



Homes &
Communities
Agency

The social housing regulator

**Advice Note:
Leasehold Schemes for the Elderly (LSE) Management Fee Limit for 2017/18**

This note advises Private Registered Providers who own or manage retirement leasehold accommodation of management fee limits for the financial year 2017/18.

From 1 April 2017, the basic limit will be £430. The limit when management is contracted out to an agent who charges VAT will be £493.

These limits have been agreed with the Department for Communities and Local Government (DCLG) which has policy responsibility in this area.

Calculations

The limit on the management element of relevant service charges is recalculated annually, with reference to the Consumer Price Index (CPI). This means that the basic limit rises each year by CPI + 1%. The annual rate of increase in CPI at September 2015 was -0.1%. Applying the combined amount of 0.9% to the LSE management fee limit increases the basic limit to £430 for 2017/18.

A higher limit applies where the landlord contracts out the management element to a property manager who is required to charge VAT on management services. For 2017/18, this higher limit is £493.

Value added tax

No VAT is chargeable on the actual supply by the landlord of residential accommodation to the leaseholder. This limit is concerned with the management element of the charge for services provided by the landlord to leaseholders. When a landlord contracts out management to an agent who is obliged to charge the landlord VAT, a provider should ensure that the amount collected from the leaseholder in respect of management fee and VAT thereon does not exceed the limit of £493.

The higher limit where VAT is payable is derived as follows. In setting the maximum amount that a landlord taking part in this scheme can charge a leaseholder for the management element of the services which the landlord is obliged to contractually provide the leaseholder under the relevant lease or legislation, consideration is taken of the irrecoverable VAT cost incurred by the landlord on goods and services bought from third parties and which relate directly to the provision of residential accommodation. This "VAT enhancement factor" that is used in calculating the upper limit of the management element of the service charge that can be charged by the landlord is 14.6%. Enhancing the basic limit by 14.6% produces an enhanced limit of £493 for 2017/18.

The limits referred to in this announcement are maximum amounts that may be charged under leases. They are separate from the legislation on VAT and no inference should be drawn, about charging for or accounting for VAT, from the fact that the limit is higher when a landlord employs a managing agent who is required to charge VAT for the management service. It is Her Majesty's Revenue and Customs who are responsible for setting rates of VAT, the circumstances in which VAT is to be charged and the way in which persons should present VAT returns.

Applicability

The limit applies to the management element of relevant service charges in Leasehold Schemes for the Elderly, Shared Ownership for the Elderly, and other types of grant-funded retirement leasehold accommodation, only where a clause appears in leases to specify that the limit should apply. The limit does not apply automatically where no such clause appears.

Good Practice

Good practice on application of the limit and on management of retirement leasehold generally can be found in the Association of Retirement Housing Managers' *Private Retirement Housing Code of Practice* (from www.arhm.org).

Information

Information about the limit can be obtained from the Registration and Consents Policy Team at the Regulator's London office.

Advice about leasehold housing

General advice and information about leasehold housing can be obtained from LEASE, the Leasehold Advisory Service (www.lease-advice.org).