

5 Recycled Capital Grant Fund Administration

5.7.2 Uplift calculation

For avoidance of doubt, in situations where there has been a fall in house prices, this will not lead to a reduction in the historical grant to be recovered, other than in the limited circumstances set out in the Capital Funding Guide.

The amount of uplift that is recoverable or recyclable is based on the proportion of the original cost of the unit that was covered by the grant. In situations where recovery is being calculated for a single or group of units within a scheme, rather than the whole scheme, the grant and total scheme costs need to be attributed to the individual units on a per m² basis.

Worked example A – Affordable Rent

A profit making provider has an Affordable Rent scheme and seeks to dispose of one unit, a relevant event triggering recovery of grant and uplift.

There is grant of £20,000 attributable¹ to that unit and the total scheme costs attributed to that unit are £100,000. The open market value of the unit at the time of disposal (Net Value) is £175,000. Profit making providers are required to recycle or repay the original grant plus a proportion of the uplift in value.

To comply with the Agency's requirements the profit making provider must first calculate the Increase in Value, which is expressed by the formula $IV = NV - AFSC$.

$$IV = NV - AFSC$$

Where: IV = Increase in Value

NV = Net Value

AFSC = Attributable Final Scheme Costs

Worked example:

Net Value = £175,000

Attributable Final Scheme Costs = £100,000

$$\text{Increase in Value} = £175,000 - £100,000 = £75,000$$

The second step is to take the Increase in Value and calculate the Agency's share of the increase in value. The Agency's Proportion is expressed by the formula $APU = (AG/AFSC) \times IV - PR$.

(NB to aid understanding in this example we have broken the workings of this example into three stages)

$$APU = ((AG/AFSC) \times IV) - PR$$

Where: APU = Agency's Proportion of Uplift

AG = Attributable Grant

AFSC = Attributable Final Scheme Costs

IV = Increase in Value

¹ In this example we have included £20,000 of grant for the property affected. Registered providers are asked to note that in order to calculate the grant for the property affected they will need to apply the following formula $AG = ARG \times (IFS/TLFS)$ where AG = Attributable Grant; ARG = Affordable Rent Grant; IFS = Internal Floor Space; TIFS = Total Internal Floor Space

PR = Previous Recovery (i.e. any grant that has already been recovered on the unit)

Worked example:

Attributable Grant = £20,000

Attributable Final Scheme Costs = £100,000

Increase in Value (as calculated above) = £75,000

Previous Recovery = £0

Agency's Proportion of Uplift Stage 1 = $AG/AFSC$
= $£20,000 / £100,000$
= 0.2

Agency's Proportion of Uplift Stage 2 = $0.2 \times IV$
= $0.2 \times £75,000$
= £15,000

Agency's Proportion of Uplift Stage 3 = $£15,000 - PR$
= $£15,000 - £0$
= £15,000

Therefore the profit making provider should recycle or repay £20,000 in original grant plus a further £15,000 as the Agency's share of the uplift in line with the Agency's permitted purposes as set out in the Affordable Housing Capital Funding Guide.

Worked example B – Shared Ownership staircasing disposal

A profit making provider has a shared ownership scheme and predicts an initial share of 35% of a property. However, at the time of purchase the shared owner purchases a 40% share in the property. The shared owner then makes a further purchase (known as staircasing) of another 10%.

The initial tranche sale of a shared ownership property is not a relevant event for recovery. For later staircasing purchases, recovery is triggered when the share purchased exceeds the predicted equity purchase. In this example, the actual first tranche sale exceeded the predicted equity purchase by 5% ($40\% - 35\% = 5\%$).

As there is no recovery on the first tranche sale, the recovery of grant and uplift related to the 5% is held until the next relevant event.

The unit has £15,000² grant attributed to it and £75,000 of the total scheme costs. The Net Value of the unit at the time of staircasing is £197,000.³

Step 1

To comply with the Agency's requirements the profit making provider must first calculate the Increase in Value Proportion, which is calculated net of the forecast first tranche sale percentage and is expressed by the formula:

² For this example we have included £15,000 of grant for the property affected. Registered providers are asked to note that in order to calculate the grant for the individual property affected that they will need to apply the following formula $AG = SOG \times (IFS / TIFS) \times AP$ where AG = Attributable Grant; SOG = Shared Ownership Grant; IFS = Internal Floor Space; TIFS = Total Internal Floor Space; AP = Additional Proportion.

³ NB that were the Total Equity Purchased TEP is less than or equal to the Predicted Equity Purchased then the Attributable Grant is zero.

$$\text{IVP} = (100\% - \text{PEP}) \times (\text{NV} - \text{AFSC})$$

Where:

IVP = Increase in Value Proportion

NV = Net Value

AFSC = Attributable Final Scheme Costs

PEP = Predicted Equity Proportion

Worked example

Net Value = £197,000

Attributable Final Scheme Costs = £75,000

Predicted Equity Proportion = 35%

$$\begin{aligned} \text{Increase in Value Proportion} &= (100\% - 35\%) \times (£197,000 - £75,000) \\ &= 65\% \times £122,000 \\ &= £79,300 \end{aligned}$$

Step 2

The second step is to take the Increase in Value Proportion and calculate the Agency's share. If the total equity purchased is less than or equal to the Predicted Equity Purchased then the Agency's Proportion is 0, which reflected that the first tranche sale is not a relevant event for recovery.

Where the total equity purchased is greater than the Predicted Equity Purchase, the Agency's Proportion is expressed by the formula:

$$\text{APU} = (\text{AG} / ((100\% - \text{PEP}) \times \text{AFSC})) \times (\text{IVP} \times \text{AP}) - (\text{PR} \times \text{AP})$$

Where: APU = Agency's Proportion

AG = Attributable Grant

PEP = Predicted Equity Purchased

AFSC = Attributable Final Scheme Costs

IVP = Increase in Value Proportion

AP = Additional Proportion

PR = Previous Recovery

To aid understanding in this example we have broken the workings of this example into three stages

Worked example:

Attributable Grant = £15,000

Predicted Equity Purchased = 35%

Attributable Final Scheme Costs = £75,000

Increase in Value Proportion (as calculated above) = £79,300

Additional Proportion = 15% (the 10% of the staircasing and the additional 5% on the initial purchase)

Previous Recovery = £0

$$\begin{aligned} \text{Agency's Proportion stage 1} &= (\text{AG} / ((100\% - \text{PEP}) \times \text{AFSC})) \\ &= (£15,000 / ((100\% - 35\%) \times £75,000)) \\ &= 31\% \end{aligned}$$

$$\text{Agency's Proportion stage 2} = 31\% \times (\text{IVP} \times \text{AP})$$

$$= 31\% \times (\pounds 79,300 \times 15\%)$$

$$= \pounds 3,687.45$$