

**SALE - 1 INTRODUCTION**

- 1 Introduction
- 2 Summary of each programme
- 3 Fixed grant

**SALE - 2 GRANT CONFIRMATION**

- 1 Purpose
- 2 Timing of application
- 3 Cost guidelines
- 4 Other sources of funding
- 5 Purchase valuations
- 6 Rents
- 7 Grant confirmation - action by RSL
- 8 Submission requirements
- 9 Less SHG required than estimated at allocation
- 10 More SHG required than estimated at allocation
- 11 Action by the Corporation
- 12 Financial viability
- 13 Checklist

**SALE - 3 CHANGES TO SCHEMES**

- 1 General
- 2 Changes identified at Grant Confirmation
- 3 Changes identified after Grant Confirmation has been given
- 4 Checklists for changed schemes

**SALE - 4 ACQUISITION**

- 1 General
- 2 Timing of SHG claim
- 3 Delayed completion of the purchase
- 4 Action by the RSL
- 5 Action by the Corporation
- 6 Interest on delayed payment of claims

**SALE - 5 START ON SITE**

- 1 General
- 2 Timing of SHG submission
- 3 Action by the RSL
- 4 Action by the Corporation
- 5 Interest on delayed payment of claims
- 6 Changes to the Acquisition completion date

**SALE - 6 FINAL COST**

- 1 General
- 2 Action by the RSL
- 3 Supporting documentation
- 4 Action by the Corporation
- 5 Interest on delayed payment of claims

**SALE - 7 INITIAL SALES MONITORING**

- 1 Introduction
- 2 Initial sales requirements

**SALE - 8 SALES VALUATION CRITERIA**

- 1 Introduction
- 2 Initial sales
- 3 Validity period for a valuation - initial sale
- 4 Purchase of further shares - staircasing

**SALE - 9 LEASE REQUIREMENTS**

- 1 Introduction
- 2 General features of shared ownership leases
- 3 Fundamental clauses
- 4 Rural programme
- 5 Shared ownership for the elderly
- 6 Sub-letting
- 7 Right of First Refusal
- 8 Self build shared ownership

**SALE - 10 SHARED OWNERSHIP RENTS**

- 1 Rents
- 2 Rent increases
- 3 Service Charges

**SALE - 11 RURAL REPURCHASE**

1. Introduction
- 2 Features of the scheme
- 3 Project criteria
- 4 Grant framework on repurchase
- 5 Grant confirmation and grant claim purchase
- 6 Submission of application - action by the RSL
- 7 Submission of application - action by the Corporation
- 8 Lease requirements
- 9 Procedures for recovery of SHG
- 1 Examples of SHG framework.

**SALE - 12 AFTER SALES**

- 1 Introduction
- 2 Mortgage difficulties
- 3 Mortgage default

Sale 4		Acquisition
Sale 5	6	Acquisition completion date changes
Sale 6	3.1	Certificate of Practical Completion
Sale 2	8.3	Certifications at Grant Confirmation
Sale 3	4	Changed schemes - checklist of actions
Sale 2	7.4	Changes from bid stage
Sale 6	4.1	Changes from Grant Confirmation
Sale 3		Changes to schemes
Sale 4	4.4	Changes to schemes at acquisition stage
Sale 3	2.1	Changes to the allocation
Sale 3	3	Changes to a scheme after Grant Confirmation
Sale 3	2	Changes to a scheme at Grant Confirmation
Sale 5	3.2	Changes to a scheme at Start on Site
Sale 3	1.4	Changes to scheme costs
Sale 2	13	Checklist
Sale 6	4.1	Checks at Final Cost - Corporation
Sale 6	2	Checks at Final Cost - RSL
Sale 2	11	Checks at Grant Confirmation - Corporation
Sale 1	1.8	Classifications of Sale schemes
Sale 9	3.1	Clauses - shared ownership leases
Sale 4	3	Completion delays
Sale 2	4.3	Contributions from private sector
Sale 2	4.4	Contributions of land from private sector
Sale 2	4.5	Contributions of land from public sector
Sale 2	3	Cost guidelines
Sale 5	2.4	Deferment of possession
Sale 4	3	Delayed completion of purchase
Sale 2	8.6	Design and Build - requirements at Grant Confirmation
Sale 5	3.5	Design and Build at start on site
Sale 9	2.4	Discount in sale
Sale 2	3.5	Discounting on-costs
Sale 2	4.3	Disposal Proceeds Fund
Sale 6	3	Documents to be kept on RSL file
Sale 4	2.2	Exchange of purchase of contracts
Sale 9	2.7	Exclusion of leasehold enfranchisement
Sale 6	1.8	Failure to reach completion target dates
Sale 6	1.9	Failure to reach practical completion
Sale 6		Final Cost
Sale 2	12	Financial viability
Sale 1	3	Fixed Grant
Sale 6	1.2	Fixed Grant
Sale 2	11.3	Fixed Grant percentage
Sale 4	4.3	Good title
Sale 11	10	Grant calculation for rural repurchase
Sale 11	5	Grant claims for rural repurchase

## SALE

## Index

Sale 2		Grant Confirmation
Sale 2	7	Grant Confirmation - action by RSL
Sale 11	5	Grant Confirmation for a Rural Repurchase
Sale 2	3.10	Grant rates
Sale 2	8.4	HACON 6
Sale 8	2.1	Initial sales
Sale 7		Initial sales monitoring
Sale 7	2	Initial sales requirements
Sale 4	6	Interest on delayed payment of Acquisition SHG
Sale 6	5	Interest on delayed payment of Final Cost SHG
Sale 5	5	Interest on delayed payment of Start on Site SHG
Sale 12	3	Interim Charging Orders (ICO)
Sale 5	1.1	Key event for Start on Site
Sale 2	4.5	Land from public sector
Sale 4	2.10	Land Inclusive package payments
Sale 5	3.3	Land inclusive packages
Sale 4	4.3	Lease length
Sale 9		Lease requirements
Sale 9	2.7	Leasehold enfranchisement
Sale 9	2.1	Leases - shared ownership
Sale 2	9	Less SHG required than estimated at allocation
Sale 2	8.8	Local authority vendor - requirements at Grant Confirmation
Sale 2	10	More SHG required than estimated at allocation
Sale 12	3	Mortgage Default
Sale 12	2	Mortgage Difficulties
Sale 9	2.13	Mortgagee protection clause
Sale 2	3.5	Net Grant rate calculation
Sale 2	3.9	Non-qualifying costs
Sale 6	1.7	Off the shelf schemes
Sale 4	2.3	Off the Shelf schemes payments
Sale 2	3.4	On-costs
Sale 2	4.2	Other public subsidy for housing and non-housing costs
Sale 2	4	Other sources of funding
Sale 1	2.6	Outright sale
Sale 6	3.1	Partial completion
Sale 5	1.3	Partial payment of start on site claim
Sale 6	1.10	Partial tranche payments
Sale 4	5.1	Payment of Acquisition claim
Sale 6	4.2	Payment of SHG at Final Cost
Sale 5	4	Payment of start on site SHG
Sale 2	8.7	Phased schemes - requirements at Grant Confirmation
Sale 2	3.16	PIAs (Priority Investment Areas)
Sale 7	1.2	Post sales monitoring
Sale 9	2.3	Premium - shared ownership leases
Sale 2	3.16	Priority Investment Areas (PIAs)
Sale 2	4.3	Private sector contributions

## SALE

## Index

Sale 2	4.4	Private sector land
Sale 2	4.2	Public subsidy
Sale 4	2.10	Purchase and Repair payments
Sale 4	3	Purchase completion delays
Sale 2	5	Purchase valuations
Sale 2	7.2	Purchases prior to Grant Confirmation
Sale 2	4.1	Recycled Capital Grant Fund
Sale 1	2.6	Rehabilitation of Properties for Outright Sale
Sale 4	4.5	Relevant dates - Acquisition
Sale 6	1.3	Relevant event - completion
Sale 5	2.2	Relevant event - Start on Site
Sale 10		Rent - shared ownership
Sale 10	2	Rent increases on shared ownership
Sale 9	2.8	Rent provisions in leases
Sale 7	1.1	Rents at point of sale
Sale 2	6	Rents on Shared Ownership schemes
Sale 1	2.3	Restricted staircasing - summary
Sale 9	7	Right of First Refusal/Pre-emption
Sale 2	4.3	RSL reserves funding
Sale 9	4	Rural programme lease requirements
Sale 11		Rural repurchase
Sale 1	2.2	Rural repurchase - summary
Sale 8		Sales valuation criteria
Sale 9	1.2	Sample leases
Sale 3	1.2	Scheme cost changes
Sale 1	2.5	Self build
Sale 2	8.9	Self Build Shared Ownership documents to be kept
Sale 9	8	Self-build shared ownership - lease requirements
Sale 2	6.4	Service charges on Shared Ownership schemes
Sale 3	2.7	Significant changes to schemes
Sale 1	2.1	Shared Ownership - summary
Sale 1	2.5	Shared Ownership (Self Build)
Sale 1	2.4	Shared ownership for the elderly - summary
Sale 9	5	Shared ownership for the elderly leases
Sale 9		Shared ownership leases
Sale 10		Shared ownership rents
Sale 4	2.8	Simultaneous claims of Acquisition and Start on Site SHG
Sale 2	3.14	SPAs (Standard Percentage Adjustments)
Sale 4	1.2	Split tranche of Acquisition SHG
Sale 6	1.7	Split tranche of Final Cost SHG
Sale 5	1.3	Split tranche of Start on Site SHG
Sale 8	4.1	Staircasing
Sale 9	2.5	Staircasing provisions in leases
Sale 9	2.9	Stamp duty and legal fees - shared ownership general
Sale 9	2.10	Stamp duty and legal fees - shared ownership - staircasing
Sale-9	2.12	Stamp duty land tax - Enquiry Line

<b>SALE</b>		<b>Index</b>
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Sale 2	3.14	Standard Percentage Adjustments (SPA)
Sale 5		Start on site
Sale 9	6	Subletting - lease requirements
Sale 2	8	Submission requirements at Grant Confirmation
Sale 6	3	Supporting documents at Final Cost
Sale 9	8.1	Sweat equity lease requirement
Sale 9	2.1	Terms of the shared ownership lease
Sale 4	2	Timing of Acquisition submission
Sale 6	1.3	Timing of Final Cost submission
Sale 2	2	Timing of application for Grant Confirmation
Sale 5	2	Timing of Start on Site submission
Sale 2	3.1	Total Cost Indicators (TCI)
Sale 4	4.3	Valuation and purchase price
Sale 8	3.1	Valuation validity
Sale 2	5	Valuations
Sale 2	11.1	Variations from bid stage
Sale 6	4.1	Variations from Grant Confirmation

## 1 INTRODUCTION

- 1.1 The SALE section of the guide applies to all schemes that receive confirmation of grant on or after 1 April 2006 for the development of SHG funded housing for sale by a RSL. This section sets out the characteristics of sale schemes and provides guidance on the procedures to be followed. The section is subject to further and ongoing revision and where RSLs are in doubt as to the correct approach they should contact their Regional Investment Officer for further guidance.
- 1.2 Schemes given Grant Confirmation before 1 April 2006 must follow the previous procedures, which will remain relevant throughout the development of the scheme. *Previous versions of the Capital Funding Guide can be located from the Capital Funding Guide Homepage on the Corporation's website at [www.housingcorp.org.uk](http://www.housingcorp.org.uk)*

### Changes to a scheme

- 1.3 Revised Grant Confirmation can no longer be given to schemes approved on or after 1 April 2006. The RSL must notify the Corporation's local Investment Officer of any change to the scheme from the original bid and provide reasons for the change. The Corporation will decide whether to accept the changes on the basis of whether the strategic need for which the allocation of SHG was given is still being met and whether the scheme still offers value for money, particularly in light of other bids for similar schemes.
- 1.4 The Corporation may reject the scheme and reclaim any grant paid where changes are not acceptable, regardless of how far the scheme has progressed. For this reason it is in the RSL's interest that it seeks the Corporation's acceptance of the change as soon as possible.
- 1.5 The scheme submission must comply with the Funding Conditions as accepted by the RSL's Committee and confirmed on line by the RSL's Security Administrator at the beginning of the financial year. *See GENERAL-1 and SALE-3 for changes to schemes.*
- 1.6 All RSL applications for confirmation of grant and claims for payment of SHG must be submitted via the Internet using the Corporation's Investment Management System (IMS). IMS guidance documents are on the Corporation's IMS web site - **[www.housingcorp-online.org](http://www.housingcorp-online.org)**
- 1.7 On receipt of a submission for confirmation of grant by an RSL, the Corporation's local office will assess the proposal to confirm that the scheme is the one for which the allocation was given.

### Classifications of Sale schemes

- 1.8 Housing for sale may be provided using the following development options.(*see GENERAL-1 for definitions of scheme types*):

- New build including Acquisition & Works, Off the Shelf (does not include the purchase of a single property) and Works Only schemes;
- Rehabilitation including Acquisition & Works, Existing Satisfactory\*, Purchase and Repair and Works Only schemes.

\*only applies where a property is to be adapted for a disabled person.

1.9 The following scheme types are also included under the Housing for Sale heading and the Procedures, Grant framework and submission requirements for each of the programmes are set out in the relevant chapters:

- Social Homebuy;
- New Build Homebuy;
- Right to Acquire.

## 2 SUMMARY OF EACH PROGRAMME

### Shared Ownership

2.1 Shared ownership is aimed at helping people in housing need who are unable to purchase a property in the open market. Priority for the programme should go to existing tenants of local authorities and registered social landlords or households on waiting lists for social housing. Other categories of applicant may be considered provided these are nominated by the local authority. Owner occupiers, including existing shared owners, could have access to the scheme provided they are in priority housing need and cannot afford to buy a suitable property. Existing owners/shared owners are required to sell their property at the same time as buying through shared ownership. In exceptional cases where an applicant is prevented from accessing or selling their existing home an application may be considered, but only with the explicit agreement of the Corporation. An example might be an applicant who is prevented from returning to the country where the home is located. RSLs should contact the Corporation's local Investment Officer and provide full details of why it considers an application should be allowed to proceed.

The following programmes are based on the shared ownership framework and may also be provided using SHG:

- Rural repurchase/ restricted staircasing;
- Shared ownership for the elderly;
- Self Build.

Purchasers of shared ownership leases are allowed to buy an equity share based on a percentage of the full market value of the property. The range of initial equity shares can be between 25% (minimum purchase) and 75% (maximum). A self-build option can allow some of the equity to be based on

the self builder's notional labour cost during the construction period. All sales (with the exception of rural programmes and shared ownership for the elderly schemes) must allow the shared owner to buy further shares and buy the property outright. For specified rural programmes the RSL can restrict the buying of further shares up to 80% of ownership.

### **Rural repurchase**

- 2.2 The rural repurchase scheme permits the shared owner to purchase 100% equity in the property but enables the RSL to repurchase at full market value the equity sold in the shared ownership property in order to resell it, on a shared ownership basis if necessary, to another local person in housing need. This ensures that SHG funded low cost housing in certain rural areas where the provision of replacement housing would be difficult, to be retained for the benefit of local people. *See SALE-11 and Circular HC34/90.*

### **Restricted staircasing**

- 2.3 This may be used in conjunction with rural repurchase and allows the RSL to restrict the limit on staircasing on SHG funded shared ownership property to a maximum of 80% of the value of the property. The shared owner continues to pay rent on the remaining 20% of the property. *See Circular 3/92.*

### **Shared ownership for the elderly**

- 2.4 For shared ownership for the elderly schemes, the maximum level of equity that can be purchased is 75%. When the maximum level of equity has been purchased the leaseholder does not have to pay rent on the remaining 25% share of the property. The RSL should give priority to people who are unable to afford the full costs of purchasing sheltered accommodation. This scheme is available for people aged 55 or over. RSLs should not consider any sale to a person younger than 55. The Housing Ombudsman Service has ruled that sales to someone not meeting the age restriction is a breach of the terms of the lease.

### **Shared Ownership (Self Build)**

- 2.5 Self build shared ownership schemes must comply with the project criteria for shared ownership and with the criteria detailed in the Self Build Housing Procedure Guide.

Self build schemes developed for shared ownership cannot exceed norm TCI and should demonstrate a maximum scheme cost/value relationship of 80-100% i.e. the costs of the scheme must be at least 20% less than the value of the completed properties. Any schemes that fall short of this criterion will be subject to technical assessment by the Corporation.

The RSL must also ensure that:

- the self build group is registered with the Registrar of Friendly Societies on NHF model rules;
- the self build group works with a registered RSL which claims Grant;
- the RSL signs a Development Agreement with the self build group which follows the recommendations made in the Self Build Housing Procedure Guide; *See Self Build Housing Procedure Guide*
- the rules and working regulations of the self build group provide adequate management structures and procedures for the RSL.

Self build schemes should also comply with other relevant requirements and guidance published in the Self Build Housing Procedure Guide. *See Self Build Housing Procedure Guide*

### **Rehabilitation of Properties for Outright Sale**

- 2.6 RSLs may purchase properties on the open market to improve and convert for outright sale, in areas of priority investment (see *SALE-2, paragraph 3.16*) as determined by the Housing Corporation in consultation with the local authority. SHG funded housing for outright sale programmes are not available for new build, existing satisfactory\* or property acquired under the purchase and repair arrangements.

\*only applies where a property is to be adapted for a disabled person.

Properties sold outright must be affordable to first time buyers in housing need. Priority for sales should be given to existing tenants of local authorities and registered social landlords or people on waiting lists for social housing. Other groups eligible for the scheme are the same as for shared ownership. *See paragraph 2.1*

## **3 FIXED GRANT**

- 3.1 The SHG eligible for a Sales scheme is fixed at Grant Confirmation and there is no recalculation of grant at Final Cost to reflect changes in scheme costs. SHG may be recalculated if there have been significant changes to the unit mix and type of scheme since Bid stage. *See SALE-3*

## 1 PURPOSE

- 1.1 The scheme submission must comply with the Funding Conditions as accepted by the RSL's Committee and confirmed on line by the RSL's Security Administrator at the beginning of the financial year. Where there has been any change in the scheme since bid stage the RSL must seek Corporation approval to the changes. *See GENERAL-1 and SALE-3 for changes to schemes.*
- 1.2 All RSL applications for confirmation of grant and claims for payment of SHG must be submitted via the internet using the Corporation's Investment Management System (IMS). IMS guidance documents are on the Corporation's IMS web site - **[www.housingcorp-online.org](http://www.housingcorp-online.org)**
- 1.3 On receipt of a submission for confirmation of grant by an RSL, the Corporation's local office will assess the proposal to confirm that the scheme is the one for which the allocation was given.

## 2 TIMING OF APPLICATION

- 2.1 The RSL is expected to make a submission for confirmation of grant no more than 6 weeks before exchange of contracts for an Acquisition & Works scheme or Start on Site for a Works Only scheme.
- 2.2 Confirmation of grant can be withdrawn if an application for the first tranche of SHG for the scheme has not been claimed 3 calendar months after Grant Confirmation, or a satisfactory explanation received of why the scheme has not proceeded.
- 2.3 The RSL must keep the Corporation's local Investment Officer informed where a scheme is not proceeding according to the latest development timetable, and funding may be withdrawn if it fails to do so.

## 3 COST GUIDELINES

- 3.1 Spare
- 3.2 The RSL must notify the Corporation's local Investment Officer of any changes between the bid and confirmation of grant so that the Corporation can decide whether the scheme still meets the criteria on which allocation of SHG was originally given.
- 3.3 Spare

### On-Costs

- 3.4 On-costs cover costs incurred by the RSL other than the acquisition and main works costs e.g. legal fees and stamp duty.

#### **Discounting on-costs**

- 3.5 The RSL may discount a percentage of the on-costs where it thinks it would not be applicable to that scheme. The level of discount from on-costs declared at confirmation of grant must be equal to or less than the standard on-costs percentage.
- 3.6 Subject to Corporation local office approval, the RSL may discount the on-costs to reduce the total qualifying costs.
- 3.7 Once the discounted on-costs have been deducted a new standard on-costs percentage is generated and will be fixed and applicable for the life of the scheme.
- 3.8 The RSL must consider how it will finance any discount and persistent discounting may reflect adversely in the Programme Delivery Assessment of the RSL by the Corporation.

#### **Non-qualifying costs**

- 3.9 SHG eligible costs cannot be classed as non-qualifying costs in order to reduce qualifying costs, except where these have been classified as housing non-qualifying costs. *See GENERAL-4 for details of non-qualifying costs.*

#### **Grant rates**

- 3.10 Grant rates, as determined by the new Grant Rate Calculator, represent the maximum percentage of total qualifying scheme costs that may be funded with public capital subsidy, for each type of scheme in each area.
- 3.11 The Grant Rate for a scheme is calculated and set at Bid stage and will hold for the whole project. Where there have been any changes to a scheme between Grant Confirmation and Bid stage the RSL will need to notify the Corporation's local Investment Officer who will decide whether the scheme still meets the criteria on which an allocation of SHG was originally given. *See SALE-3 on changes to a scheme from Bid stage.*
- 3.12 For Sale schemes the calculator will provide a maximum eligible grant rate for each unit type included within a bid. This is based on values, incomes, TCI and standard outgoings (management, maintenance, void major repairs and loan costs). The rates for each unit are aggregated to produce a maximum eligible grant rate for each bid. See the Corporation's Library website for current details and guidance on TCI, Grant Rate Calculator and Administration Allowances at [www.housingcorplibrary.org.uk](http://www.housingcorplibrary.org.uk)

- 3.13 The grant for a sale scheme is calculated in two stages; the first stage is to use the Grant Rate Calculator to provide the maximum eligible grant as if for a scheme for Rent and the second stage is to apply the relevant LCHO factor to calculate the grant for the scheme. The rent on the unsold equity of a shared ownership schemes is set independently by the RSL and is not relevant to the calculation of maximum eligible grant. *See paragraph 6 and TCI/grant rate guidance.*

### Standard Percentage Adjustments (SPA)

- 3.14 The introduction of the new methodology for TCIs has meant that local adjustments to TCI, known as Standard Percentage Adjustments are no longer necessary.

### Net Grant Rate calculation

- 3.15 The Net Grant Rate is calculated as follows:

$$\frac{\text{SHG claimed} + \text{OPS}^1}{\text{Total Qualifying Scheme Costs}} \times 100 = \text{Net Grant Rate}$$

<sup>1</sup> Other Public Subsidy (*see GENERAL-6 for details*)

### Priority Investment Areas (PIAs)

- 3.16 PIAs are local authority areas that have been identified by the Corporation's local office as either urban or rural areas of housing stress, which rank for priority investment of public funds.

The purpose of identifying PIAs is not to direct resources to those areas but to facilitate development for sale in areas that may be a priority for investment but where it is difficult to develop cost within value, e.g. brownfield sites, regeneration areas and rural and urban areas with high development costs.

PIAs attract a higher grant rate that reflects this higher cost/value relationship and thus needs to be retained.

The fact that an area is not designated as a PIA does not mean that sale schemes should not be supported there. However, rehabilitation for outright sale schemes are only eligible for SHG funding when located in a PIA. *See SALE-1, paragraph 2.6*

PIAs will be defined by the Corporation's local offices at the beginning of each financial year.

## 4 OTHER SOURCES OF FUNDING

### Recycled Capital Grant Fund and Disposal Proceeds Fund

- 4.1 Please read the *REC* and *DPF* Sections of this Guide for the permitted uses of these funds. The RCGF can be used to produce housing for sale.

#### **Other public subsidy for housing and non-housing costs**

- 4.2 To ensure that public funds from different sources are not paying for the same costs twice the RSL must identify any other proposed source of public subsidy on their submission for Grant Confirmation. *See GENERAL-6 for details of which subsidies are deductible or non-deductible from SHG.*

#### **RSL's own funds and private sector contributions**

- 4.3 Contributions from the private sector or from the RSL's reserves can be used to reduce the total SHG confirmed on a scheme.

#### **Contributions of land from private sector**

- 4.4 Where the private sector contribution is in the form of land/property the scheme is processed as Acquisition and Works with a purchase price of £1. *See GENERAL-3.*

#### **Contributions of land from public sector**

- 4.5 Where the land/property is donated by a public sector body, e.g. a local authority, copies of the open market valuation valid at exchange of contracts and a current valuation valid at Grant Confirmation stage must be kept on file by the RSL. *See GENERAL-6 paragraph 2.2.*

### **5 PURCHASE VALUATIONS**

- 5.1 The RSL is expected to purchase a site/property for development within the open market valuation, as established by an independent qualified valuer. *See GENERAL-3.*
- 5.2 Exceptionally, over valuation costs will be approved for SHG by the Corporation's local office where the RSL is able to justify this course of action. *See GENERAL-3.*
- 5.3 Where there are changes to the purchase price from the original bid the RSL must notify the Corporation's local Investment Officer, who may require a revised bid submission for the scheme *See SALE-3*

### **6 RENTS**

#### **Shared Ownership rent and service charges**

- 6.1 The RSL is required to provide rents and service charge information for shared ownership schemes. Details of rents, including HB eligible service charges, must be kept on file by the RSL for Compliance Audit purposes.
- 6.2 There is no published benchmark for rent as a percentage of unsold equity. The RSL is expected to propose levels of rents that are considered affordable to its potential client group.
- 6.3 For shared ownership schemes the RSL's proposed rent as a percentage of unsold equity is calculated at bid stage. The RSL is then required to maintain the same percentage through to Grant Confirmation and Final Cost stages.
- 6.4 The level of HB eligible service charge should not vary from the proposed service charge at bid stage.
- 6.5 Unacceptable increases could lead to Grant Confirmation being denied or SHG being withheld until the rents including HB eligible service charges are brought in line.

## **7 GRANT CONFIRMATION - ACTION BY THE RSL**

- 7.1 When the RSL has identified or purchased a suitable site/property which is to be developed, taking account of the Corporation's guidelines on cost criteria, a submission for confirmation of grant should be made. This can take place at any time after confirmation of the allocation.
- 7.2 Where the RSL purchases prior to receiving confirmation of grant, the RSL should ensure the scheme matches the allocation criteria to enable Grant Confirmation to be given. *See also GENERAL-3 on historical purchases, i.e. purchase before the current allocation year.*
- 7.3 Where the RSL has specified at bid stage that the scheme will be developed to higher standards (SDS Plus) or will incorporate Housing Plus features, accurate and appropriate information must be provided in the submission for confirmation of grant. Egan compliant schemes should also be identified in the submission. *See also paragraph 8.10 below and Circular 24/99*

### **Changes to a scheme**

- 7.4 Any change to the scheme since the bid stage must be notified to the Corporation's local Investment Officer, who may require a revised bid submission for the scheme. The RSL must keep supporting documentation on file for compliance audit purposes. *See SALE-3 on scheme changes*

## **8 SUBMISSION REQUIREMENTS**

### **For all schemes**

- 8.1 The RSL must submit the following data onto the Corporation's IMS system for a scheme to receive Grant Confirmation (*IMS guidance can be found at [www.housingcorp-online.org](http://www.housingcorp-online.org)*):
- development and property details
  - Cost and Grant calculations
  - rent and HB eligible service charge data
- 8.2 The RSL will not be able to submit a scheme where the data input differs from the information provided by the RSL at Bid stage; only the Corporation can make the changes to the allocation in order for the RSL to Allocation Match and submit the scheme in IMS. The Corporation may require a revised bid submission from the RSL before confirmation of grant will be given. *See paragraph 7.4.*
- 8.3 The RSL must be able to confirm acceptance of the on screen certifications that appear at confirmation of grant stage.
- 8.4 Where a charge is to be given to secure private finance, form HACON 6 Application for Section 9 Consent may be required and should be sent to the Corporation's local Regulation office. *See current Corporation guidance on Consents and paragraph 11.6*
- 8.5 Detailed guidance on how to input the data onto IMS is given as on-line help on [www.housingcorporation-online.org](http://www.housingcorporation-online.org)

#### **Design and Build schemes - additional requirements**

- 8.6 The RSL must ensure that the works costs do not include any:
- design fees;
  - planning and building regulation charges;
  - structural warranty/NHBC fees;
  - minor pre-tender works.

The RSL must retain supporting documents on file for compliance audit.

#### **Phased schemes - additional requirements**

- 8.7 The RSL must have the agreement of the Corporation's local office for all phases of the scheme before the RSL makes a Submission for confirmation of grant for the first phase. Each phase of the scheme requires a separate confirmation of grant submission. *See GENERAL-2.*

#### **Schemes where vendor is a local authority - additional requirements**

8.8 To establish whether the purchase price of the land or property is below the market value and whether this constitutes a Gratuitous Benefit under the terms of the Local Government Act 1988 both of the following must be kept on file by the RSL for Compliance Audit purposes:

- A copy of the open market valuation provided by a qualified independent valuer, either obtained by the local authority or commissioned by the RSL; and
- A letter from the local authority stating that it endorses the valuation. *See GENERAL-6 for guidance where the LA is unable to endorse the valuation and GENERAL-9 for Compliance Audit details.*

8.9 **For Self Build Shared Ownership Schemes only** the RSL must ensure that the following supporting documents are kept on file for Compliance Audit purposes:

- details of the individual mortgages being obtained by the self builders or evidence of mortgageability e.g. an in principle offer from building society/bank;
- details that the self builders' incomes are sufficient;
- if the self builders do not at the time of the submission have the necessary level of skills to complete the scheme, information on training arranged for the group and details of site supervision;
- evidence that the majority of the self builders are first-time buyers who are unable to afford to purchase outright a home sufficient for their housing needs;
- the cost/value relationship for the scheme is less than 80%. The RSL may use actual cost figures, rather than the costs for Grant purposes if they choose;
- copy of Membership Details Form. *See relevant Section of the Self Build Housing Procedure Guide;*
- Self Builders' Governing Instrument;
- audited accounts (if any);
- Self Build Group's Certification of Registration issued by the Registrar of Friendly Societies; if not available the RSL must certify that the Registrar's Certificate is expected to be available within the next three months.

**9 LESS SHG REQUIRED THAN ESTIMATED AT ALLOCATION**

- 9.1 Changes to the amount of SHG required for a scheme from what was originally calculated at the Bid stage are covered in SALE-3.

**10 MORE SHG REQUIRED THAN ESTIMATED AT ALLOCATION**

- 10.1 Changes to the amount of SHG required for a scheme from what was originally calculated at the Bid stage are covered in SALE-3. The Corporation's local Investment Officer must be notified at the appropriate stage in order to agree and make changes to the allocation.

**Recycled Capital Grant Fund**

- 10.2 RSLs must refer to the REC chapter of this guide for the permitted use of RCGF where more SHG is required than estimated at allocation. RCGF can only be used with the agreement of the Corporation.

**11 ACTION BY THE CORPORATION****Changes from Bid stage**

- 11.1 The Corporation will check that the scheme still meets the criteria on which the allocation was originally given or are satisfied the scheme meets strategic requirements and represents value for money. The Corporation may withdraw the allocation of SHG for the scheme if not satisfied. *See SALE-3*
- 11.2 Where a project is assessed as not representing value for money or there are any obstacles to Grant Confirmation, the Corporation's local office will discuss and agree a course of action with the RSL.

**Fixed Grant percentage**

- 11.3 The Corporation will determine the fixed Grant percentage applicable to the scheme, which will be the lower of:
- SHG applied for divided by eligible and approved scheme costs;
  - norm Grant rate as published in the current TCI guidance.

**Confirmation from the Corporation**

- 11.4 The Corporation will assess confirmation of grant within 5 working days of submission.
- 11.5 The confirmation of grant approval notification will be issued to the RSL.

**HACON 6**

- 11.6 Once the SHG has been confirmed form HACON 6, if required, will be scrutinised by Regulation staff and authorised by the Regulation Manager, to enable consent to be issued to the RSL. *See paragraph 8.4*

## 12 FINANCIAL VIABILITY

- 12.1 It is expected that the proposed sale and rent income will have been considered and that, in the long term operational costs including the repayment of loan principal and interest can be met. Any initial revenue deficits should be within the general capacity of the RSL. The Regulation teams of the Corporation will monitor the effect of development and the general financial status of the RSL.

## 13 CHECKLIST

- 13.1 When submitting an application for confirmation of grant or payment the RSL will be certifying that the submission conforms to the Funding Conditions as accepted by the RSL's Committee and confirmed on line by the RSL's Security Administrator at the beginning of the financial year.
- 13.2 It is a Condition of Grant that the scheme complies with all published procedures. This checklist should assist you in checking the key requirements for a scheme for Sale.
- 13.3 NB The list is not exhaustive and should not be used instead of reading the full procedures.

1.	The RSL must advise the Corporation at the relevant stage where there is any change to the scheme after Bid stage <i>Sale 2 paragraph 7.4</i>
2.	Supporting documents have been retained on the RSL's file for Compliance Audit purposes. <i>GENERAL-9</i>
3.	TCI, including the key and supplementary multipliers, and grant have been properly calculated. <i>TCI guidance.</i>
4.	No non-qualifying costs have been included in the costs for grant funding. <i>GENERAL-4</i>
5.	Any public subsidy has been properly calculated and deducted where appropriate. <i>SALE-2 paragraph 4.4</i>
6.	Where there is a Section 106 agreement the scheme costs and public subsidy have been correctly calculated. <i>GENERAL-5</i>
7.	Where a discount on on-costs or grant is being made this is shown in the appropriate place.
8.	The correct LCHO factor has been applied. <i>See TCI guidance</i>
9.	Any necessary planning consents and building regulations approvals have or will be obtained. <i>GENERAL-5 and Scheme Development Standards</i>
10.	The correct procedures and calculations for the chosen procurement method have been used.

11.	Any procedural requirements for insurance have or are being met. <i>GENERAL-1</i>
12.	Where SHG is being claimed the relevant event has taken place.
13.	All requirements relating to Acquisition are met. Where land or property is already in the RSL's ownership any eligible acquisition costs have been properly calculated and are supported by a valuation. <i>GENERAL -3 and SALE-4.</i>
14.	All requirements relating to Start on Site stage are met including those relating to a building licence or agreement to lease, if being used. <i>GENERAL-1</i>
15.	All requirements relating to Final Cost stage are met. <i>SALE-6.</i>
16.	Sales schemes: arrangements are in place for marketing the scheme to the appropriate client group.
17.	Sales schemes: the lease complies with the Corporation's requirements.

## **1 GENERAL**

- 1.1 The RSL must promptly notify the Corporation's local Investment Officer of any changes to a scheme from which the allocation of SHG was given by the Corporation. The Corporation may reclaim grant paid on a scheme where changes are not acceptable, regardless of how far the scheme has progressed. For this reason it is in the RSL's interest that it seeks the Corporation's acceptance of any changes as soon as possible.
- 1.2 Where any changes have occurred to a scheme that was given Grant Confirmation before 1 April 2006 the RSL will need to follow previous procedures relevant to the date Grant Confirmation was given. Previous versions can be located from within the Capital Funding Guide Homepage of the Corporation's website [www.housingcoprp.org.uk](http://www.housingcoprp.org.uk)
- 1.3 The Corporation will no longer issue revised approvals of Grant Confirmation on schemes that were given Grant Confirmation after 31 March 2006. The Corporation's local office will consider whether the criteria on which the scheme was given the allocation of SHG is still being met by the changed scheme. Where the scheme no longer meets the strategic need or offers value for money the Corporation may terminate the scheme and reclaim any SHG paid.

## **2 CHANGES IDENTIFIED AT GRANT CONFIRMATION**

### **Change to the Allocation**

- 2.1 In order for the RSL to be able to Allocation Match and submit a changed scheme within IMS the RSL must seek prior approval of the changes from the Corporation's local Investment Officer. Where the changes do not affect the criteria on which the bid was originally accepted, the Corporation may agree to change the allocation for that scheme so that the RSL can make their submission. However, the Corporation may decide that the changes are significant enough to justify a revised bid from the RSL, which will be considered before re-allocating SHG to the scheme. The Corporation may withdraw the allocation where the scheme no longer meets strategic need or offers value for money, particularly in light of any alternative bids for similar schemes.

### **Where costs have risen from Bid stage and extra SHG sought**

- 2.2 The RSL will need to contact the Corporation's local Investment Officer and resubmit their Bid for the scheme. The Corporation will assess whether the revised Bid still offers value for money.

### **Where costs have risen from Bid stage but no extra SHG sought**

- 2.3 In order for the RSL not to have to resubmit the bid they will need to indicate that it will not be requiring any extra grant. The RSL will need to disclose this on their confirmation of grant submission by entering a balancing figure as a Discount on Grant.

#### **Where costs have gone down from Bid stage**

- 2.4 The RSL must notify the Corporation's local Investment Officer before submitting the application for confirmation of grant in order for the Corporation to change the allocation of SHG for the scheme.

#### **Unit mix and rent changes (TCI changes) e.g. to size of scheme, number of bedrooms etc**

- 2.5 Unit mix and rent changes affect the maximum eligible grant for a scheme. For that reason the Corporation's local Investment Officer must be notified of the changes, and will consider whether a revised Bid is required. The Corporation may terminate the schemes if it no longer meets the strategic need or offers value for money. Information in support of the changes will be required from the RSL.

#### **Changes to Investment or Ethnic codes**

- 2.6 The RSL will need to provide a case as to why these codes have been changed. Where the Corporation accepts the changes it will change the allocation details. However the Corporation may terminate the scheme if it no longer meets the local strategic need on which the allocation was given.

#### **Significant changes**

- 2.7 Where there have been any significant changes (e.g. rises in scheme costs, fewer units produced) or a number of other changes the Corporation may ask the RSL to resubmit their bid for the scheme. The scheme may be terminated if it no longer meets the strategic needs or offers value for money on which the allocation of SHG was given.

### **3 CHANGES IDENTIFIED AFTER CONFIRMATION OF GRANT HAS BEEN GIVEN**

#### **Changes identified before any payment of SHG has been made**

- 3.1 The RSL must notify the Corporation's local Investment Officer of any changes to the scheme before claiming the first tranche of SHG. The Corporation will decide whether to accept the changes or terminate the scheme.
- 3.2 Where the termination occurs within the same financial year as the Grant Confirmation the allocation of SHG may be made available for an alternative

scheme that offers value for money and meets local strategic needs. The RSL may submit a bid for a new scheme however the Corporation's local office will decide which of the bids received from all RSLs best meets this criteria.

- 3.3 Where the termination occurs after the financial year the confirmation of grant was given, the allocation cannot be used on alternative schemes.

#### **Changes to scheme after a payment of SHG has been made**

- 3.4 The Corporation's local Investment Officer must be notified of any change and reasons behind changes to be satisfied that that the scheme still meets the original criteria on which the confirmation of grant was given. The Corporation may terminate the scheme and reclaim any SHG paid where the scheme no longer meets the allocation criteria.

#### **Changes at Final Cost**

- 3.5 All changes must have been identified at the correct stage, i.e. before any further claims of SHG were made by the RSL. Where changes were not disclosed to the Corporation at the correct stage the RSL will have been falsely certifying on IMS that the data was correct and complies with funding conditions.
- 3.6 The Corporation may terminate and reclaim any SHG paid on the scheme where the scheme no longer meets the criteria on which the allocation of SHG was originally given.
- 3.7 Where the changes are acceptable the Corporation will pay the final tranche of SHG. *See SALE-6 paragraph 4*
- 3.8 Differences in the data input at confirmation of grant to the data input at Final Cost will require the RSL's to give reasons for the variations on-line in order for the Corporation to approve.

### **4 CHECKLISTS FOR CHANGED SCHEMES**

#### **4.1 Grant Confirmation submission**

1. Can the RSL Allocation Match the scheme? *If 'yes' got to 9, if 'no' go to 2.*
2. RSL requests the Corporation to action an Allocation Change for the scheme. Are changes acceptable? *If 'yes' go to 3, if 'no' go to 4.*
3. Corporation agrees to RSL's request to Allocation Change on IMS. RSL may now submit the scheme. *Go to 9.*
4. Corporation reverts the allocation back to a bid. *Go to 5.*
5. RSL consults with the Corporation on what would be acceptable for a revised bid submission. *Go to 6.*
6. RSL submits the revised bid at Corporation's request. *Go to 7.*

7. Corporation approves the agreed revised bid and transfers as an allocation. *Go to 8.*
8. RSL submits scheme submission for Grant Confirmation which can now be Allocation Matched. *Go to 9.*
9. Corporation approves the submission and issues Grant Confirmation.

#### 4.2 Final Cost submission

1. RSL enters Final Cost data, maximum eligible grant rate and amount are recalculated and the submission is compared with the Grant Confirmation data. Any variations? *If 'yes' go to 2, if 'no' go to 10.*
2. Are the variations solely due to a change in scheme costs? *If 'yes' go to 3, if 'no' go 4.*
3. There is no recalculation of grant on Sale schemes where scheme costs change and Corporation pays Final Cost Grant. *Go to 10.*
4. Corporation will consider whether variations are acceptable. NB the RSL should have identified any change to the schemes at the appropriate stage. Does the Corporation accept changes? *If 'yes' go to 5, if 'no' go to 9.*
5. Are there changes to the grant amount arising from changes to unit mix or type? *If 'yes' go to 6.*
6. Is the maximum eligible grant lower? *If 'yes' go to 7, if 'no' go to 8.*
7. Corporation will reclaim overpaid grant.
8. Corporation has discretion to pay extra grant or cap at the Grant Calculation figure. *Go to 10.*
9. Corporation may terminate the scheme and reclaim grant paid if scheme no longer meets the allocation criteria, including any subsequent agreed changes.
10. Corporation pays Final Cost Grant.

## 1 GENERAL

- 1.1 The proportions of SHG to be paid at each stage of the scheme, i.e. the tranches of SHG, will be set out in the Grant Calculation - Tranche Payments screen in IMS.
- 1.2 Exceptionally, the Corporation's local office may agree to allow the RSL to split one SHG tranche per ADP heading per year i.e. claim a partial tranche payment the current year and the balance in the next financial year. This will only be agreed to allow the RSL to fully take up its annual CPT at the year-end.

## 2 TIMING OF SHG CLAIM

- 2.1 SHG must not be claimed in advance of need nor before relevant events as described below for the Acquisition tranche.
- 2.2 The RSL can apply for the Acquisition tranche of SHG after the exchange of purchase contracts.
- 2.3 In the case of Off the Shelf schemes, the single tranche of SHG can be claimed after exchange of purchase contracts.
- 2.4 The Corporation will pay SHG, upon receipt of a correct and accurate claim, within 8 working days provided the claim is:
- within the RSL's agreed Cash/Completion Target;
  - submitted 8 working days before the month end; and
  - within the Corporation's Cash/Completion limits.
- 2.5 SHG claims need to be input into IMS at least 8 working days prior to the date of completion of the acquisition of the land/property in order for payment to be made on the day of completion. NB: schemes that have changed from previous stages may take longer to be paid. *See paragraph 5.1*
- 2.6 For claims that are received less than 8 working days prior to completion, the Corporation will make every effort to ensure that payment is made on time. However, if this is not possible, then interest will not be paid if the claim is paid within 8 working days of receipt of the claim. *See also paragraph 5.1*
- 2.7 It is in the RSL's interest to submit its SHG claim as soon as possible after the key events so that SHG may be disbursed and reduce borrowing costs.

### **Simultaneous claims of Acquisition and Start on Site SHG**

- 2.8 Where the completion of purchase of the land/property is simultaneous with Start on Site, the first payment of SHG will be a combination of the first two instalments.
- 2.9 The claim for acquisition SHG can be submitted as soon as exchange of purchase contracts has taken place. SHG will be paid within 8 working days of the SHG submission being made on completion of the purchase, subject to the provisions of paragraph 2.4.

#### **Land Inclusive Packages and Purchase and Repair schemes**

- 2.10 For Land Inclusive Packages and Purchase and Repair schemes only, SHG for the Acquisition and the Start on Site tranches will be paid simultaneously. For all other scheme types a separate SHG claim will be required for each tranche of Grant. *See IMS guidance.*

### **3 DELAYED COMPLETION OF THE PURCHASE**

- 3.1 The RSL must inform the sponsoring authority immediately of any change in the notified date for completion of purchase.
- 3.2 Where completion of the acquisition does not take place within two weeks of receipt of SHG, the RSL must return the SHG to the Corporation with interest from the date of receipt to the repayment date. The interest rate to be used is Barclays Bank base rate.
- 3.3 The RSL must submit a further claim when the revised completion date is known.

### **4 ACTION BY THE RSL**

- 4.1 After the exchange of purchase contracts, the RSL can apply for SHG.
- 4.2 At the point of claiming SHG the RSL must confirm that the application for Grant payment is correct and conforms with the Funding Conditions as accepted by the RSL at the beginning of the financial year. If the RSL is unable to confirm this the application for grant payment will be rejected.
- 4.3 The RSL must ensure that:
- the Corporation has been notified of any change that has occurred to the scheme since Bid and Grant Confirmation stages;
  - the property to be acquired offers good title. A leasehold interest should be at least 99 years to enable the RSL to offer shared owners a 99 year lease. *See SALE-8, paragraph 2.*

- the purchase price of the property does not exceed the valuation as assessed by an independent qualified valuer. *See GENERAL-3.*
- all necessary consents have been obtained prior to exchange of contract.

### Changes to a scheme

- 4.4 The RSL must notify the Corporation's local Investment Officer of any changes to a scheme from the Bid and Grant Confirmation stage before the next payment of SHG. Any possible agreement to the changes is at the discretion of the Corporation. *See SALE -3*

### Relevant dates

- 4.5 When claiming SHG the RSL is required to confirm the date of the exchange of contracts and the proposed date for the purchase completion.

## 5 ACTION BY THE CORPORATION

- 5.1 The Corporation will pay SHG, upon receipt of a correct and accurate claim, within 8 working days provided the claim is:
- within the RSL's agreed Cash/Completion Target;
  - submitted 8 working days before the month end; and
  - within the Corporation's Cash/Completion limits.

## 6 INTEREST ON DELAYED PAYMENT OF CLAIMS

- 6.1 The Corporation will compensate the RSL with an interest payment on the delayed payment of a SHG claim only for that part of the delay due solely to the Corporation.
- 6.2 Interest to cover delays in payment will only be paid in exceptional circumstances and where the RSL can demonstrate it has suffered a direct financial loss as a result of that delay.
- 6.3 Any claim for such interest must be made after the payment of SHG to which it relates. The RSL should submit a claim substantiated with appropriate documentation, e.g. the breakdown of the calculation and evidence of the interest rate.
- 6.4 There is no timetable for the payment for claims for interest however the Corporation will endeavour to make payments as quickly as possible.

## **1 GENERAL**

- 1.1 The key event for Start on Site is the date of the start on site of the main contract works. This is deemed to be the date when the contractor takes possession of the site/property in accordance with the signed main building contract or the partnering agreement.
- 1.2 The amount of SHG payable at Start on Site will be set out on Grant Calculation - Tranche Payments screen in IMS.
- 1.3 Exceptionally, the Corporation may agree to allow the RSL to split one SHG tranche per ADP heading per year, i.e. claim a partial tranche payment the current year and the balance in the next financial year. This will only be agreed to allow the RSL to fully take up its annual CPT at the year end.

## **2 TIMING OF SHG SUBMISSION**

- 2.1 SHG must not be claimed in advance of need, nor before relevant events.
- 2.2 The RSL may, in accordance with its CPT, submit the application for Start on Site SHG to the Corporation following confirmation that the building/management contractor has taken possession of the site under the main building works/management contract.
- 2.3 The Corporation will pay SHG, upon receipt of a correct and accurate claim, within 8 working days provided the claim is:
  - within the RSL's agreed Cash/Completion Target;
  - submitted 8 working days before the month end; and
  - within the Corporation's Cash/Completion limits.

### **Deferment of possession**

- 2.4 Where the contract allows for deferment of possession, SHG must not be claimed until the builder/contractor has taken possession of the site.

## **3 ACTION BY THE RSL**

- 3.1 At the point of claiming SHG the RSL must confirm that the application for Grant payment is correct and complies with the Funding Conditions as accepted by the RSL at the beginning of the financial year.

### **Changes to a scheme from previous stages**

- 3.2 The RSL must notify the Corporation's local Investment Officer of any changes to a scheme from the Bid and Grant Confirmation stage before the next payment of SHG. Any agreement to the changes is at the discretion of the Corporation. *See SALE -3*

#### **Land Inclusive Packages**

- 3.3 Grant tranche payments for land inclusive packages involve the simultaneous payment of Acquisition and Start on Site tranches at Start on Site stage, following the exchange of contracts for acquisition.
- 3.4 At Start on Site stage the RSL must break down the costs of the package into the component parts:
- purchase of land/property; and
  - works.

This breakdown must be kept on file by the RSL for Compliance Audit purposes.

#### **Design and Build schemes**

- 3.5 The RSL must ensure the Works costs given on the Start on Site submission do not include any of the following costs
- design fees;
  - planning and building regulation charges;
  - structural warranty/NHBC fees;
  - minor pre-tender works.

The RSL must keep on file for Compliance Audit an actual breakdown of the works' components that identifies the costs.

### **4 ACTION BY THE CORPORATION**

- 4.1 The Corporation will pay SHG, upon receipt of a correct and accurate claim, within 8 working days provided the claim is:
- within the RSL's agreed Cash/Completion Target;
  - submitted 8 working days before the month end; and
  - within the Corporation's Cash/Completion limits.
- 4.2 The Corporation will try to ensure that any requests for further information are raised within 5 working days of receipt of the submission.

### **5 INTEREST ON DELAYED PAYMENT OF CLAIMS**

- 5.1 The Corporation will compensate the RSL with an interest payment on the delayed payment of an SHG claim only for that part of the delay due solely to the Corporation. *See SALE - 4 paragraph 6*

## **6 CHANGES TO THE ACQUISITION COMPLETION DATE**

- 6.1 Where completion did not take place within two weeks of the receipt of SHG, the SHG monies should have been returned to the Corporation with interest from the date of receipt to the repayment date.
- 6.2 Where completion was delayed beyond two weeks and interest has not been repaid to the Corporation, the RSL must make the interest payment immediately. The interest rate to be used is Barclays Bank base rate.
- 6.3 Where no interest has been received by the Corporation, the RSL will be invoiced for that period by the local office of the Corporation using Barclays Bank base rate applicable to the period of delay.

## 1 GENERAL

### Introduction

- 1.1 Final Cost stage is the point at which the Corporation makes the final SHG payment to the RSL. Final Cost occurs when the last dwelling is handed over to the RSL, even though external works such as landscaping may remain to be completed. This stage is also termed as Practical Completion.
- 1.2 There is no recalculation of SHG at Final Cost stage to reflect changes in scheme costs as the grant has been fixed at the confirmation of grant stage. SHG may be recalculated if there have been significant changes to the unit mix and type of the scheme since Bid stage. *See SALE-3*

### Timing of SHG submission

- 1.3 The RSL can apply for the final tranche of SHG when the building contract, works contract, or phase of the building or works contract, has reached Practical Completion.
- 1.4 The claim can be submitted against the issue of a certificate of Partial Completion provided all of the dwellings in the scheme, or phase, have been handed over.
- 1.5 Where a Partnering Agreement has been signed, the claim can be submitted after the date that project completion is confirmed in writing or by confirmation notice issued from the client or the client's representative.
- 1.6 The RSL should determine its estimated final costs, together with confirmation of the agreed rents and service charges at the point of sale for each dwelling.
- 1.7 In the case of Off the Shelf schemes and Existing Satisfactory\* Purchases, this can be submitted when exchange of purchase contracts takes place.

\*only for properties which are being acquired for sale to a disabled person

### Schemes failing to reach completion target dates

- 1.8 The RSL must notify the Corporation's local Investment Officer where a scheme does not complete within 9 months of the development timetable at Grant Confirmation, or as revised with the Corporation's agreement during the development period.

### Schemes that fail to reach completion

- 1.9 For schemes that fail to reach completion, the RSL must contact the Corporation's local Investment Officer. *See the Recycling Grant chapter of the guide, REC-3, paragraph 14.3*

**Partial tranche payments**

- 1.10 Exceptionally, the Corporation's local office may agree to allow the RSL to split one SHG tranche per ADP heading per year i.e. claim a partial tranche payment the current year and the balance in the next financial year. This will only be agreed to allow the RSL to fully take up its annual CPT at the year-end.

**2 ACTION BY THE RSL****Check the date of Acquisition SHG payment**

- 2.1 The purchase completion date shown on the solicitors' statement must be compared with the date when the acquisition SHG tranche was received by the solicitor or RSL.
- 2.2 Where completion did not take place within two weeks of the receipt of SHG, the SHG monies should have been returned to the Corporation with interest from the date of receipt to the repayment date. *See SALE-5 paragraph 6*

**Check the date of Start on Site SHG payment**

- 2.3 The RSL must check as to whether the Start on Site SHG tranche had been drawn down on time, i.e. the land/property was already owned by the RSL (or it was a combined Acquisition and Start on Site) and the main building/management contractor had contractual possession of the site.
- 2.4 Where the Start on Site SHG tranche has been drawn down too soon the RSL will be charged interest for the period between the date when the tranche was received by the RSL and two weeks after the correct closing date for start on site. In such cases the RSL must notify the Corporation's local Investment Officer.

**Rents and HB eligible service charges**

- 2.5 Rents to be charged are referred to in the Funding Conditions. Rents at Practical Completion need to be equal to or less than those agreed at Grant Confirmation stage.

**Final Cost submission**

- 2.6 The RSL must input the following data into the Corporation's Investment Management System (IMS), based upon the RSL's forecast final costs:
- Costs at Practical Completion;
  - Final Cost calculation of SHG;
  - Actual on costs (fees, interest, minor works, insurance/bonds etc);

- rents and service charges, setting out any details that have changed since confirmation of grant stage).
- 2.7 At the point of claiming SHG the RSL must confirm that the application for Grant payment is correct and conforms with the Funding Conditions as accepted by the RSL at the beginning of the financial year.
- 2.8 Any change to the scheme between confirmation of grant and Final Cost must be agreed with the Corporation's local Investment Officer before the submission for Final Cost is submitted onto IMS. *See SALE-3*

### **3 SUPPORTING DOCUMENTATION**

- 3.1 The RSL must retain on file the following for Compliance Audit purposes. *See GENERAL-9:*
- certificate of Practical Completion or equivalent. A certificate of Partial Completion is acceptable provided that all the units have been handed over leaving external works to be completed;
  - solicitors' letter confirming that the purchase has been completed and setting out the sum paid and date of completion (except works only projects);
  - latest interim certificate showing actual costs to date;
  - where major site development works and VAT are included in the works cost, the final certificate/account in respect of the preworks and VAT certificates should be provided. (NB: these figures should together equate to the actual works cost element included in the final costs statement mentioned above);
  - a property schedule showing addresses, floor areas, and valuations for the completed properties, together with actual rents and HB eligible service charges. This is populated by valuation and rents so useful;
  - Consultant's estimate of final works costs and, where appropriate (Design and Build and Package Deals, etc) a separate estimate of the non-works elements, eg on costs.

### **4 ACTION BY THE CORPORATION**

- 4.1 The Corporation will check that all comments made on IMS for any variations from the Confirmation of grant stage are consistent with what has been previously agreed by the Corporation for that scheme.

- 4.2 The Corporation will pay SHG, upon receipt of a correct and accurate claim, within 8 working days provided the claim is:
- within the RSL's agreed Cash/Completion Target;
  - submitted 8 working days before the month end; and
  - within the Corporation's Cash/Completion limits.

#### **Changes not acceptable to the Corporation**

- 4.3 The Corporation may terminate and reclaim any SHG paid on the scheme particularly where:
- the scheme no longer meets a strategic need;
  - the scheme no longer offers value for money;
  - the RSL has not previously told the Corporation of the changes, even if the changes are not fundamental.

### **5 INTEREST ON DELAYED PAYMENT OF CLAIMS**

- 5.1 The Corporation will compensate the RSL with an interest payment on the delayed payment of a SHG claim only for that part of the delay due solely to the Corporation. *See SALE - 4 paragraph 6*

**1 INTRODUCTION**

- 1.1 Initial sales monitoring is an additional stage in the capital funding process and applies only to shared ownership. Initial sales monitoring has two functions:
- to provide the Corporation with information on the RSL's marketing performance
  - to enable the Corporation to monitor rent and HB eligible service charge data at the point of sale
- 1.2 Initial sales monitoring replaces the grant apportionment and post sales monitoring requirements contained in Capital Funding System Procedure Guide 1997.

**2 INITIAL SALES REQUIREMENTS**

- 2.1 Following practical completion and final Grant payment, the RSL will input initial sales data into IMS as the sales take place.
- 2.2 The Corporation will send out an automatically generated reminder to the RSL (on a quarterly basis) where initial sales records are incomplete.

## **1 INTRODUCTION**

- 1.1 Shared ownership sales are based on a percentage of the full market value of the property. Sales prices must be within the means of the intended client group, normally first time buyers. RSLs will need to obtain valuations at the initial sales stage and on staircasing.

## **2 INITIAL SALES**

- 2.1 Initial sales must be based on a full open market valuation of the property carried out by a qualified independent valuer.
- 2.2 Where the RSL sets sale prices above the valuation, it must document the reasons and keep a record on file for audit purposes. If the price is above the valuation, the RSL should satisfy itself the price remains within the means of the intended client group.
- 2.3 If the RSL wishes to reduce prices below the valuation it must have the prior agreement of the Corporation. Agreement will not be given where the discounted price is below the cost of providing the homes. The RSL would also need to demonstrate how discounts would benefit subsequent purchasers.
- 2.4 The valuer should be instructed by the RSL to assume:
- the sale is for the freehold interest, or where the RSL's interest is leasehold, a 99 year lease or such lesser term of years as the RSL holds;
  - the sale is an open market value;
  - a shared ownership lease has not been granted;
  - the sale is to be with vacant possession;

## **3 VALIDITY PERIOD FOR A VALUATION - INITIAL SALE**

- 3.1 Where no validity period is given for the valuation it will be assumed that the valuation is valid for 3 months. When an offer is made on a property, the valuation current at the time of the offer will be assumed valid for three months from the date of the offer.

## **4 PURCHASE OF FURTHER SHARES - STAIRCASING**

- 4.1 The price paid for further shares is based on the full open market value of the property. Under the terms of the Corporation's sample lease, the leaseholder has three months to complete the purchase from the date the RSL received the valuation from the valuer. RSLs have discretion to extend the 3 month period to 6 months where there has been a delay which is outside the control of the leaseholder and RSL, for example if documents were lost in the post or there

were legal delays. Where the RSL applies its discretion, it must retain on file documentary evidence explaining the reasons for waiving the 3-month validity period.

- 4.2 Details of the staircasing requirements are set out in the shared owner's lease.
- 4.3 For details on the requirements of grant recycling refer to section REC.

## 1 INTRODUCTION

- 1.1 RSLs providing shared ownership programmes must ensure that leases are mortgageable and contain provisions that qualify the scheme for grant. In all cases, RSLs should consult its solicitors on the form of lease to be used.
- 1.2 To assist RSLs, the Corporation has recently reviewed its sample house and flat leases for shared ownership and these. The new sample house and flat leases are available on the Corporation's website – there is a direct link from its Capital Funding Guide page – see [www.housingcorp.gov.uk](http://www.housingcorp.gov.uk) . There are also shared ownership leases for the elderly programme and the rural programme which can be obtained from the Corporation's Publications Department, email [publications@housingcorp.gsx.gov.uk](mailto:publications@housingcorp.gsx.gov.uk)
- 1.3 RSLs are not obliged to adopt the Corporation's sample lease, however in order to qualify for SHG RSLs must ensure that leases contain fundamental clauses. *See paragraph 3*
- 1.4 Where the RSL is not using the Corporation's sample leases, it must certify at Grant Confirmation stage that leases will comply with the Corporation's project/Grant criteria and contain the fundamental clauses identified by the Corporation.
- 1.5 The RSL should retain a copy of the form of lease granted for each scheme at their registered office or solicitor's office.
- 1.6 In the sample leases issued by the Corporation is a restriction, which is entered when shared ownership leases are registered. The restriction ensures that the Corporation's consent is sought to any variation to the terms of the registered lease, and is intended to protect public funds. The changes introduced in the latest forms of the leases have included new restrictions which need to be registered at the Land Registry (In the flat lease this is at Clause 3(17(d) and will be need to be registered on first registration and for the House lease this is at Paragraph 4 of the Fifth Schedule and will need to be registered following a transfer of the freehold). The restrictions are currently in a non-standard form and will need to be applied for separately. We have applied to the Land Registry for permission that these restrictions may be included in the list of standard restrictions (which will be entered as part of the lease) and will update the position in due course.
- 1.7 RSLs should refer to the Corporation's Regulation Circular number 12/03 for further information, which can be located in the library at [www.housingcorp.gov.uk](http://www.housingcorp.gov.uk).

## 2 GENERAL FEATURES OF SHARED OWNERSHIP LEASES

### The term of the lease

- 2.1 To qualify for grant funding the term of the lease must be at least 25 years longer than the term of the RSLs long term loan and be acceptable for mortgage purposes. For information the Corporation's sample lease provides for a 99-year term.
- 2.2 Where the RSL's interest (the landlord's interest) is leasehold and that interest is 99 years or less, the term of the lease granted on the initial sale should be for a period which terminates 5 days prior to the termination of the landlord's interest. RSLs can grant leases for a period of more than 99 years. Short term leases e.g. less than 55 years will make the scheme ineligible for grant.

### **The premium**

- 2.3 The premium payable (sale price of the lease) on the grant of the lease must be equal to a percentage of the full market value of the property as assessed by an independent qualified valuer. The range of equity shares for initial shares should be between 25% and 75%.
- 2.4 In exceptional circumstances RSLs may consider selling at a discount, where there has been a change of market circumstances since the allocation stage. All proposals to sell at a discount must be agreed by the Corporation. Proposals to sell at a discount will only be considered where the RSL provides evidence that prospective buyers cannot afford to purchase on the basis of market value. Discounts cannot be considered where the price would be reduced to below the cost of provision or where the value of the discount would exceed the maximum allowed for the statutory Right to Buy. Where a discount is being offered, the RSL must ensure (in consultation with its legal advisers) that it is possible to pass on the benefit of the discount to all future purchasers. Discounts should not be given where only the first purchasers would benefit.

### **Staircasing provisions**

- 2.5 With the exception of specified rural and shared ownership for the elderly programmes, all shared ownership leases must contain provision allowing the leaseholder to buy further shares up to 100%. Leases containing restrictive staircasing provisions (other than in programmes mentioned above) will make a scheme ineligible for grant funding.
- 2.6 Although RSLs may vary the size of equity shares that may be purchased, the initial share must not be less than 25% of market value. The lease must provide that the leaseholder can staircase to 100% in minimum tranches/shares of 10%.

### **Exclusion from leasehold enfranchisement (houses and bungalows only)**

- 2.7 All leases granted in respect of houses and bungalows must be excluded from the provisions of the Leasehold Reform Act 1967. Schemes not excluded from the enfranchisement provisions will not qualify for grant. RSLs must take their own legal advice on appropriate ways of avoiding leasehold enfranchisement.

**Rent**

- 2.8 RSLs must ensure that there are appropriate rent provisions and a means of reviewing rent increases. The sample leases published by the Corporation include rent review provisions linked to the Retail Price Increase (RPI). RSLs must ensure their solicitors are properly instructed on rent review provisions, having regard to the terms of the RSL's long term loans and rent regulation policy published by the Corporation.

**Stamp Duty and legal fees**

- 2.9 Purchasers of shared ownership leases are responsible for the payment of their own legal fees and Stamp Duty Land Tax (SDLT). The Revenue gives beneficial treatment of Shared Ownership leases for SDLT purposes, if the lease contains an appropriate statement that the tenant wishes to take advantage of this treatment (schedule 9 to the Finance Act 2003). The shared ownership leases should contain, for discussion with the purchaser, an appropriate SDLT statement which gives an option to the purchaser of paying SDLT on the actual premium and rent paid and on future staircasing; or for example, on the open market value plus minimum rent at the time of purchase (as set out in the SDLT statement). Purchasers should seek further advice from their solicitor.
- 2.10 If a purchaser does not elect the open market value plus minimum rent option mentioned in 2.9 above, there is a possibility that SDLT may be payable on the rent payable under the lease, if that rent exceeds a set limit per annum. As of January 2006 the annual limit is set at £600.
- 2.11 The Finance Act 2004 provides additional relief in respect of staircasing. Where a shared ownership lease granted after 17 March 2004, subject to certain conditions, and irrespective of whether or not the SDLT statement is included in the lease, when staircasing takes place, the shared owner will not be liable for SDLT on the staircasing. However, this is subject to the condition that immediately after staircasing, the shared owner's share in the property must not be greater than 80%.

**Stamp Duty Land Tax Enquiry Line**

- 2.12 A SDLT Enquiry Line (0845.603.0135) can help calculate the amount of tax payable in any particular scenario, but cannot advise which option is in the purchaser's best interest. RSLs are encouraged to bring the availability of this service to the purchaser's attention in order that they may make an informed choice.

**Mortgagee protection**

- 2.13 All leases (for SHG funded programmes) must contain an appropriate mortgagee protection clause (as set out in the Corporation's sample lease). The

Corporation has agreed with the Council of Mortgage Lenders the terms of mortgagee protection for lending on shared ownership.

### **3 FUNDAMENTAL CLAUSES**

3.1 The following clauses are set out in the sample leases published by the Housing Corporation and must be included in any shared ownership lease to qualify a scheme for grant funding:

- Alienation provisions (refer to clauses 3(15), 3(16) and the Seventh Schedule in the sample flat lease - clauses 3(15) and 3(16) in the house lease)
- Mortgagee protection (refer to clause 8 in the sample flat lease - clause 6 in the house lease)
- Staircasing provisions (refer to the fifth schedule of the sample flat lease - fourth schedule in the house lease)
- Rent review (refer to the fourth schedule of the sample flat lease - third schedule in the house lease)
- Service charge provision (where appropriate) - refer to clause 7 of the sample flat lease
- Right of First Refusal (refer to clause 3(17) to the sixth, seventh and eighth schedules in the sample flat lease- fifth schedule in the house lease).

### **4 RURAL PROGRAMME**

4.1 RSLs developing schemes currently as part of the Corporation's rural programme may incorporate provisions;

- to repurchase the property once the maximum share permissible has been acquired and the shared owner wishes to sell; *See SALE-11*
- to restrict the maximum level of equity that can be purchased to 80%.

When using the above provisions RSLs must include relevant clauses in the lease.

4.2 Following implications arising from the Commonhold and Leasehold Reform Act 2002 the Corporation believes that the continuing use of the restricted staircasing provision is inappropriate and strongly recommends that when drafting/issuing leases in respect of new rural schemes RSLs should use the repurchase option as detailed in SALE-11.

### **5 SHARED OWNERSHIP FOR THE ELDERLY**

- 5.1 In addition to the requirements listed in Paragraph 3 above leases must:
- be granted to a person aged 55 years or over. RSLs should not consider any sale to a person younger than 55. The Housing Ombudsman Service has ruled that sales to someone not meeting the age restriction is a breach of the terms of the lease;
  - restrict the maximum share to 75% of the open market value;
  - contain no rent provision where the maximum share of 75% has been acquired;
  - make provision for a warden service or access to a warden service. Where no resident warden is available the lease should detail the service available to the leaseholder for obtaining emergency assistance. This may be provided by a peripatetic warden employed by the RSL, a local authority or a private agency;
  - restrict assignment to a person of or over the age of 55 at the date of assignment except where assignment is to a deceased leaseholder's spouse residing at the dwelling at the time of death. The restriction on assignment equally applies to a mortgagee;
  - contain a covenant prohibiting underletting of the whole or part of the dwelling;
  - not provide for the leaseholder to acquire the landlord's interest under an option to purchase;
  - contain a landlord covenant (in the case of new schemes developed after 1 April 2001) to provide the leaseholder with a list of duties included in the basic management fee and itemise and price those which are to be charged separately. This revised requirement replaces (for new schemes only) the need of the landlord to set the management charge within the limit publicised by the Corporation.

## 6 SUB-LETTING

- 6.1 Shared ownership leases must prohibit sub-letting by the leaseholder to protect public funds and ensure applicants are not entering shared ownership for commercial gain.
- 6.2 RSLs may consider, on a case-by-case basis, requests to sub-let in certain controlled circumstances. RSLs should consider the following criteria when dealing with requests:

- the reasons for sub-letting are genuine and unavoidable, and are not for speculation or gain;
- the person (s) to whom the leaseholder sub-lets also satisfies the RSL's criteria for shared ownership;
- the terms of the sub-let are for a fixed period after which the lease must revert back to the original shared owner;
- the permission of the mortgage lender will also normally be required.

6.3 In all cases RSLs should seek its own legal advice before agreeing to sub-letting

## **7 RIGHT OF FIRST REFUSAL /PRE-EMPTION**

7.1 Where a property has been SHG funded and the owner of that flat or house wishes to sell the property in the 21 years following staircasing to 100%, (and the transfer of the freehold from the landlord to the owner in the case of a house) they are required to offer first refusal to the originating landlord. The landlord can choose to exercise the option to buy back, at the prevailing market value, or nominate another Housing Association to do so, to secure the property for further affordable housing use.

7.2 The originating landlord will have six weeks to make the decision as to whether the option will be exercised. RSLs are expected to have a published policy as to the circumstances and locations in which they would anticipate exercising this option, so that the vendor can have a speedy indication of the RSL's intentions. It is proposed that funding for these buy back opportunities would be through RCGF and in specific circumstances, DPF could be used. (Further information on revisions to the use of RCGF will be issued in early 2006) The standard RCGF rules would apply to subsequent sales receipts for sales under shared ownership terms.

7.3 In the case of flats only, a leaseholder can surrender their lease to their landlord in circumstances where they have not staircased to 100%. We would expect this option to be exercised where the value of the property, and the share owned, is such that it has not been possible to find a suitable nominee. The landlord would be able to re-issue the lease on shared ownership terms at a lower percentage to make the property more widely affordable. It is proposed that RCGF receipts be used to fund these purchases and further information on revisions to the use of RCGF will be issued in early 2006. The usual RCGF rules will apply to the subsequent sales receipts.

**8 SELF BUILD SHARED OWNERSHIP**

- 8.1 All leases must be granted simultaneously after confirmation of final costs and values and the determination of the 'sweat equity' (i.e. the proportion of equity to be granted as a reward for the Self Builder's labour).
- 8.2 If the 'sweat equity' amounts to less than 25% of the equity, the Self Builders must purchase enough of the equity to enable each of them to be granted a lease for a minimum of 25% of the equity. If the value of the "sweat equity" is less than 25% the self builders must demonstrate that they can raise a mortgage for the excess value. A provision needs to be inserted into the lease as to the effect that it is a lease under which the tenant (or his personal representative) will or may be entitled to a sum calculated by reference directly or indirectly to the value of a house or dwelling.

## **1 RENTS**

- 1.1 Shared ownership leases after 15 January 1989 are assured tenancies and as a result are not subject to rent control under the Rent Act 1977. The setting of rents for shared ownership is a matter for the RSL to agree with the leaseholder at the point at which the lease is granted. However rents, including Housing Benefit eligible service charges, (which are expected to be reasonable) are expected to reflect those indicated at bidding stage and Grant Confirmation in compliance with the terms of the Investment Contract and Social Housing Standard.
- 1.2 In setting rents the RSL must have regard to the affordability of the rents to the intended client group and ensure the rents are sufficient to cover the RSL's long-term loan repayments. In addition to the rent, the RSL will need to determine an appropriate service charge that should include the cost of management and insurance. The landlord should ensure, in consultation with the leaseholder, that the insurance policy provides adequate/appropriate cover particularly in respect of alternative accommodation for the leaseholder should the property become uninhabitable. The RSL should comply with the Leaseholders' Guarantee and Landlord and Tenants Acts in respect of setting service charges.
- 1.3 The RSL should note that leases granted for the disposal of houses must be excluded from the Leasehold Reform Act 1967 and should seek their own legal advice.
- 1.4 The RSL is not obliged to charge a rent equal to the actual amount necessary to repay the long-term loan. Where the RSL feels this to be out of line with rents on shared ownership properties in the area, it can charge a higher or lower figure.

## **2 RENT INCREASES**

- 2.1 Annual rent, including HB eligible service charges, increases must conform to the Investment Contract and SHS. However, once the method of setting increases has been decided on and written into the lease, then the provisions of the lease will be binding.
- 2.2 Any rent review clause will need to take account of the relevant loan repayment requirements, and relate to independent publicised data. This may be the General Index for Retail Prices (RPI) or a specified percentage increase.
- 2.3 The RSL can choose whether to increase rents on the anniversary date of each lease, or whether to increase all its shared ownership rents on the same date each year e.g. 1st April.
- 2.4 Notice of any rent increase should be given in writing to the leaseholder according to the manner and time stated in the lease.

### **3 SERVICE CHARGES**

- 3.1 Within clause 7 of the flat leases, the account year is shown as ending on 31<sup>st</sup> March. This date can be varied to reflect the end of the landlords' Accounting Year. A date however must be included.

## **1 INTRODUCTION**

- 1.1 Shared ownership schemes built in qualifying rural areas (usually areas with populations of less than 3000) may be subject repurchase arrangements. The repurchase arrangements allow an RSL to buy a property back from an existing leaseholder (using SHG) to enable a resale to a local household in housing need. The aim of the programme is to retain low cost housing for rural communities.
- 1.2 Allocations for SHG are arranged on a case-by-case basis with the Corporation's local office.
- 1.3 This guidance should be read in conjunction with Corporation Circulars F2-34/90 which introduced the rural repurchase scheme and F2-03/92 which introduced the option to restrict staircasing.

## **2 FEATURES OF THE SCHEME**

- 2.1 The repurchase scheme operates on the basis that when a shared owner wishes to dispose of the property, the RSL is able to repurchase it using SHG thereby being able to resell on a shared ownership basis. The equity level at which resale take place will depend on the means of local residents.
- 2.2 The repurchase arrangement will be funded through SHG and any surplus receipts arising from staircasing on that unit. Additional SHG may be available to enable the RSL to offer a lease at less than the original percentage of equity.
- 2.3 The price to be paid for the property will be the full market value, where the freehold or full lease is being acquired, or the proportion of the market value equivalent to the current shared owner's equity stake in the property.
- 2.4 RSLs must secure the option to repurchase by informing the Corporation that they wish the scheme to be included in the rural repurchase arrangements at the time of Grant Confirmation and by inserting an option to repurchase clause in the shared ownership lease at the time the lease is first issued, and whenever a new lease is issued.
- 2.5 Clauses granting the RSL the option to repurchase are contained in the Corporation's sample Rural Shared Ownership Lease which is available together with guidance notes from local offices of the Corporation.
- 2.6 RSLs must include the option to repurchase clause in leases which provide for restricted staircasing.
- 2.7 RSLs right to repurchase does not affect the shared owner's right to staircase.

- 2.8 The rural repurchase arrangements do not apply to Shared Ownership for the Elderly.

### 3 PROJECT CRITERIA

- 3.1 To qualify for inclusion in the rural repurchase arrangements a shared ownership scheme must comply with the following criteria:

- it is being developed as part of the rural programme of the Corporation's ADP. (Details of the Corporation's current guidance on eligibility criteria for the rural programme are given in the Rural Settlement Gazetteer and the Housing in Rural England booklet. Both publications are available from the Corporation's Publications Department, email [publications@housingcorp.gsx.gov.uk](mailto:publications@housingcorp.gsx.gov.uk)
- Grant Confirmation was given on or after 1 April 1990 and the scheme was identified as rural repurchase at the time of Grant Confirmation;
- Grant Confirmation was given before 1 April 1990, but the leases were granted after September 1990 and the RSL informed the Corporation's local office by 1 November 1990 that it intended to include the option to repurchase clauses in the leases.

- 3.2 To qualify for SHG for a repurchase the following criteria must be satisfied:

- the option to repurchase clause is included in the lease;
- a local purchaser has been identified who can purchase at the proposed level of equity. (In this context 'local' is defined as a person(s) with connections to the area and acceptable as such to the local authority);
- the RSL has attempted to market the property at the current level of equity and no local purchaser is available who can afford the current level of equity; and (where the RSL is selling at less than the original equity percentage sold) no local purchaser has been found who can afford the original percentage of equity sold;
- the sum of surpluses made on any previous staircasing of the unit must be less than the SHG calculated as due for the repurchase. (For details of the SHG framework for repurchase, see Paragraph 4 below).

### 4 GRANT FRAMEWORK ON REPURCHASE

- 4.1 There are no cost or value limits when SHG is paid on repurchase by the RSL.

- 4.2 SHG is calculated using the LADIYSO Grant rates and the on-cost percentage current in the year of repurchase. These are contained in current Corporation TCI booklet. SHG is calculated by applying the LADIYSO Grant percentage to the value of the equity being repurchased by the RSL less sales receipts from the incoming purchase. The on-cost percentage is applied to the value and added to the SHG. See paragraph 10 for an example of how the SHG calculation works.
- 4.3 Any surplus made on previous staircasing sales of the unit subject to repurchase will be taken into account in the SHG calculation and the SHG payable will be reduced by the amount of the surplus. No SHG will be payable if surpluses exceed the SHG calculated as described above.
- 4.4 On repurchase, the unit is treated as a single unit scheme.
- 4.5 There may be more than one repurchase of a particular unit.

## **5 GRANT CONFIRMATION AND GRANT CLAIM PURCHASE**

- 5.1 On application for SHG for repurchase of a unit there will be a combined Grant Confirmation and Grant Claim stage.
- 5.2 The Project Criteria for rural repurchase schemes are given in Paragraph 3 above.

## **6 SUBMISSION OF APPLICATION - ACTION BY THE RSL**

- 6.1 When the RSL has ensured that all the criteria in Paragraph 3 are met and the qualifying applicant has exchanged purchase contracts, the RSL can make a submission for SHG onto the Corporation's IMS.
- 6.2 At the point of claiming SHG the RSL must confirm that the application for Grant payment is correct and conforms with the Funding Conditions as signed on behalf of the RSL by the Chief Executive and Chair at the beginning of the financial year. If the RSL is unable to confirm this Grant payment will be rejected.
- 6.3 The RSL must ensure that:
- the Corporation has been notified of any fundamental change that has occurred to the scheme which affects the TCI or Grant rate;
  - the property to be acquired offers good title. A leasehold interest should be at least 99 years to enable the RSL to offer shared owners a 99 year lease. *See SALE-8, paragraph 2;*

- a valid valuation by a qualified independent valuer has been supplied and is kept on the RSL's file;
- the RSL has on file a record of the surpluses made on previous staircasing transactions on the property. Where there are no surpluses this fact must be stated on the RSL's records.

6.4 Where the RSL is securing property to raise private finance it will need the Corporation's Consent under Section 9 of the Housing Act 1996.

## **7 SUBMISSION OF APPLICATION - ACTION BY THE CORPORATION**

7.1 On receipt of the submission the Corporation will check that:

- the unit to be repurchased was originally approved or notified later to the Corporation as qualifying for the rural repurchase arrangements.
- the RSL has sufficient allocation for the project. If funds are not already set up for this purpose, they will have to be made available to accommodate the repurchase;

7.2 Payment will not be made earlier than the completion date. The Corporation will pay SHG direct to the RSL within 8 working days, upon receipt of a correct and accurate claim, provided that the claim is:

- within the RSL's agreed Cash/Completion Target;
- submitted 8 working days before the month end; and
- within the Corporation's Cash/Completion limits.

The RSL must make the submission for Grant Confirmation and Grant payment no later than 7 days after the exchange of contracts.

## **8 LEASE REQUIREMENTS**

8.1 The lease issued to the incoming purchaser will also contain the rural repurchase clauses. Refer to the Corporation's sample rural leases and guidance notes for further information (available from local offices of the Corporation).

## **9 PROCEDURES FOR RECOVERY OF SHG**

9.1 For details of SHG recovery/recycling on staircasing for rural repurchase schemes refer to the REC section of this Guide.

## **10 EXAMPLES OF SHG FRAMEWORK**

**Rural Repurchase Grant Calculation (Staircasing allowance ignored)****A - Rising Market****Example 1****Initial Purchase (50%)**

	£
Value of property	60,000
Sale Proceeds (50% of value)	30,000
SHG	18,000
Loan	12,000

**Staircase to 75%**

Value	70,000
Sale Proceeds	17,500
Repay SHG	9,000
Repay Loan	6,000
Surplus	2,500
SHG remaining	9,000
Loan remaining	6,000

**Buy back at 75% and resale of 50% equity**

Value	80,000
Price paid for repurchased equity at 75%	60,000
New Equity sale proceeds at 50%	40,000
Cost of unsold equity	20,000
SHG at 60%	12,000
On cost at 5%	4,000
Total	16,000
Less surplus	2,500
Total SHG paid	13,500
Total SHG on property	22,500
Long term loan	14,000

**Example 2**

Same initial purchase.

**Staircase to 100%**

Value	70,000
Sale proceeds	35,000
Repay SHG	18,000
Repay loan	12,000

Surplus	5,000
<b><u>Buy back at 100% and resale at 50%</u></b>	
Value	80,000
Sale proceeds at 50%	40,000
Cost of unsold equity	40,000
SHG at 60%	24,000
On cost at 5%	4,000
Total	28,000

**B - Falling market****Example 1**

Same initial purchase and staircase to 75%

Value	50,000
Sale proceeds	12,500
Repay loan	6,000
Repay SHG	6,500
SHG remaining	11,500
Loan remaining	6,000
No surplus	

**Buy back at 75% and resale at 50%**

Value	45,000
Price paid for repurchased equity at 75%	33,750
New Equity sale proceeds at 50%	22,500
Cost of unsold equity	11,250
SHG at 60%	6,750
On cost at 5%	2,250
Total SHG	9,000
Total SHG on property	20,500
Long term loan	10,500

**Example 2**

Same initial purchase.

**Staircase to 100%**

Value	50,000
Sale proceeds	25,000
Repay loan	12,000

Repay SHG	13,000
SHG remaining	5,000
No surplus	

**Buy back at 100% and resale at 50%**

Value	
45,000	
Sale proceeds	22,500
Cost of unsold equity	22,500
SHG at 60%	13,500
On cost @ 5%	2,250
Total	
15,750	
Total SHG on property	20,750
Long term loan	9,000

## 1 INTRODUCTION

- 1.1 The shared ownership programme has given rise to various issues. This section sets out guidance on some of them.

## 2 Mortgage Difficulties

- 2.1 As a last resort option when a shared owner has got, or is about to get, into mortgage arrears and potentially lose their home, an RSL may use its Recycled Capital Grant Fund to act as a 'safety net' and offer flexible tenure. Flexible tenure is designed to enable a shared owner to remain in their home. For further information of how RCGF may be used in these circumstances please refer to *REC-5*.

## 2 3 Mortgage Default

- 3.1 If a shared-owner defaults on his/her mortgage payments, the commercial mortgage lender may apply to the courts for a 'judgement' or 'order' seeking to secure the arrears. If the arrears are still not forthcoming, the commercial mortgage lender may apply to a court for an Interim Charging Order (ICO). The ICO enables the commercial mortgage lender to impose a charge on the interest in the property as detailed in the Land Registry Title document. Court rules specify that all known parties with an interest in the property should be served with a copy of the ICO after it is made but before the full Charging Order is made.
- 3.2 As the terms of a shared-owner's lease cannot be varied without the Corporation's consent, the Corporation's details are required to be entered on the Land Registry Title document at Section B: Proprietorship Register. Due to these details being recorded on the document, the Corporation, on occasions, is sent a copy of an ICO.
- 3.3 Commercial mortgage lenders are not legally obliged to seek the Corporation's consent when applying for an ICO to be made. This is because the Corporation has no legal interest in the property, which is to be the subject of the order. However should an ICO addressed to the Corporation be received in a Field Office it should be forwarded with any accompanying correspondence to the Investment Policy Team at the Corporation's Maple House office.
- 3.4 Legal advice has been sought, and Maple House will inform the lender's solicitor that as the Corporation has no legal interest in the property that is subject to the ICO, there is no objection to the full Charging Order being made. Maple House will monitor any trends for future consideration.
- 3.5 A copy of the ICO should also be received by the RSL who has a legal interest in the property. The RSL should seek its own legal advice before replying to the lenders' solicitor.