

VPG - 1 GENERAL PRINCIPLES

- 1 Introduction
- 2 Purpose of VPG
- 3 Repayment of Discount
- 4 Conveyance of Freehold and Grant of Lease
- 5 Further Lending
- 6 Reporting on Annual Outputs
- 7 Disposal Proceeds Fund

1 INTRODUCTION

- 1.1 The Voluntary Purchase Grant Scheme (VPG) was introduced in April 1996 and allowed Registered Social Landlords (RSLs) to dispose of their rented housing at a discount to their secure and assured tenants who occupied properties eligible for the scheme. VPG has been replaced in April 2006 by Social Homebuy – *see Social Homebuy chapter*. For full details of how the VPG scheme operated please refer to previous versions of this chapter. Proceeds from the sale of VPG properties, including grant previously received or discount repaid must be paid into a Disposal Proceeds Fund to replace the rented housing sold. *See DPF paragraphs 1 and 2*
- 1.2 This chapter is for use by RSLs who previously operated the VPG scheme, who are now required to comply with these and any subsequent procedures.
- 1.3 VPG was not funded by Social Housing Grant (SHG(s18)) but paid under section 21 of the Housing Act 1996. The arrangements for VPG Grant recovery differ from those for the recovery of SHG. *See the DPF chapter*.

2 PURPOSE OF VPG

- 2.1 The VPG Scheme gave RSLs the opportunity to:
- sell its permanent rented housing stock to secure or assured tenants at a discount;
 - provide replacement rented housing by using the recycled receipts from sales together with private finance;

3 REPAYMENT OF DISCOUNT

- 3.1 The discount provided for the purchase under the VPG scheme is subject to repayment in certain circumstances.
- 3.2 If prior to 18.1.2005 the purchaser had accepted the offer from the landlord, or the landlord had accepted an offer by the purchaser the discount is repayable if the property is sold within 3 years from the date of purchase. Discount repayment is on the following terms:
- sale within year 1 all of the discount is repaid;
 - sale within year 2 two thirds (66%) of the discount is repaid;
 - sale within year 3 one third (33%) of the discount is repaid;
 - no discount is repaid after year 3.
- 3.3 For offers accepted on or after 18.1.2005 the discount is repayable if the property is sold within 5 years from the date of purchase. The amount due to

be repaid is calculated as a percentage of the resale value equivalent to the percentage of the discount when compared to the purchase price as follows;

- a) sale within year 1, an amount equal to the % value a above
- b) sale within year 2, 80% of the amount calculated as in a) above
- c) sale within year 3, 60% of the amount calculated as in a) above
- d) sale within year 4, 40% of the amount calculated as in a) above
- e) sale within year 5, 20% of the amount calculated as in a) above
- f) no repayment is required after year 5.

Example: if the property value at purchase was £160,000 and the discount received was £16,000, the discount would be the equivalent of 10%. If the property value subsequently rose and was sold for £180,000 during year 1 the repayment would be £180,000 x 10% =£18,000. If the same property sold within year 3 for £220,000 the repayment due would be £220,000 x 10%, = £22,000, x 60% = £13,200.

Where property values fall the same calculation method is to be followed. Continuing the above example, if the property value dropped to £150,000 within year 1 the repayment would be £150,000 x 10% = £15,000.

Disregard of improvements value

- 3.4 Where a VPG application was made on or after 18.1.2005, s199 of the Housing Act 2004 introduced provisions whereby any increase in a property's value attributable to improvements made by the owner after acquiring it, will be disregarded if the property is sold within the five-year period. The resale value is treated as net of the value of those improvements. Where the value of any improvements is disputed, consideration may be given to referring the question to the District Valuer for a determination - where is it reasonably practicable to do so. Any costs associated with reference to the District Valuer are to be borne by the person disposing the property. Where agreement cannot be reached regarding the value of any improvements, and the District Valuer does not make a determination no disregard for the value of improvements is allowed.

Deferred resale agreements

- 3.5 To avoid situations whereby tenants enter into transfer agreements with third parties to buy properties, immediately sell the property to that third party, but transfer ownership at a later date to avoid repaying any discount, s201 of the Housing Act 2004 now treats these transfer agreements as a relevant disposal. This has the effect of triggering the discount repayment from the date of the transfer agreement and not the date of the property transfer and affects all applications in progress on or after 18.1.2005.

- 3.6 **Exempted disposals** are to be the same as set out in S.160 of the Housing (Right to Acquire) Regulations 1997 as amended. A summary of exemptions from the repayment provisions is listed below:
- disposal to any member of the family who joined in the original application or who has resided in the property 12 months immediately before the date of disposal;
 - disposal to a spouse;
 - disposal to a person under the terms of a will or on an intestacy;
 - disposal arising from compulsory purchase by a public body;
 - disposal of the whole of the property in pursuance of an order under Section 24 of the Matrimonial Causes Act 1973.
- 3.7 RSLs were required to ensure that the conveyance, transfer or lease had an appropriate repayment covenant included, and The Corporation produced a model repayment of discount clause for this purpose, a copy is contained within the previous version of this chapter.
- 3.8 The requirement to repay the discount will rank immediately after the approved lending institution that provided the tenant's mortgage .

4 CONVEYANCE OF FREEHOLD AND GRANT OF A LEASE

- 4.1 No model leases or transfer documents were provided by the Housing Corporation and RSLs were required to consult their own solicitors on the conveyance or lease to be used.

Right of First Refusal

- 4.2 Where a VPG application was made on or after 18.1.2005, s200 of the Housing Act 2004 introduced provision for a covenant to be inserted into all conveyances that, during the period of 10 years from the date of conveyance the tenant (purchaser) or any successor in title, must make an offer of first refusal to the former landlord.
- 4.3 The covenant was required to be a local land charge and entered into the property's register of title by the Chief Land Registrar. Thus avoiding the covenant being overlooked at the point of resale.
- 4.4 Where RSLs choose to exercise the Right of First Refusal, they need to make their own arrangements for the necessary funding as the Corporation will not

be in a position to fund these through SHG. However, RCGF can be used to fund the re-purchase if appropriate.

5 FURTHER LENDING

- 5.1 Where an owner requires further lending to fund necessary works to the property RSLs may postpone their charge in favour of the lender. The charge should not be postponed for any other reason.

6 REPORTING ON ANNUAL OUTPUTS

- 6.1 The RSL is required to provide the Corporation and local authorities with monitoring information on VPG transactions. To comply, the RSL will be required to record data via the internet using the Corporation's IMS system, together with the completion of CORE sales logs as necessary. The RSL will be required to record all income and expenditure data concerning the Disposal Proceeds Fund, together with details of replacement properties. This annual return should be a national return for each RSL showing all VPG transactions and the required data must be input to IMS. The RSL should provide a copy of the return to each local authority in which sales have taken place.

Certifications

- 6.2 The information provided by the RSL on the annual return is the means by which the outputs will be monitored. Therefore the Corporation is reliant on RSLs certifying compliance with the VPG procedural requirements and ensuring that a print off of the annual return is shown to the RSL's external qualified auditor and signed by the RSL's authorised signatory.
- 6.3 The annual return should be submitted to the Corporation's IMS by no later than 20 working days after the end of the Corporation's financial year to which it applies.
- 6.4 The RSL's external auditors will report on this annually in their consolidated regularity report. *See circular R2-40/98 and GENERAL-9*

7 DISPOSAL PROCEEDS FUND (DPF)

- 7.1 For details of how to calculate contributions to the DPF, permitted uses of the DPF and accounting and administration arrangements please see the *DPF chapter*.