of the Codes were examined by optional data. Based on the samples of data provided:

- Almost all of the properties were managed on a fixed fee basis
- Approximately 90% reported on significant Budget Variance
- Standard Cost Codes are used for approximately 50% of the properties when reporting to occupiers
- Interest is credited to the service charge account for only about 15% of properties for which data was explicitly supplied. Some RSBPG members mention that this has been introduced in the current business year.

The charts below show the participants' anonymous individual results.



* The member numbers do not represent the same organisation in both graphs.



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6. About RealService Best Practice Group

This Index and report is has been commissioned by the RealService Best Practice Group, a not for profit benchmarking and best practice group of 20 UK property owners and managers. The project has been led by a sub-committee of the Steering Group led by Justin Snoxall of British Land.

The RealService Best Practice Group would like to thank the team comprising Louise Freethy, Saville Kaufman, Danielle Sanderson, Chris Oppe, Andrea Aron and Howard Morgan for their hard work in devising and delivering this project.

14 July 2010