Property Topics & Guides

Service Charges Guide

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Service Charges Guide

Service charges are levied by the landlord or superior landlord (usually the building owner) to cover the cost of services provided to individual tenants within a property. The charge typically covers maintenance and repairs of the exterior roof, glazing, walls and internal common parts in addition to services but usually exclude the tenant demised areas.

Service Charges are intended to enable best management practice for a building. It is often impractical for each tenant to be responsible for sections of common areas or the building exterior or to carry out works and then recover a proportion of the cost from other tenants. The landlord or building owner is usually best placed to organise repairs collectively.

Service charges should be levied on a value for money basis; with competitive quotations obtained for repairs and the supply of services. Service Charge expenditure on a building in multi-occupation will vary according to the age, location and quality of the property. Each individual lease will define what is permissible for the landlord to recover charges for. Whilst these must be stated within the lease, these are typically:

- Maintenance, decoration and repair of the exterior, external areas and internal common parts
- Maintenance and repair of lifts and other communal services and plant
- Utility charges for common parts and exterior (air conditioning, heat, lifts, lighting)
- Cost of employing managing agents, cleaning and security staff and provisions
- Solicitors, property manager and other professional costs for managing the building

It is normal practice for a landlord to provide an estimated service charge budget at least a month before the budget year commences and collect ‘on account’ service charge contributions from each tenant in a property, in advance, usually on the customary quarter days of 25th March, 24th June, 29th September and 25th December. However, this is dependent upon the lease provisions.

At the end of the financial period, a schedule of service charge expenditure will be assessed by the landlord or his managing agents. This schedule should typically be audited and the final details passed to each tenant. If there is a shortfall between what has been collected when compared with actual expenditure, the landlord or managing agent will seek the balance of service charge due. If there is a surplus, funds are either returned or credited towards the following year’s service charge.

Service Charge Clauses

There must be an express clause in the lease to enable the landlord to recover charges incurred.

The Service Charge clause should include four key elements:

- How and when the payment is made
- Which items are to be included
- How the charge is to be certified
- How the charge is to be apportioned

Sweeping-up Clauses

To avoid the risk of the landlord incurring costs which might fall outside the services or works
listed in the clause, many service charge clauses contain ‘sweeping-up’ provisions.

This entitles the landlord to charge not only for the services listed but also for other services which he may decide to provide. The clause may contain a reasonableness provision, but if not it will give the landlord wide discretion.

The effectiveness of the clause depends on the wording.

It is vitally important therefore to take professional advice on all aspects of the lease.

**Sinking Funds**

A tenant may be required, under the terms of a lease to contribute to a sinking fund for the purpose of meeting infrequent but substantive expenditure. This may include:

- Renewal of plant/machinery or major repairs to the building that occur infrequently but are of substantial value
- Periodic cycles of redecoration of exterior and common parts of the building

Sinking funds can be helpful in evening out “spikes” in charges caused by one off expenditure. It is important when entering into a lease to establish what if any sinking funds have accrued and whether any future items of potentially substantive expenditure are properly covered for.

**Service Charge Cap**

If a building is older, or there are concerns about potentially high future service charges it is often appropriate to seek to secure a cap on the service charge. This does at least afford an element of protection for tenants. However, there are potential pitfalls for both the landlord and the tenant. The landlord risks being unable to finance through the service charge necessary repairs and provision of services. The tenant risks the landlord providing the bare minimum of services and maintenance/repairs in order to keep expenditure within the cap and avoid unrecoverable expense.

**Dispute Resolution**

If you feel there may have been an error in how your service charge has been levied, please contact one of the professionals listed on this site.

Alternatively, The RICS provides a Dispute Resolution Service (DRS). This offers a complete range of methods for resolving disputes as outlined in Section D8 of the RICS Code of Practice.

**Further Reading**

Please see the “RICS Code of Practice: Service Charges in Commercial Property” for more information.

The code applies to service charges commencing on 1st April 2007 or thereafter. However, the Code cannot override existing leases, but provides the property industry with a set of recommendations of “best practice”.

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**IMPORTANT DISCLAIMER**

It is impractical for a bulletin of this length to be all encompassing and it is important that the contents of this leaflet are not relied upon for any specific circumstance. It is always important to seek professional advice.

If you have a specific query, visit the property professionals section of the site and e-mail one or all of the property agents listed. Each firm selected by this site has departments with expertise in this field.