

# Essential updates to the RICS service charges in commercial property

22 July 2025  Suki Tonks

The Royal Institution of Chartered Surveyors (RICS) has published its second edition of the professional standard on [service charges for commercial property](#). The professional standard contains "*mandatory obligations that RICS members and RICS-regulated firms engaged in this the management of commercial property must comply with*".

RICS expects members to be familiar with and comply with the entire document, not just the mandatory obligations. The professional standard is effective for all service charge periods commencing from 31 December 2025, replacing the previous effective date of 1 April 2019.

## Major changes affecting retail occupiers

### 1. Management fees

This is one of the most significant changes. Management fees must now be **fixed price**, not percentage-based. Percentage-based fees are no longer considered appropriate as they discourage value for money. This change protects occupiers from fees that increase simply because costs rise.

### 2. Enhanced transparency requirements

Your property managers must now provide:

- Budgets with explanatory commentary at least one month before the service charge year starts.
- Year-end accounts within four months of the service charge year end.
- Service charge apportionment matrix annually showing how your charges are calculated.
- Clear explanations when timescales cannot be met.

### 3. Stronger financial controls

Service charge monies must be held in separate discrete bank accounts with any interest earned being credited to the service charge account.

- Managers can only recover 100% of proper and actual costs - no more.
- Landlords must not profit from service provision (except reasonable management fees).

### 4. Your protections

Costs that **cannot** be recovered through the service charge (also called "the excluded costs"):

- Initial costs of equipment or fitting out.
- Improvement costs above normal maintenance (unless justified with cost-benefit analysis).
- Future redevelopment costs.
- Landlord's investment costs including rent collection, letting costs, asset management.
- Costs for void premises and landlord's own use.
- Costs from negligence of manager or landlord.

Enhanced Disclosure Requirements:

- All manager income sources (rebates, commissions, incentives) must be declared.
- Insurance commission and rebates must be fully disclosed – this supports the ruling of the Trocadero v Picturehouse case that we reported on last month.
- Procurement fees must be clearly identified and justified.

## 5. Shopping centre and retail parks

Marketing and promotions:

- Should be jointly funded equally between landlord and tenants.
- Initial promotional launch costs should be borne by landlord, not you.
- Marketing of vacant units is **not** a service charge item.
- All marketing expenditure must show gross costs and landlord contribution.

## 6. Value for money requirements

Service charge managers must:

- Re-tender contracts at least every three years or benchmark to confirm value for money.
- Demonstrate continual review of services, methods and processes.
- Provide services appropriate to your property's location, use and character.
- Aim for effective, value-for-money service rather than lowest price.

## Your responsibilities

- Pay legitimate service charges promptly.
- Assist with service operations (e.g., waste separation, energy saving).
- Ensure your representatives have appropriate authority for service charge matters.
- Generally cannot withhold payment except for mathematical/computational errors.

## Dispute resolution

- Alternative Dispute Resolution (ADR) strongly encouraged for cost-effective resolution.
- All new leases should include ADR provisions.
- Mediation and independent expert determination are recommended methods.
- Courts may penalise parties who decline ADR.

## Environmental and sustainability

- ESG-related costs must be carefully justified - may be improvements landlord should bear.
- Collaborative approach encouraged through non-binding environmental cooperation agreements.
- "Polluter should pay" principle applies.
- Energy efficiency improvements may be legitimate if proportionate cost benefit demonstrated.

The updated Code delivers enhanced protections, clearer transparency, and superior value for money, ensuring professional service charge management with definitive accountability and stronger tenant rights. Here's what you can do in response to these changes:

- Review your lease to clarify your service charge obligations.
- Verify that your manager complies with the new RICS-regulated standards.
- Enquire how the updates impact your service charges.
- For new leases or renewals, consider whether clauses reflect the new professional standard.
- Consult with professionals for any compliance concerns.

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