

HOUSING CORPORATION

CIRCULAR

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# Leasehold Schemes for the Elderly – Management Charge Limits 2006/2007

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December 2005

06/05

## **THIS CIRCULAR IS FOR THE ATTENTION OF:**

All registered social landlords owning or managing leasehold retirement property

**NOTE:** The guidance in this circular relating to the management charge limit is endorsed and approved by the Office of the Deputy Prime Minister, which has policy responsibility in this regard.

### **1 RELEVANT LEGISLATION:**

- Leasehold Reform Housing and Urban Development Act 1993, Section 87.
- The Approval of Code of Management Practice (Private Retirement Housing) (England) Order 2005

### **2 REGULATION AND/OR POLICY REQUIREMENTS:**

**Regulatory Code, paragraph 3.3.**  
**Regulatory guidance, paragraph 3.1b.**

**Association of Retirement Housing Managers Code of Practice for Private Retirement Housing**

- This circular replaces circular number: 02/05

## **3 DEFINITIONS**

ARHM = Association of Retirement Housing Managers

LSE = Leasehold Schemes for the Elderly

ODPM = Office of the Deputy Prime Minister

## **3 CORPORATION EXPECTATIONS**

### **3.1 EXISTING LEASES**

In LSEs and other retirement leasehold communities, there is often a clause in leases limiting the management element of the service charges to a published figure. Leases may specify that this figure is published by the former Department of the Environment, or its successor departments, or by the Housing Corporation. Responsibility for publishing this figure now rests with the Housing Corporation, although policy responsibility for the management charge limit remains with the Office of the Deputy Prime Minister. This circular has been produced by the Housing Corporation, and is endorsed by ODPM.

The limit on the management element of service charges is calculated annually, with reference to the rent setting formula. This means that the

basic limit rises by RPI + 0.5% each year.

For 2006/2007 the increase will be 3.2%. This is based on the September 2005 RPI figure of 2.7%, plus 0.5%. This means that the basic limit will increase to £302.

The VAT-enhanced limit, used where property managers are required to charge VAT on management services, will increase to £340. This is calculated by multiplying the new basic limit by a VAT factor of 12.57%.

The management charge limits are limits per unit. They do not take account of different property sizes, levels of service, or types of scheme. Where these limits apply, no individual leaseholder should pay more than the limit for those management charges which are covered by the limit.

### **3.2 DEFINITION OF MANAGEMENT CHARGES**

There is no statutory definition of the items covered by the management element of service charges. In case of dispute, it is for the Leasehold Valuation Tribunal, or a court, to interpret leases. Guidance on management charges for the retirement sector is contained in the ARHM Code of Practice for Private

Retirement Housing. The ARHM Code is approved by the Government under s87 of the Leasehold Reform Housing and Urban Development Act 1993. This section allows the Secretary of State to approve codes designed to promote desirable practices in relation to any matters concerned with the management of residential property. The latest edition of the ARHM Code was approved by The Approval of Code of Management Practice (Private Retirement Housing) (England) Order 2005, Statutory Instrument 3307 of 2005. To obtain copies of the ARHM Code please contact the ARHM on 020 7463 0660.

The Corporation's view is that compliance with the ARHM Code is a matter of good practice for associations which own or manage retirement leasehold housing.

### **3.3 NEW LEASES**

New leases sold for the first time after April 2001 are not subject to the requirement of a management charge limit published by the Corporation.

Associations are advised to include in the lease a landlord covenant that the duties included in the management charge will be listed, and those which are charged for separately will be itemised and priced, as required by the ARHM Code.

## **4 ASSESSING COMPLIANCE**

Compliance with this circular will be assessed through the Corporation's regulatory engagement, and inspection by the Housing Inspectorate.

## **5 ENQUIRIES ABOUT THIS CIRCULAR SHOULD BE DIRECTED TO:**

The Regulation team at your local field office.

