

Bulletin: Managing service charges in commercial property

RICS Professional Standard

2nd Edition

The RICS has published the 2nd edition of its Service Charges in Commercial Property Professional Standard, in June 2025.

The updated standard aims to improve the management and administration of service charges in commercial properties by promoting best practices, transparency and fairness.

The standard is effective for all service charge periods that commence from 31st December 2025 so is applicable to all service charge budgets ending 31st December 2026 onwards.



Key points of note:

1. Tenant Letters for late reconciliation & budget management

Budgets must be provided to tenants one month before the start of the service charge year, and all year-end reconciliations completed and issued to tenants within 4 months of the year end.

In the event of any delay in meeting these timescales, managers must now inform tenants of the reason for the delay, provide as much information as is practicable on the anticipated level of budget and/or actual expenditure and when the budget or year-end statement will be issued.

While the timely approval of budgets and reconciliations has long been standard, the requirement to keep occupiers informed when delays occur is best practice that should mitigate the impact of any delays.

2. Landlord Forward Funding

There is no specific reference in the 2nd edition to the use of landlord forward funding, as the RICS believe this should be an agreement between the landlord and tenants outside of the management of the service charge.

However, we recommend that 1st edition guidance continues to be followed including disclosure within the notes of budgets. Care should be taken that any unintended retention of tenant funds at the service charge accounting date, must only be made with prior agreement and full disclosure in accordance with the standard.

3. Agreed Retention of Funds

The latest guidance introduces a new restriction on the ability to retain funds for works that were budgeted in the current service charge year, but not fully completed within that period. Accruals will only be permitted for works actually completed within the service charge year.

Where works haven't been completed within the year and the landlord wishes to include the full amount budgeted, agreement must be sought individually with tenants to retain funds and include at year-end.

The 2nd edition also provides further guidance on the funding of major project works over several service charge years. If the lease doesn't permit recovery, the landlord can still do this, provided they have a written side agreement with the tenants.

Importantly, any future collection of funds should be clearly allocated to a new cost code 'Agreed contribution to future works'.

5. Balance Sheets

The latest guidance suggests that it will be considered good practice to include a balance sheet in addition to the actual expenditure in packs. Although this isn't yet a requirement, we are advised that it is likely to be a requirement in future editions.

6. Carried Forward Accruals

Under the latest guidance, it is no longer permitted to carry forward accruals to the next service charge year from the previous service charge year, unless there is a realistic expectation that an invoice will be received in the immediate future.

7. Change of Landlord or Agent

Where ownership or management of the property changes, for example due to acquisition of properties, clear handover guidelines should be agreed with outgoing and incoming agents to ensure future budgets are set and reconciliations completed in line with the RICS standard.

There must also be a handover of estimated service charge cash value within five days of handover date, together with property and tenant financial information.

The final handover of a full cash reconciliation and final cash balance should be completed within 2 months of the handover date. As a result, it is vital that clear responsibility and timelines for handovers are agreed with the outgoing agents, including the finalisation of any prior year service charge year ends to ensure these timelines are met.

Other Considerations Included within the 2nd Edition.

Insurance claims

Where service charge funds have been used to settle costs that are, or maybe, subject to insurance claims, these sums should be noted under a separate cost category entitled "Submitted and pending insurance claims".

Building Safety Act

Where buildings qualify as 'Higher Risk Buildings' under the Building Safety Act, the latest guidance prohibits the landlord from passing on remediation costs of certain defects to the leaseholders, notably the remediation of safety defects demanded to tenants for periods after 28 June 2022.

Should you require further advice as to the obligations under the Building Safety Act, please contact our Amy Farr, Head of Building Safety and Building Compliance.

Utilities

There is an obligation for a Landlord or property manager to fully understand and accurately apportion costs based on accurate utility consumption. Recovery of costs should include copies of invoices used. The cost of reading or installing meters to ensure accuracy of data is recoverable, as are reasonable administration costs to do so.



Heat Network Regulations

Where thermal energy (heating, cooling by liquid or hot water) is provided from a centrally managed system by the landlord to two or more separately demised areas and the cost is being recharged, landlords must install meters to measure that consumption where the building is deemed as being in scope of the legislation through a specific audit.

Whilst only one accurate read is required each year, costs should be recharged quarterly.

Energy Performance Certificates (EPCs)

The Standard clarifies that any cost associated with obtaining an EPC is non-recoverable. However, if it can be proved to the tenants (in advance of works) that an improved rating with agreed works will provide cost benefit to them, partial cost recovery may be individually agreed with tenants, subject to their lease provisions.

With EPC regulations continuing to tighten in the next few years, the ability or otherwise to recover costs associated with improving EPC ratings will continue to be an important focus of investors and managers.

Should you require further advice about the requirements of Heat Network Regulations or EPCs, please contact our Vicky Cotton, Director of ESG.

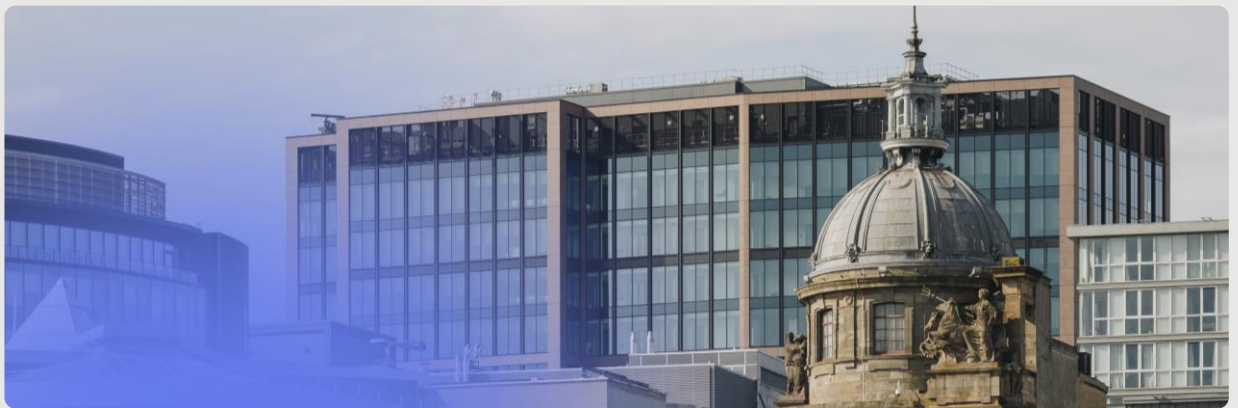
Our view of the latest guidance

The latest professional statement from the RICS, brings even greater clarity and transparency in the management of service charges. There is a particular focus on communication with occupiers – from requiring them to be notified of delays in reconciling service charges, to creating separate cost categories for future works – which we welcome.

Greater clarity on the accrual of expenditure and contribution to future costs, always an area of contention with tenants, should also ensure a more consistent approach amongst investors and managers. Overall, we welcome this update, which should benefit all investors, managers and occupiers.

Through active consultation across the industry, we have been aware of the principles of this latest guidance for some time and have reviewed all our procedures for the management of service charges, to ensure the requirements of the professional statement will be met.

We are confident that we will continue to provide an industry-leading service to our clients and their customers in the management of service charges.



For further information on the impact of this latest guidance on how service charges should be managed please contact your Client Partner or property management team.



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