Young Leaders - Service Charge Seminar

Wednesday 24 September 2014 - Westminster

This seminar emphasising the vital importance of Service Charges in landlord/tenant relationships was set up by CoreNet UK's Young Leader group headed up by **Iain Franklin** and the line-up of speakers was **David Barrass,** managing director of Property Solutions, **Andrew O'Donnell,** head of real estate at EY**,** and **Will Colthorpe** of Argent who hosted the evening in the marketing suite at Argent's giant King's Cross development.

Nick Winter, head of programmes for CoreNet UK introduced the evening billed as 'dedicated to unravelling the world of service charges. An opportunity to better understand what to look out for when reviewing service charges or leasing a new property...'

Providing a rapid overview of the potential pitfalls of not paying proper attention to service charges consultant **David Barrass**, highlighted such issues as Utility deposits, Renewal of ageing plant or fabric (apparently the single largest cause of disputes because often unexpected), Transfer of Accounts on sale or change of agent, and the importance of understanding Accruals. If something is unclear, 'Ask' he said, 'it's entirely legitimate'. 'Challenge' a vague description. 'Ask what is the basis of accounts presented'. The RICS Code recommends accruals accounting for managing service charge accounts. Accruals are "*expenses for goods and services actually incurred in a period for which no invoice has been received at the period end"*. Accruals should not be used as a substitution for a sinking fund. Communication and transparency lie in the core of long-lasting relationships between landlords and tenants. Lease compliance has to be best practice. But so are service contract compliance, cost-effectiveness, and financial integrity. Quality and transparency, he said, would lead to happy tenants, stronger reputation and better investment value.

Speaking as the occupier, **Andrew O'Donnell**, echoed the need for clarity and understanding. Recommending early engagement with the landlord on fit-out, as well as attending and being active in tenants' meetings once in occupation, creates a better rapport, he daid, and leads to a better operation for all concerned. Best practice, he noted, meant doing a lot of work up-front on due diligence before signing Heads of Terms, combined with landlords having a clear tenant manual and service level articulated, so service quality and offering is clear from the start. Developing a good relationship with your landlords can lead to solving many potentially problematic issues and pursuing particularly those issues at the bottom of the pile, such as historic service charge accounts, will ensure that no problem becomes too big.

Finally **Will Colthorpe** provided the landlord's point of view. For Argent, he said, the aim at King's Cross is to provide the best managed estate in the UK and among principles delineated for a 'human city' are clear and open communications reflecting the best management charters. On service charges he explained that they would be on a 'one estate principle' based on equality and fairness for all. On day-to-day running he too noted that success depends on building a good relationship with the occupiers: providing all with Heads of Terms handbooks, annual Budget Packs, initial daily meetings working towards quarterly catch-ups, and Satisfaction Surveys charting progress.

After a lively question and answer session **Iain Franklin** wrapped up the session and we were free to network and examine and admire the models and plans for the King's Cross Estate