Homes &
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Agency

Disposal Proceeds Fund Guidance

Homes and Communities Agency
April 2015 (amended August 2017)

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Addendum August 2017

This guidance is affected by deregulatory changes to social housing regulation made by Section 92 (and Schedule 4 Part 3) of the Housing and Planning Act 2016. These changes came into force on 6 April 2017. The changes remove the obligation to account for proceeds of sale of a disposal which occurs after 6th April 2017. The other DPF obligations – particularly the requirements for separate accounting, for constituting and showing the DPF in accounts, for adding interest to the DPF fund, and for following the regulator's requirements about use and allocation of DPF funds – continue to apply during a wind down period and until at the latest, 6th April 2020.

The regulator has published a new document, *"Guidance on the effect of the Housing and Planning Act 2016 on Disposal Proceeds Fund Requirements"*, which is available on the .GOV.UK website. It sets out how the various provisions in this guidance, and the requirements from 2015, are affected by those changes.

Disposal Proceeds Fund Guidance

Contents

1 Overview

1.1 The Regulator has published its requirements for private registered providers of social housing (PRPs) on operation of the disposal proceeds fund (DPF). All PRPs are obliged to comply with these requirements. The *Disposal Proceeds Fund Requirements of the Social Housing Regulator 2015* is available on the HCA pages of the .GOV.UK website. That document is referred to in the following guidance as 'DPF requirements'.

1.2 This Disposal Proceeds Fund Guidance 2015 is intended to help PRPs meet the Regulator's requirements. It replaces the Disposal Proceeds Fund Guidance 2008.

1.3 This guidance supplements the DPF requirements, but PRPs should read the DPF requirements document itself – this guidance does not repeat those requirements.

1.4 There is a glossary in the DPF requirements which explains how various terms are used. The same terms are used in this guidance, indicated by capital letters.

1.5 This guidance is subject to updating by the Regulator when needed. PRPs should ensure they are referring to the most recent version on the .GOV.UK website.

2 Net Disposal Proceeds to be shown in DPF

2.1 This section of the guidance covers information about certain transactions which must feature in a PRP's DPF (for full information on all the transactions see section 2 of the DPF requirements). Firstly there are relevant sales. Secondly there are other types of transaction such as when Capital Grant is received or a historic discount on purchase is repaid by the purchaser; when interest is added; and when sums are transferred from the DPF of one provider to another's. The purpose of this section of the guidance is to help PRPs understand how in practice they should go about identifying and calculating the Net Disposal Proceeds to be shown in DPF.

Sales: Identifying relevant sales

2.2 There are various types of sale which will result in Net Proceeds of Sale being shown in the DPF (DPF requirements paragraphs 2.1.1 (a) – (d), and 2.1.2 (a) - (c)). It will generally be fairly straightforward for a PRP to recognise which sales fit into the above descriptions. Definitions of the schemes under which the disposals took place are in the glossary of the DPF requirements document, and details of how the schemes work and to which properties and providers they apply can be found in current or archived versions of the HCA's Capital Funding Guide (or equivalent)[1]. Information on the more complex sale types for which Net Proceeds of Sale must be shown in DPF is below.

[1] Old versions of the Affordable Housing Capital Funding Guide can be accessed in the library section on the following link http://cfg.homesandcommunities.co.uk/cfg?page_id=&page=1

2.3 Profit making PRPs have obligations (see the DPF requirements (2.1.2.(a) and (b)), to show Net Proceeds of Sale in a DPF where stock has been acquired from the non-profit sector, or provided using sums from that provider's DPF (see DPF requirements section 6 and section 6 of this guidance below for details of permitted uses of sums in DPF). There are examples of the interaction of a profit making PRP's transactions with DPF in Annex 1. The key principles of which sales the requirements apply to are set out below to help this group of providers identify them and use DPF correctly:

(a) The requirement in 2.1.2 (a) means that there is a clear split between Dwellings which a profit making PRP has acquired from either a non-profit PRP or a local authority RP, and Dwellings which it has built or acquired from any other source. Disposal of the former generates a requirement to show Net Proceeds of Sale in a DPF. Disposal of the latter does not, even where they were built or acquired using Capital Grant or financial assistance (separate arrangements apply for the return of Capital Grant or financial assistance to the investment agencies[2]). It is therefore crucial for profit making PRPs to identify and record clearly the sources of all their stock so that they know which group a Dwelling falls into in advance of Disposal.

(b) DPF requirements 2.1.2 (b) states that on a Disposal of any Dwelling built or acquired using funds from the PRP's DPF, the Net Proceeds of Sale must be shown in DPF. Combined with 2.1.2 (a) as above, in practice this means that a cycle will operate in perpetuity where, once a dwelling is acquired from the non-profit sector, any sale of it, or of property built using funds from the sale of it, will continue to be required to be shown in a DPF (and thus all Net Proceeds of Sale will return to DPF when it in turn is sold). Where a new or refurbished Dwelling to which sums from DPF have contributed is funded jointly, or even in majority, from other sources, the contribution from DPF still generates the requirement for all Net Proceeds of Sale of that Dwelling to be shown in DPF when the Dwelling is sold. This remains the position through an unlimited number of re-investments and re-sales.

2.4 DPF requirements paragraphs 2.1.2 (c) states that sales under Preserved Right to Buy (PRTB) where the PRP acquired the Dwelling by way of a stock transfer from a Local Authority after 31 December 2014 generate a requirement to show Net Disposal Proceeds in the DPF. This requirement applies to all stock transfer PRPs in these circumstances whether they are non-profit or profit making, and has been introduced as a result of a change in Government policy on stock transfer arrangements[3].

Sales: What is to be regarded as the Gross Proceeds of Sale

2.5 The Gross Proceeds of Sale may not in all circumstances be the actual selling price. The following principles apply:

(a) Regardless of the actual price paid on disposal, the Gross Proceeds of Sale is to be taken as the market value of the Dwelling as assessed by an independent qualified valuer.

[2] See the current Affordable Housing Capital Funding Guides on the .GOV.UK website (for the HCA outside London) and the GLA website (for within Greater London)
[3] See *Housing Transfer Manual Period to 31 March 2016,* DCLG/HCA/GLA July 2014, p26. Available here https://www.gov.uk/government/publications/housing-transfer-manual-period-to-31-march-2016 .

(b) Where the sale is of less than 100% of the property (eg under SHB or Shared Ownership Arrangements), the Gross Proceeds of Sale should be the applicable percentage of the market value. Again, this is regardless of the actual price paid and is to be assessed by an independent qualified valuer.

(c) In the case of sales under RTA, SHB or VPG, the Gross Proceeds of Sale (as above - the independently assessed market value of the property) should be the total of the payment from the purchaser and the RTA/SHB/VPG purchase grant received towards the discount.

Other transactions: Sums to be shown in DPF

2.6 In addition to sale proceeds, sums in a PRP's DPF can also arise from the following:

(a) Capital Grant received when there is a sale under RTA, SHB or VPG, to cover the discount given to the purchaser. Together the payment received from the purchaser (see 2.5 (c) above) and the Capital Grant received from the investment agency make up the Gross Proceeds of Sale.

(b) Repayment of discounts where RTA, SHB or VPG purchasers sell on within the prescribed timescales (DPF requirements 2.1.1 (e) to (h)).

(c) Interest added (DPF requirements section 4, and section 4 below).

(d) Transferred sums from another PRP's DPF (see DPF requirements paragraph 2.1.2(iv)). Guidance on transfers between different PRPs' DPFs is below.

2.7 Transfers between different PRPs' DPFs can be useful, for example, to support the quick and efficient use of DPF to meet priorities in the Affordable Homes Programme, or to assist in cases of transfer of undertakings from, or deregistration of, a provider with sums in its DPF. When transfers of sums in DPF are carried out, the following principles apply:

(a) The requirement (see DPF requirements 2.2) that DPF generated within and outside Greater London must be identified separately continues after transfer.

(b) The receiving PRP will need to ensure it collects sufficient information from the transferring PRP at the point of transfer to allow firstly the separation of sums generated within and outside Greater London as above; and secondly accurate recording in its accounts and in annual returns (see Section 7 below).

(c) Transfers do not constitute a use or allocation of the DPF on the part of the transferring PRP, as covered by the Regulator's direction (see section 6 of the DPF requirements and section 6 of this guidance). The use/allocation which must conform to the Regulator's direction will be the eventual use or allocation by the receiving PRP.

(d) The PRP receiving the transferred sums will be required to show the transfer in their DPF as set out in the Accounting Direction (see DPF requirements section 5 and section 5 in this guidance). The receiving provider's own DPF should be credited with the transferred sums no more than one day after the date of debiting the DPF shown by the transferor.

(e) Transfer of sums in DPF from one PRP to another does not restart the three year timetable for payment (see DPF requirements section 7 and section 7 below).

(f) Transferred sums should be specifically identified in annual returns (see 7 below), to avoid the possibility of double counting withdrawals and inputs.

3 Amounts to be deducted in determining Net Proceeds of Sale from Disposals

3.1 This section of the guidance covers information about amounts which may be deducted to arrive at the figure which should be shown in DPF (see Section 3 of the DPF requirements). Having identified the Gross Proceeds of Sale (see section 3.1 of the DPF Requirements and section 2 above), the next step is to consider whether deductions may be made to arrive at Net Proceeds of Sale. The DPF Requirements (section 3.1) says that 'eligible deductions' can be made to arrive at the Net Proceeds of Sale, which is the sum which will be shown in DPF. It contains a list of those eligible deductions. This section of the guidance is to help PRPs understand how they should go about calculating deductions in order to arrive at the Net Proceeds of Sale. In addition to the guidance below, Annex 2 contains some worked examples of calculations of Net Proceeds of Sale.

3.2 For some types of proceeds, no deductions are possible. These are: sums transferred from another PRP's DPF (see 2.7 above), which will already have had eligible deductions made by the transferring provider; and repaid discounts (see 2.6 above). There are also no deductions possible from interest added to the DPF (also 2.6 above and 4 below).

3.3 Where eligible deductions apply, these come under three main categories as set out below.

Deductions for expenses of sale

3.4 The first category of deduction is expenses associated with the sale. DPF requirements (paragraph 3.1(a)) permits that reasonable valuation, legal and survey fees be deducted. This is universal, applying to all types of sale by all types of providers. Actual costs should be used. Where these costs were incurred but the sale did not proceed to completion, the costs incurred may be carried forward and deducted from the Gross Proceeds of Sale of a subsequent sale of the same property which does complete (provided that this does not result in a negative amount recorded in the DPF).

3.5 The DPF requirements (paragraph 3.1(a)) refers to SHB and Shared Ownership Arrangements (see definitions in the DPF Requirements glossary). In respect of these, there may be several sales of a percentage until the property is staircased out to full ownership by the tenant. Both on sales of the initial percentage of the property, and where the SHB or Shared Ownership Arrangements purchaser goes on to purchase further shares, providers may deduct costs of legal, valuation and survey fees as above at each sale. For SHB sales, PRPs are also able to deduct an additional allowance which represents the administrative costs of these sales. Rather than using actual costs, providers should use rates compatible with those for the Recycled

Capital Grant Fund set out in the Affordable Housing Capital Funding Guides published by the Homes and Communities Agency[4] (covering outside Greater London) and GLA[5] (covering Greater London). There is an allowance for the initial percentage sale, and a 'staircasing allowance' in the case of further percentage sales. Note that in the case of further percentage sales, the amount which can be deducted for DPF purposes is the 'initial sales allowance' for a house regardless of whether the property is a house or flat.

Deduction for notional cost of private finance

3.6 The second category of eligible deductions is the notional cost of private finance. This category of deduction only applies to non-profit PRPs. The DPF requirements (section 3.1 (b)) sets out when deductions can be made for the notional cost of private finance. This section of the guidance is to help non-profit PRPs understand how in practice they should go about calculating those deductions in order to reach the Net Disposal Proceeds.

3.7 The principle is that the amount the non-profit PRP paid for purchase/construction/transfer less any Capital Grant, financial assistance or other funding that they have received on the dwelling is taken to be a notional cost of private finance needed to provide the property. This notional private finance cost is then an eligible deduction from Gross Proceeds of Sale.

3.8 Note that the Capital Grant, financial assistance or other funding to be deducted is only that connected with the original purchase/ construction/ transfer. Any subsequent grant paid, for example for major repairs, or the purchase grant received by the provider to cover the RTA/SHB discount, cannot form part of the deduction.

3.9 In the case of SHB, if the Net Disposal Proceeds (the Gross Proceeds of Sale less the Eligible Deductions) of a percentage sale are insufficient to enable the deduction of all the notional cost of private finance, then the shortfall may be deferred to the sale of a subsequent percentage and deducted then. If the property is staircased to outright ownership, and proceeds still do not cover the notional cost of private finance, the final shortfall is written off. There can never be a negative amount credited to DPF.

3.10 Worked examples of how to calculate the notional private finance deduction for the following scenarios are in Annex 2:

Example 1: A Dwelling funded by Capital Grant, financial assistance or other funding, for a non-profit PRP.

Example 2: A Dwelling transferred from a Local Authority under stock transfer.

Example 3: A Dwelling developed without Capital Grant.

Example 4: A SHB sale

Deductions for net present value of rent foregone

3.11 The third category of eligible deduction is a figure to represent lost rental income. The DPF requirements (section 3.1(c)) sets out that this category of

[4] See link here: http://cfg.homesandcommunities.co.uk/cfg?page_id=5873&page=163

[5] See link here: http://www.london.gov.uk/priorities/housing-land/increasing-housing-supply/london-variations-to-the-affordable-housing-capital-funding

deduction only applies to the PRTB sales of stock transfer PRPs where the transfer completed after 31 December 2014 (2.4 above). It applies equally whether the stock transfer PRP is profit making or non-profit. The DPF requirements refers to 'net present value of rent foregone due to the sale' which may be deducted from Gross Proceeds of Sale. This section of the guidance is to help PRPs understand how in practice they should go about calculating this. A worked example is set out in Annex 2 as Example 5.

3.12 The Regulator considers that 'a sum representing the net present value of rent foregone due to the sale' should be based on the sold property's predicted income and expenditure streams, discounted over time.

(a) The income stream will generally be rent, while the expenditure stream will generally cover voids, bad debts, management and maintenance costs. What is included and excluded in each case would be based on the transfer valuation model[6] at the time of transfer. However the PRP's assessment may be that there have been substantial changes since transfer and revised figures based on their current business plan are more appropriate.

(b) The net present value (NPV) calculation should be based on a time period consistent with the norms used by the provider, either using specific data for the property sold, or on a beacon basis for that type, size and location of property.

(c) The discount factor used in the NPV calculation should be the same one used at the time of transfer or, if that is now considered out of date, the discount rate that is now used for investment appraisal purposes by the PRP.

4 Interest to be added

4.1 The DPF requirements (in section 4) say that PRPs must add interest to the sums in their DPF. This section of the guidance is to help PRPs understand how in practice they should go about calculating interest.

4.2 The DPF requirements sets out rates of interest. The rates quoted are annual rates. The convention is to calculate interest on a daily basis according to a 365-day year, that is: balance x rate x (days/365)

4.3 If a PRP is subject to Corporation Tax and will incur such tax on their interest earnings, then the PRP may deduct Corporation Tax from its interest earnings. The deduction should be at the standard rate of Corporation Tax currently applying to large companies.

4.4 An example of interest calculation is Example 6 in Annex 2.

[6] For further details on the transfer valuation model, see the current edition of the DCLG's *Housing Transfer Manual*, available on the .gov.uk website. The edition covering the period to 31 March 2016 is here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/329907/140704_Manual_2014_Final__2_.pdf

5 Constitution and presentation of DPF in accounts

5.1 The DPF requirements (section 5) state that PRPs must constitute and present the DPF and show it in their statutory accounts, in accordance with the Regulator's direction. The Regulator's Accounting Direction[7] contains guidance on how this is to be achieved in practice and a required format for disclosure. Therefore, no further guidance is given here.

6 Use and allocation of sums in DPF

6.1 The Regulator's direction on how PRPs must use or allocate sums in DPF is set out in the DPF requirements (section 6). This section sets out the principles which the Regulator will apply when deciding on any issues arising from PRPs' use or allocation of DPF.

6.2 PRPs are reminded that they must at all times ensure that they comply with all regulatory requirements, including complying with the Regulator's standards. This includes how the PRP uses and allocates sums in DPF. Some examples of the interaction between regulatory standards and DPF are as follows:

(a) In their dealings with local authorities over building and allocation of replacement stock using DPF, PRPs comply with those aspects of the Tenancy standard which concern a PRP's obligation "to contribute to the local authority's strategic housing function"; and to the obligation under the Neighbourhood and Community Standard to "co-operate with relevant partners to help promote social, environmental and economic wellbeing in the areas where they own properties".

(b) In considering the physical standard of properties to be provided from DPF, PRPs comply with requirements of the Home Standard.

(c) When considering lettings and use of properties provided with funds from DPF, PRPs comply with the tenure requirements of the Tenancy Standard.

(d) When making decisions on use and allocation of sums in DPF, PRPs comply with the Value for Money Standard in terms of cost of construction, management and maintenance; and with the requirements in the Governance and Financial Viability Standard around maintaining control of risk exposure for the organisation.

(e) The DPF Requirements say that a PRP may only use DPF towards Dwellings for Low Cost Rental Accommodation, for letting at either Social (Formula) Rents or Affordable Rent. PRPs should also remember that they must comply with the Tenancy Standard, and Rent Standard (including Rent Standard Guidance); for example, use of Affordable Rent is permitted only in the context of an Affordable Rent Framework Delivery Agreement[8] (or equivalent) with HCA, or GLA in London. In some aspects use of DPF is restricted beyond what

[7] At time of publication, the Accounting Direction in force is the *Accounting Direction for social housing in England from April 2012*, which is available on the GOV.UK website. The regulator's consultation on proposed changes to that Direction was published in March 2015, with the intention that a revised Accounting Direction will be issued during 2015. The 2015 Accounting Direction, when published, will apply to the preparation of accounts for the financial year 2015/16 and subsequent years.

[8] See the relevant *Affordable Housing Capital Funding Guide* published by the HCA or GLA for details of how Affordable Rent operates.

is allowed in the Rent Standard and Tenancy Standard. It may not, for example, be used for any other available product in the HCA's Affordable Homes Programme or the GLA's equivalent programmes beyond Social (Formula) Rent and Affordable Rent (and Shared Ownership Arrangements in the very limited circumstances described in B below), regardless of whether the Rent and Tenancy standards would generally permit the PRP to operate this product.

6.3 The DPF Requirements (6.3 (a) to (g) and 6.4 (a)) state that there are a range of permitted ways to use DPF under the Regulator's direction, including additional potential uses for funds originating from SHB (any PRP) and Shared Ownership Arrangements (profit-making PRPs only). The choices made amongst these various options are a matter for the provider, who might consider factors such as which local authority area the sums in DPF originated from, and whether the sums in DPF arose from particular historic funding streams, for example the former Rough Sleepers Initiative. Where providers make use of the extra flexibility to use sums in the DPF originating from SHB for "improvement of dwellings used as Low Cost Rental Accommodation let at Social (Formula) Rent or Affordable Rent by a PRP in such a way as to address homelessness or overcrowding"(DPF requirements 6.3 (g)), the Regulator interprets "improvement" in a broad way. For example it could include extension or conversion.

6.4 When using or allocating sums in the DPF, it will be for the PRP to decide whether to use it in different ways; for example, it may wish to combine that money with new allocations of Capital Grant or financial assistance, recycled capital grant, sums from its reserves, and/or sums raised through private finance. If sources of funding are combined in this way, providers may still only use that part of the funding which comes from DPF for the permitted uses set out in the Regulator's direction. Profit making PRPs should also note DPF requirements 2.1.2(ii) and 2.3 of this guidance as regards jointly or multiply-funded schemes.

7 Time limits after which payment may be required

7.1 Section 7 of DPF requirements gives various circumstances and time limits in which the Regulator may use its power to require PRPs to pay sums in DPF to either HCA or GLA. In all cases the maximum time limit set by the Regulator before it will exercise this power is three years, but in some circumstances, for example de-registration, sums in DPF may be required to be paid immediately (DPF requirements 7.2 (a) to (d)). This section of the guidance is to help PRPs understand how in practice the Regulator manages its power to require payment, and what PRPs need to do.

7.2 At the end of the third year after that in which the proceeds arose (or earlier in some circumstances – see DPF Requirements 7.2 (a)-(d)), the Regulator may require that sums in DPF are paid over. For example, if a PRP receives Net Disposal Proceeds during 2010/2011, the Regulator can require them to be paid over on 1 April 2014. In practice, the Regulator will require sums to be paid over unless approval is given by the Regulator for the sums to be rolled over.

7.3 It is the provider's responsibility to proactively monitor its DPF and identify any such sums. It should also identify and notify the Regulator of any cases where, within the three year limit, it

(a) believes that it is unable to use or allocate the sums for such purposes and in such manner as the Regulator has directed (DPF requirements 7.2 (a))

(b) has applied sums from the DPF to a purpose not permitted (DPF requirements 7.2 (b))

7.4 The Regulator produces a notification form (Form DPFN1) for PRPs to complete indicating any sums in DPF for which it may require return under 7.2(a) or (b) of DPF requirements. It is available on the .GOV.UK website and also included for information as Annex 3 to this guidance.

7.5 On receipt of completed notification forms, the Regulator will decide on a case by case basis whether to require that sums are to be paid over, or whether an extension will be allowed to enable the provider to spend the sums within an acceptable period. Factors which the Regulator will take into account in reaching a decision include the following:

(a) The size of the sum(s) involved

(b) The regulatory compliance, particularly Governance and Viability ratings, of the PRP and whether these are under review

(c) The credibility and viability of any plans for using the sums within the next financial year or within the development programme cycle

(d) Whether there have been any previous extensions for the sums in question

(e) Whether the PRP is subject to more intensive regulatory engagement or any regulatory notices at the time of the application

(f) Whether there have been significant approaches to the Regulator concerning breaches of the consumer regulation standards at this PRP, especially where they apply to stock condition

(g) Where the notification concerns de-registration, whether there are any issues being raised as part of the investigations around de-registration

7.6 Having reached a conclusion, the Regulator will notify the PRP by letter of its decision with regard to the sums in DPF. If the decision is to require payment the Regulator will contact the applicant to discuss arrangements and timescales for payment of the relevant sums. If the Regulator decides that in this instance it will not exercise its power to require payment, then the PRP should continue to pursue the future plans it has for sums in DPF as it has indicated on the notification form DPFN1. The Regulator will require further notification forms to be submitted by the PRP at suitable intervals until such time as the plans are delivered and the sums in DPF used or allocated in accordance with the Regulator's direction.

7.7 Payment, where required by the Regulator, is made following issue of an invoice, to the investment agencies - HCA outside Greater London and GLA within Greater London.

The DPF annual return

7.8 It is a regulatory requirement that PRPs include within the data they submit to the Regulator an annual return on sums moving in and out of the DPF. The rest of this section gives information to PRPs to help them do this.

7.9 The annual return is collected via the Investment Management System (IMS) as operated by HCA or GLA. Details of the HCA system are available on the .GOV.UK web site[9]. The GLA currently use the HCA's IMS system for their returns, with the use of an additional page[10]. PRPs, on setting up an account with IMS, will be able to see the details of the data required and there is a separate guidance document published to aid completion of the forms. The due date for the DPF annual return is 30th June each year and, as with other data returns to the Regulator, it is the PRP's responsibility to submit data on time and of satisfactory quality. The annual return will need to maintain the separate treatment of sums arising from disposals within and outside of Greater London which applies throughout the DPF requirements.

7.10 The on-line submission involves a PRP certifying that it has complied with the procedures for RTA, SHB, VPG and the Regulator's Requirements on DPF. This certification will generally require oversight of DPF by external auditors or examiners to have been carried out.

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[9] Guidance on submitting Annual Returns via IMS is available at the following link. PRPs should check online to ensure they are using the latest version of the guidance. https://www.gov.uk/investment-management-system-guidance-documents

[10] See link here http://www.london.gov.uk/priorities/housing-land/increasing-housing-supply/london-variations-to-the-affordable-housing-capital-funding for details of the interaction of HCA's and GLA's Capital Funding Guides including reference to different screens on IMS, details of which are here: http://www.london.gov.uk/sites/default/files/GLA%20RCGF%20DPF%20Future%20Commitments%20Screen%20Completion%20Guidance%20.pdf

Annex 1 – Examples DPF use by profit making PRPs

Example 1: Sale of a Dwelling originally purchased from a non-profit PRP to a purchaser from outside of the social sector

Disposal 1
Profit making PRP buys a Dwelling at its then market value of £80,000. Sale by the profit making PRP 2 years later for £170,000. Expenses of sale total £2000

		£	£
a	Market value		170,000
b	Allowable expenses (survey fees, etc.)	2,000	
	Transfer to Disposal Proceeds Fund (a-b)		168,000

The profit making PRP goes on to build 4 new Dwellings using the £168,000 from DPF and adding £132,000 of Capital Grant funding and £100,000 from private finance. Sells each of the 4 new Dwellings for £300,000 each. Transaction costs of the sales total £12,000.

Disposal 2

		£	£
a	Market value		1,200,000
b	Allowable expenses (survey fees, etc.)	12,000	
c	Grant repayable (Capital Grant is not separately repayable when sale proceeds are being shown in DPF)	nil	
	Transfer to Disposal Proceeds Fund (a-b)		1,188,000

Example 2: Sale to a tenant under Shared Ownership Arrangements, of a Dwelling originally purchased from a non-profit PRP
Market value £200,000. Historic cost £120,000. Capital Grant £80,000. Applicant purchases a 25% share, and they live in an area where the RTA discount is £16,000.

Disposal 1

		£	£
a	Gross Proceeds of Sale ie market value x 25%		50,000

	Less eligible deductions		
b	Allowable expenses (survey fees, etc.)	3,000	
	Total eligible deductions	3,000	
c	Net Disposal Proceeds (Transfer to DPF) (a-b)		47,000

Disposals 2,3 and 4: Sales of further 25% shares to the tenant. Further sales of percentage shares will be on the same basis as that above.

		£	£
a	Gross Proceeds of Sale ie market value x 25%		50,000
	Less eligible deductions		
b	Allowable expenses (survey fees, etc.)	3,000	
	Total eligible deductions	3,000	
c	Net Disposal Proceeds (Transfer to DPF) (a-b)		47,000

Total into DPF from the 4 tranche sales is £188,000 (£47,000 x 4).
The profit making PRP takes £150,000 out of its DPF to build 2 new Dwellings, adding to it £50,000 from tranche sales of other shared ownership property not connected with the social housing sector. The 2 new Dwellings are sold on shared ownership arrangements to tenants with an initial 25% share in each case. The market value at time of sale is £300,000 for each property. DPF calculation for one property shown below.

Disposal 5

		£	£
a	Gross Proceeds of Sale ie market value x 25%		75,000
	Less eligible deductions		
b	Allowable expenses (survey fees, etc.)	3,000	
	Total eligible deductions	3,000	
c	Net Disposal Proceeds (Transfer to DPF) (a-b)		72,000

Annex 2 - Worked examples of allowable deductions

Example 1
A Dwelling funded by Capital Grant or other public subsidy for a non-profit PRP

		£	£
a	Market value (note 1) less admissible deductions		170,000
b	Historic cost (note 2)	80,000	
c	Less Capital Grant or other public subsidy (note 3)	50,000	
d	Notional cost of private finance (b-c) (note 4)		30,000
e	Allowable expenses (survey fees, etc.)		3,000
f	Administration allowance (house)(note 6)		701
g	Transfer to Disposal Proceeds Fund =a-(d+e+f)		136,299

Example 2
A Dwelling transferred from a Local Authority under stock transfer

		£	£
a	Market value Less admissible deductions		170,000
b	Peak loan debt on the transfer	3,200,000	
c	Divided by units in the transfer	200	
d	Attributable Loan Debt (b-c) (notes 5 and 7)		16,000
e	Allowable expenses (survey fees, etc.)		3,000
f	Administration allowance (house)(note 6)		701
g	Transfer to Disposal Proceeds Fund =a-(d+e+f)		150,299

Example 3
A Dwelling developed without Capital Grant or other public subsidy.

		£	£
a	Market value Less admissible deductions		170,000
b	Historic cost	80,000	
c	Less Capital Grant or other public subsidy	nil	
d	Notional cost of private finance (b-c) (note 4)		80,000
e	Allowable expenses (survey fees, etc.)		3,000
f	Administration allowance (flat) (note 6)		1,576
g	Transfer to Disposal Proceeds Fund =a-(d+e+f)		85,424

Example 4
A Social Homebuy sale

Market value £200,000. Historic Cost £120,000. Capital Grant £80,000. Applicant purchases a 25% share, and they live in an area where the RTA discount is £16,000.

		£	£
a	Gross Proceeds of Sale ie market value x 25%, comprised of discount / purchase grant (25% of £16,000) ie £4,000 and payment from applicant £46,000		50,000
	Less eligible deductions		
b	Allowable expenses (survey fees, etc.)	1,424	
c	Administration allowance (flat) (note 6)	1,576	
d	Notional cost of private finance (Historic cost-SHGx25%)	15,000	
	Total eligible deductions	18,000	
e	Net Disposal Proceeds (Transfer to DPF) =a-(b+c+d)		32,000

Notes for examples 1 to 4 above

Market value of the property will be equal to the sum of the purchase price paid by the tenant plus their discount / purchase grant.

1 Historic costs are the costs of acquisition or development. They exclude:

- works of repair or maintenance
- works to deal with defects in the property
- works of improvement where they are paid for on or after the date of the tenant's Right to Acquire application, unless the landlord entered into a written contract for the works before the tenant's application; or the tenant had agreed to the works being carried out before the service of the offer notice; or the tenant has agreed the works as part of the proposed terms of the conveyance.

2 Capital Grant/other public subsidy means Capital Grant or other public subsidy of any kind used by the landlord in whole or in part in connection with acquisition and development costs where the subsidy was provided by the funding agency or other public sector funding body. Other public subsidy can be either cash or subsidised land. The total amount of public subsidy is based on the original acquisition and construction only. Subsequent grant paid eg for major repairs is excluded from the calculation.

3 Notional cost of private finance is the amount the PRP has theoretically borrowed to meet the difference between the unit cost of development and the public subsidy. For sales by non-profit PRPs under RTA, SHB or VPG only, the notional cost of private finance is calculated by deducting Capital

Grant or other public subsidy from the historic cost of the property (example 1).

4 For Dwellings which have been subject to stock transfer, the equivalent to the notional cost of private finance is the Attributable Loan Debt . The figure is to be as predicted at the date of transfer, not as predicted at the date of the sale of the property. For Dwellings provided by the PRP post transfer this will not apply and instead there will be a notional cost of private finance calculation in accordance with example 1.

5 Allowances cover the PRP's own administrative expenses including a proportion of overheads. The examples use the rates for 2011/2015. For current 'property disposal deductible administration expenses' values, PRPs should refer to the most recent administrative allowances guidance, which can be found on the Capital Funding Guide homepage on the HCA's pages of the GOV.UK website.

Example 5

A Dwelling sold by a stock transfer PRP (where the transfer completed after 31 December 2014) under the PRTB

		£	
a	Market value	110,000	
b	Less: Discount	49,500	
c	PRTB Proceeds (=a-b)	60,500	
	Less:		
d	Transaction costs	2,000	
e	Administration allowance	701	
f	Net rental income foregone	23,000	(see note 1 below for how this figure is arrived at)
g	Transfer to Disposal Proceeds Fund (=c-d-e-f)	34,799	

Note 1: Example of NPV calculation to establish net rental income foregone

Inflation	2.5%			
Discount factor	7.0%			
Year	1	10	20	30
Rent	4784	5975	7648	9790
less voids	96	119	153	196
Net income	4617	5765	7380	9447
Management	950	1186	1519	1944
Maintenance	2150	2685	3437	4400
less bad debts	72	90	115	147
Operating surplus	1445	1804	2310	2957
NPV	23260 say 23,000			

Example 6
Calculation of interest accruing on the DPF during the year 1 April to 31 March.

Assumptions:

- The Base Lending Rate opens at 7% but increases to 7.5% from 1 September.
- Clearing Bank high interest deposit rate opens at 5% but increases to 5.35% from 1 September.
- The Corporation Tax rate is 25%.

Date	Proceeds	£ Payment	£ Balance	£ %	Days	£ Interest
1 Apr	100,000	100,000	100,000	5.00	47	644
18 May	200,000		300,000	6.25	38	1,952
25 Jun	300,000		600,000	6.50	53	5,663
17 Aug		125,000	475,000	6.25	15	1,220
1 Sept			475,000	6.35	26	2,284
27 Sept		240,000	235,000	5.35	46	1,584
12 Nov	625,000		860,000	7.25	71	12,128
22 Jan	290,000		1,150,000	7.50	42	9,925
5 Mar		765,000	385,000	6.75	27	1,922
1 Apr	77,000		462,000	7.00	365	37,323

Notes

1. When calculating the number of days, the convention is to count the number of midnights that the money is in the account, ie include the day it arrives but not the day it leaves.

2. The number of days counted is the time from one receipts or payment until the next. For example, there are 47 calendar days between 1st April and 18th May.
   In a leap year one additional day's interest is earned, i.e. the actual day count includes 29 February and the day count total will be 366.

3. Taxpayers would multiply the notional interest earnings of £37,322.70 by 75/100 to take account of Corporation Tax payable.

Annex 3

Notification form advising the Regulator of circumstances which may entail a requirement for payment

Homes & Communities Agency

FORM DPFN 1
Version 2 August 2017

HOUSING AND REGENERATION ACT 2008, SECTION 177 and 178

NOTIFICATION TO THE REGULATOR OF CIRCUMSTANCES WHICH MAY RESULT IN THE EXERCISE OF THE REGULATOR'S POWER TO REQUIRE PAYMENT OF SUMS IN DPF BY A PRIVATE REGISTERED PROVIDER

(Please use as much space as is necessary and continue on an additional sheet, or expand in a covering letter, if desired)

PART 1 INFORMATION ABOUT THE APPLICANT

1.	The name and address of the private registered provider making the application
2.	The private registered provider's registration number with the Regulator
3.	A contact for enquiries about this application, including their phone and email
4.	Indicate the address to which the Regulator's response is to be sent, if different from item 1 above

PART 2 INFORMATION ABOUT THE PROVIDER'S DISPOSAL PROCEEDS FUND

6.	The total balance of the DPF as at the end of the last financial year (specify date)
7.	See *DPF requirements of the social housing regulator 2015* for circumstances in which the Regulator may require payment of sums in DPF. Please identify below which of these circumstances apply (more than one if applicable) and give details including sums involved.
8.	The Regulator will decide whether sums should be paid, how much and when (see *DPF guidance 2015* for information about the Regulator's approach to that decision). So that your preferences can be taken into account, please state your preference for the sums within your DPF which are covered by the circumstances described in question 7. Do you wish to pay them over to the investment agencies, or are you seeking the agreement of the regulator to an extension of the time limit? Please give details.
9.	If your preferred option is to pay over any sums, please set out the time period in which you would propose to make the payment; state to which investment agency the payment would be made (HCA for sums originating outside Greater London, GLA for sums originating within Greater London); and set out the sums proposed.

10.	If your preferred option is an extension of time limit, please state the reasons why you think this extension should be agreed. If the circumstances you have detailed in 8 above include where balances have remained unused in DPF for 3 years, please give details of how you propose to use these funds in the existing financial year addressing the factors the Regulator takes into account as detailed in the DPF guidance. Continue on a separate sheet where needed, and attach relevant documents in support of your reasoning.

PART 3 CERTIFICATION BY THE PRIVATE REGISTERED PROVIDER

I certify that the information on this form is correct. (This certification should be made only by an authorised signatory.)

Signature	
Date of signature	
Name of the authorised signatory	
Position or job title of the authorised signatory	

Sending in your form

The regulator's preference is for electronic submissions. The signed and completed form should be scanned and submitted to the Registry and Notification team: RNTeam@hca.gsi.gov.uk. If this is not possible please call the Regulatory Referrals and Enquiries team on 0300 1234 500 to make alternative arrangements. Please **do not** follow up a scanned form with the original through the post.

Postal applications may be sent to either:

The Registry and Notification Team, Homes and Communities Agency, The Social Housing Regulator, Level 1A, City Tower, Piccadilly Plaza, Manchester M1 4BT

or

The Registry and Notification Team, Homes and Communities Agency,
The Social Housing Regulator, Fry Building, 2 Marsham Street,
London SW1P 4DF