Housing LIN

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Funding Extra Care Housing

TECHNICAL BRIEF

A comprehensive review of the principal ways in which Extra Care Housing is financed.

Housing Learning & Improvement Network

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Part One:

Background – preliminary topics

This Technical Brief for the Housing Learning and Improvement Network (LIN) provides a comprehensive review of the principal ways in which Extra Care Housing is financed in respect of:

- The principle sources of Capital Funding for scheme development ('bricks and mortar')
- How to cover the operating ie housing and care costs through Revenue Funding.

Our aim remains as stated for the Housing LIN's previous edition of the Technical Brief in 2005: *"… in order to develop better commissioning and strategic plans for older people's services it helps if all the parties – commissioners, developers, care providers, planners have at least a broad understanding of how extra care is (or could be) funded … this brief is intended to be a contribution to building a common understanding".*

Before moving to the detailed treatment of capital and revenue funding issues in Parts Two and Three, this introduction touches on a number or preliminary topics that will set the scene for what follows.

Introduction

This Technical Brief has been updated at a time of major and ongoing changes in public policy; in housing, social care, welfare reform, and health; and against a backdrop of severe financial stringency. It draws on evidence obtained from a number of investors, providers, developers and commissioners, covering how Extra Care Housing schemes are now being funded in response to current market conditions.

WHO IS IT AIMED AT?

This Technical Brief is aimed at a number of audiences, in particular;

- Extra Care Housing providers in both the social and private sectors.
- Local Authorities with Adult Social Care Responsibilities (LA ASCRs) – ie County Councils, Unitary Authorities and London Boroughs.
- Local Authorities with Housing Responsibilities (LHAs) – ie District and Borough Councils, in addition to Unitary Councils and London Boroughs.
- Care and Support Providers.
- Investors such as fund managers with an interest in the potential of Housing and Care investments but limited knowledge of how Extra Care schemes and their residents are typically funded.

Lastly, we hope it will also be relevant to a range of NHS bodies, for example Clinical Commissioning Groups, and those (representing a range of the above as well as other bodies) involved in local Health and Wellbeing Boards who can see Extra Care Housing delivering on local health outcomes. [1]

THE FUNDING LANDSCAPE

This Brief seeks to set out in a clear and concise manner the key capital and revenue funding issues that those commissioning, developing and managing Extra Care Housing now need to know about.

> *'The nature of Extra Care Housing creates challenges for commissioning and funding structures not necessarily designed for the flexibility it entails.'*
>
> – 'Charging in Extra Care Housing', Housing Learning and Improvement Network (LIN)– 2010[2]

1 *www.housinglin.org.uk/healthandhousinglinks/*

2 *www.housinglin.org.uk/_library/Resources/Housing/Support_materials/Reports/Charging_in_Extra Care Housing.pdf*

This can be extremely complex and will depend on the knowledge base and experience of those funding Extra Care Housing and the resources either at their disposal or sought through public subsidy, access to private finance or other forms of equity.

Indeed, the funding landscape has moved on considerably since 2005. For example:

- Then, the main focus in Extra Care Housing was on the social rent model; the focus is now shifting towards developments that reflect the current tenure balance among the older population, in which the majority of households are now owner occupiers. Any account of funding routes must now take more heed of private models and also the position of self-funders.
- Extra Care Housing has become more diverse since 2005: in terms of tenure; because of policy shifts such as 'personalisation'[3] and personal budgets; and generally, as commissioners and developers have evolved variations best suited to particular needs and conditions – all leading to a greater variety of housing management arrangements, care and support models.
- Supporting People revenue funding is, in many areas, ceasing to be a significant funding source for Extra Care Housing.
- Under the Welfare Reform Act 2012, Housing Benefit will cease to be a separate benefit from 2013 when support for housing costs for those over pension age (to be known as 'housing credit') is absorbed within Pension Credit (or within Universal Credit for those of working age). However, current arrangements for supported housing are expected to remain in place for the time being, though detailed implications remain to be clarified.
- Capital finance for new developments is in short supply, with a far more stringent regime for all kinds of social housing under the Affordable Housing Programme of the Homes and Communities Agency (HCA), meaning a wider variety of possible funding routes must be explored by commissioners and providers.
- However, in July 2012, in the Social Care White Paper[4] the Government announced that additional funding would be made for new specialised housing for older and disabled people; details of this £300m Care and Support Housing Fund were announced by the Department of Health in October 2012 (see Capital funding, Part Two, of this Brief for details).

3 *The concept of "personalisation" is about a culture or ethos of service provision which is tailored to individual choices and preferences. In this document the term is also used to refer to the approach to care funding which forms part of the policy, ie via personal budgets.*

4 *"Caring for our future: reforming care and support" www.dh.gov.uk/health/2012/07/careandsupportwhitepaper*

- In February 2013, shortly before this Technical Brief was finalised for publication, the Government announced its intention to implement a new funding model for adult social care, to be introduced from 2017. For further details, see section on Eligibility for Financial Support in Part Three, page 91.

WHAT DOES IT COVER?

The Technical Brief sets out a range of options and models for commissioners, investors, developers and providers, in relation to both capital and revenue funding. The enthusiasm with which they are engaging with this agenda is a testament to the determination of all in

the Extra Care Housing 'business' to attract new and innovative ways of funding and delivering new developments.

Moreover, we need Extra Care Housing to evolve and develop on as large a scale as possible – enabling it, well into the future, to respond to the aspirations and needs of the growing numbers of older people who are looking for affordable, high quality homes in which their future support and care needs can be met with dignity, and in ways that support their independence and wellbeing.

With this in mind, the Brief aims to provide accurate general information, but should not be the sole source of information when deciding on funding for a particular scheme. Independent legal and financial advice should be sought if adopting a new approach.

SOME CAVEATS

It should also be noted that some aspects of the Welfare Reform Act in respect of supported housing are still being finalised at the time of writing this Technical Brief; where applicable we will indicate the provisional nature of the information provided here.

In addition, more detail on all aspects of care and support in Extra Care Housing is covered in another Housing LIN Technical Brief (to be updated in 2013).[5]

Much has been written in recent years on the financial case for Extra Care Housing. A discussion about the cost effectiveness of Extra Care Housing falls outside the remit of this Technical Brief, but implicit in our approach is the need to maximise 'value for money'; this is of course one of the main drivers when choosing between various revenue and capital funding options.

While the Technical Brief refers to benefit eligibility for residents in Part Three, it does so from the perspective of providers and commissioners planning how Extra Care Housing can be funded, while remaining affordable for as many people as possible through support from the benefits system.

Please note that we therefore only offer a brief overview of the main benefits and how they can assist some people pay for the housing, care and support costs in Extra Care Housing. This Brief is not a guide for residents, or a substitute for detailed welfare benefits guidance.

Note: *while our material is of general relevance for all working on the development of Extra Care Housing , we list key points at the start of each major section and signpost which organisations should find the subsequent material most relevant.*

5 *Garwood S (2010), Care and Support in Extra Care Housing. Technical Brief No 1. Housing Learning and Improvement Network www.housinglin.org.uk/_library/Resources/Housing/Support_materials/Technical_briefs/Technical_Brief_01_0610.pdf*

Definitions/terminology

Agreeing a precise definition of Extra Care Housing can be difficult and falls outside the scope of this Technical Brief.

- 'Extra Care Housing' is most often used in the social rent sector (though providers may use a variety of other terms ; 'Very Sheltered Housing' for example is an older term also, mostly used in the social rent sector).[6]
- 'Assisted Living' is more often found in the private sector.
- 'Housing with care' and 'specialist housing' are other generic terms that are used from time to time.
- In this Technical Brief, we will:
  - mainly use the term 'Extra Care Housing'– regardless of sector or tenure, and
  - assume that a defining characteristic of Extra Care Housing is the presence of a '24/7' on site care service (as widely agreed across the Extra Care 'sector'); a significant part of this Technical Brief describes how such a service can be configured and funded.
- We will also use 'supported housing' when referring to a wider range of specialist housing for vulnerable people that includes Extra Care Housing, mostly in the context of issues that affect the sector more generally (eg in relation to Benefits) .
- We will use the generic term 'Resident' when referring to people living in Extra Care Housing. This embraces the following groups:
  - tenants in rented housing;
  - leaseholders in shared ownership and private leasehold housing
  - and in a few instances, licensees – for example in Extra Care Housing provided by Almshouses.

…but we will also use the foregoing specific terms where we need to refer to people in particular tenures/categories.

6 *Fletcher P (2006), What is Extra Care Housing?. Factsheet No1. Housing Learning and Improvement Network www.housinglin.org.uk/_library/Resources/Housing/Housing_advice/Extra_Care_Housing_-_What_is_it.pdf*

The brief's scope

Much of this Briefing – in respect of capital as well as revenue funding – may also be relevant and useful for those planning[7] and procuring other kinds of older people's housing, even though the Briefing does not specifically address these.

We purposefully concentrate on Extra Care Housing for older people, not schemes for younger vulnerable adults. Benefit changes and their possible impact on funding Extra Care Housing will be different for the two groups. However, since disabled people under pension age do sometimes live in Extra Care Housing schemes developed mainly for older people, we do – where relevant – mention how these changes might impact on them.

Although capital issues are of greater relevance to new projects (or those that may, eg, be under consideration for remodelling, and thus needing capital input), the revenue issues are relevant for both existing and new schemes.

While this updated Brief is written from an English perspective, it should be of interest and value to those working in other parts of the United Kingdom.

As a companion to this Technical Brief, the Housing LIN 'Get Smart' Guide 'Innovative Funding and Delivery Options in Extra Care Sheltered Housing' (published in December 2012)[10] is a collection of papers describing ways in which innovation and radically different ideas can address the proven need for new older peoples housing. The Guide seeks to summarise and assess new financial options available to local public sector and not-for-profit organisations that may be available for new build Extra Care Housing. We include specific cross references to the 'Get Smart' Guide at relevant points in Part Two, Capital Funding.

Other forms of older people's housing with enhanced levels of facilities, services and care input – but not a 24/7 on-site presence – may also be called 'extra care'. There is also renewed interest in other forms of modern specialist housing for older people without a care focus, for example as advocated in the HAPPI (Housing our Ageing Population: Panel for Innovation)[8] report – updated in 2012.[9]

7 *www.housinglin.org.uk/Topics/browse/Design_building/Planning/?parent=8582&child=8654*

8 *Homes and Communities Agency (2009), Housing our Ageing Population: Panel for Innovation www.homesandcommunities.co.uk/housing-ageing-population-panel-innovation*

9 *www.housinglin.org.uk/Topics/browse/Design_building/HAPPI2/?parent=8649&child=8650*

10 *www.housinglin.org.uk/Topics/browse/HousingExtraCare/FundingExtraCareHousing/?parent=1007&child=8656*

Understanding affordability

Affordability is naturally a key consideration for all older people using or considering any form of Extra Care Housing – hence our references elsewhere to Benefits.

This is particularly relevant for social rent models, but also for:

- leaseholders within mixed tenure developments in the social sector, and
- residents in some private Extra Care Housing (while this group will frequently be self-funding, private providers nonetheless often recognise that assisting applicants and residents to access any benefits to which they're entitled will help to ensure they can afford to self-fund for longer, thus enhancing the long-term affordability of the service).

For more information on Affordability from a resident's perspective, see the New Policy Institute report on *Affordability of Retirement Housing in the UK* (Sept 2012)[11], the new Joseph Rowntree Foundation qualitative study, *Affordability, Choices and Quality of Life in Housing with Care* (2012)[12] and the joint Housing LIN and JRF guide ***Can self-funders afford Housing with Care? A guide for providers and commissioners*** Copeman, I. and Pannell, J. (2012).[13]

11 *www.npi.org.uk/files/New%20Policy%20Institute/AffordabilityOfRetirementHousingInTheUK.pdf*

12 *www.jrf.org.uk/publications/quality-life-housing-care*

13 *www.housinglin.org.uk/_library/Resources/Housing/Support_materials/Reports/HLIN_JRF_Affordability_Guide.pdf*

Private sector Extra Care Housing

As the development models adopted by the Private Sector vary more widely than the model of Extra Care Housing focused on in this Technical Brief, we do not go into detail about how each particular Private Sector model may be funded.

However our account of capital funding routes in Part Two is relevant for both private and social housing providers the Technical Brief's information about funding of private Extra Care Housing is also relevant for commissioners, and is aimed at helping them when entering a dialogue with the private sector.

This may be especially relevant, for example, where a baseline provision of social rented Extra Care Housing has now been established in an area, meaning commissioners and providers now need to turn their attention to how the needs of older home owners may be met via the development of private Extra Care Housing.

In the private sector, because there is less need to rely on public funding sources, there may also be less need to:

- align costs with funding streams
- grapple with eligibility for public funding, and
- ensure that funding from these sources stacks up together to make the development financially viable.

Commissioners in Adult Social Care, and housing enablers in Local Housing Authorities, developing older people's housing and Extra Care Housing strategies are increasingly aware that they need to help shape the market to ensure that the housing needs of older people in their areas are being addressed as a whole, not solely those for whom the local authorities (LAs) have a direct social care and/ or housing responsibility.

For more information on shaping the market see the Housing LIN resource pack, *Strategic Housing for Older People*[14] and a new briefing by the Institute of Public Care for the Housing LIN on producing market position statements.[15]

14 *www.housinglin.org.uk/Topics/browse/HousingExtraCare/ExtraCareStrategy/SHOPv2/*

15 *www.housinglin.org.uk/Topics/type/resource/?cid=8660*

Furthermore, 'premium market' Extra Care Housing developments cater for people with substantial assets and disposable incomes in retirement. However many private Extra Care Housing providers have more affordable 'offers' intended for people with modest levels of equity and income, but who are unlikely to qualify for means tested benefits. This group is the largest potential market for Extra Care Housing – in terms of population size – and many providers understandably wish to develop accommodation and service offers that are affordable within this group's equity and income levels.

To date, the development and operating costs of Extra Care Housing have been hard to reconcile with the modest means of this section of the market but innovation in areas such as low entry cost tenures is beginning to become evident.

Who provides which services in Extra Care Housing?

Some clarification is needed before embarking on discussions about funding.

Extra Care Housing, as defined above, is provided mostly:

- by Registered Providers (RPs), and some Local Housing Authorities (LHAs) in the social rent sector, embracing some mixed tenure developments which include leasehold as well as rented properties, alongside solely rented schemes
- by charitable/ not-for-profit housing providers which are not RPs
- by private sector, commercial providers of leasehold Extra Care Housing.

Furthermore, while some providers and developers have identified a gap in the market, there is as yet only a minimal amount of private rented Extra Care Housing.

In relation to who provides which service, some Extra Care Housing providers undertake both housing and care services, while other housing providers just provide the accommodation, with care delivered by a separate care provider. [17]

Housing LIN Factsheet No 32, *Private rented Extra Care: a new market?* explored the question of what kind of market there is for Extra Care Housing in the private rented sector, and its role within the spectrum of tenure and care choices available to older people. [16]

Both of these approaches are to be found across social rented and private developments.

The approach taken in this Technical Brief to housing and care revenue funding applies equally to both of these models. Those housing associations or Registered Providers (RPs) that undertake both housing management and care provision might use funding from housing revenue streams to cross-subsidise care and support services, or vice versa, though the housing provider cannot be certain that it will continue to be the care

16 *www.housinglin.org.uk/_library/Resources/Housing/Support_materials/Factsheets/Factsheet_32_PRS.pdf*

17 *The Technical Brief on Care and Support addresses how care and support contractual arrangements are set up in Extra Care Housing. www.housinglin.org.uk/_library/Resources/Housing/Support_materials/Technical_briefs/Technical_Brief_01_0610.pdf*

provider in the longer term if the local authority with adult social care responsibility (LA ASCR) periodically retenders the care contract.

Private providers will generally have more flexibility in this respect, and may demonstrate less clear distinction between 'housing' and 'care' in the ways these are organised and funded – but a key consideration in all Extra Care Housing (albeit one which falls outside the scope of this Technical Brief) is to ensure that the scheme as a whole remains defined as a housing development, and to minimise any risk it could become liable for registration as a care home by the Care Quality Commission (CQC)[18] under the *Care Standards Act 2000* as amended by the Health and *Social Care Act 2008*. (See Technical Brief no: 1, Care and Support in Extra Care Housing p. 10).

Providers in the social housing sector do, however, need to be aware of the possible tensions between minimising the registration risk on the one hand, while – on the other – maintaining a sufficient link between housing and care or support to avoid difficulties in respect of their 'Exempt Accommodation' status and the effects of the Turnbull Judgment (see Part Three of this Technical Brief on Revenue Funding; (D), Crossover issues – care/support/housing).

Where 'support' remains a separate service category, it is undertaken by either the housing provider or the care provider (or very occasionally by a third party). The separate category of 'support' has less relevance in the private sector, partly since Supporting People funding has been either far more limited or non-existent outside the social rented sector.

18 *The Care Quality Commission (CQC) is the independent statutory regulator of health and adult social care services in England (hospitals, dentists, ambulances, care homes and home-care agencies)*

7 Choice of tenures

In the social sector Registered Providers' rented Extra Care Housing properties have been let (almost invariably) on normal social housing Assured Tenancies. The *Localism Act 2011* allows RPs and LHAs to grant social housing tenancies for a fixed length of time, though they can still offer lifetime tenancies if they wish.

In the social sector:

- Given the purpose of Extra Care Housing it seems unlikely that the option to offer time limited tenancies would be used in Extra Care Housing other than in very exceptional circumstances.
- Shorthold tenancies are however sometimes offered to intending purchasers in leasehold schemes (in both the social and private sectors) pending the sale of their current properties (see below).
- Almshouses sometimes provide Extra Care Housing; however, because of their charitable status almshouses are unable to create tenancies, so instead use Licenses to Occupy as the form of tenure (see forthcoming Housing LIN viewpoint on Almshouses).
- Leasehold Properties in mixed tenure schemes are often sold using the HCA's Older Persons Shared Ownership (OPSO) model (formerly known as Shared Ownership for the Elderly).

In the private sector:

- Leasehold properties are typically sold on 125 year or 199 year leases, which include restrictions on occupation and/or ownership of the property by age or other criteria.
- Rented properties are let on either Assured Shorthold Tenancies or Licences to Occupy.
- Lifetime Leases are another form of tenure sometime found in private sector Extra Care Housing – see reference in Part Two, Capital Funding.

The OPSO model restricts the maximum share that can be purchased either outright or through 'staircasing' to 75% of the property. Other conditions attached to these schemes include, for example, that shared owners must be 55 years or over; there must be no rent payable where the maximum share of 75% has been acquired, and the properties must be specifically designed for older people. Some RPs are now, however, offering variants of this, for example with options to staircase up from a lower percentage share, with payment of rent on the remaining share.

Capital and revenue funding – crossover issues

Capital and revenue issues are dealt with separately in this Technical Brief– but it is vital to appreciate that, whether from the perspective of a commissioner, funder, developer or provider, these issues are interlinked, and that robust modelling of both capital and revenue funding are indispensable for successful schemes.

The financial modelling used to assess viability over a scheme's lifetime will include both capital and revenue costs, as the revenue cash flow is critical in underpinning the overall viability of the project. Typical cross over issues are as follows;

- The cost of capital development and servicing of loans must be covered through the rental income stream and /or through the sale of leasehold properties.
- Realistic estimates of initial and later void periods, both in respect of lettings and sales, must be incorporated at the outset.
- Rents and service charges must be set at levels that realistically cover operating costs unless the scheme is to receive subsidy from elsewhere.
- Expected income from sales receipts must be modelled around the current state of the housing market (private sector appraisals, for example, assume that revenue will not vary during the development period, but will factor in inflation for costs, as this is the safest combination).
- Revenue forecasts should build in the risk that 3rd party income may not be continuous. For example, an external body –such as a commercial undertaking or a NHS organisation – may lease office or communal space in a scheme but may later be unable to sustain the arrangement.
- Even where care is commissioned separately in Extra Care Housing (via Local Authority contracts in the social rented sector, or through a commercial relationship in private developments between housing and care providers), the viability of schemes as housing developments nonetheless depends on the viability and quality of the care provision, since sales and lettings rely upon the service being successfully marketed and delivered as a whole.

Managing risk

It is critical that commissioners and providers take a robust approach to risk assessment when planning new Extra Care Housing developments, building upon the earlier points around the interplay of capital and revenue funding issues.

Different models of Extra Care Housing (in terms of which organisations provide which services) face different kinds of risk. The separate provision of housing and care/support may 'compartmentalise' risk – see the Public procurement considerations in Part Two, Capital Funding – but could overlook the vital interrelationship between the different service elements (eg manifested in the external perception that the housing provider's 'name is over the door' even if they do not provide the care, and that overall quality and sustainability of schemes depends on 'getting it right' across both elements). Separating the provision of housing and care/support may also deny the developer/operator an opportunity to pool revenue from several activities and thereby offset the high capital costs of an Extra Care Housing scheme, as well as spreading operational cost risk across several revenue sources. The potential of schemes that involve single providers delivering multiple services and/or services that would not normally be associated with Extra Care housing, (for example step up and step down accommodation and Intermediate Care), is being tested by some commissioners although they do need careful risk assessment in terms of both public procurement and CQC registration considerations.

> *'...developing organisations take a risk when building expensive specialised housing schemes that revenue income will continue to flow, at a sufficient level, and that the scheme will be needed over the lifetime of that building. As these risks increase due to reduced capital grants, downward pressures on social care funding and welfare reform, local commissioners do need to have an understanding of how housing works and, in particular, Extra Care Housing.'* [19]

Overall, this Technical Brief contributes to effective risk management by bringing together the wide range of funding related issues that must be considered when conceiving and developing proposals for Extra Care Housing.

19 *www.housinglin.org.uk/_library/Resources/Housing/Support_materials/Reports/HLIN_Report_Managing_Risk.pdf*

Part Two: Capital funding

The social rent model of Extra Care Housing has evolved in the period since publication of the original 'Funding Extra Care Housing' Technical Brief by the Housing LIN. In parallel with the social rent model, providers from all sectors also implemented an increasingly diverse range of schemes, mixing tenures and uses as well as offering extensive facilities and services to suit a wide range of needs and preferences.

However, economic and housing market conditions have challenged the assumptions previously made in the appraisals for all forms of housing with care, testing some schemes to the point of financial failure and subjecting others to ongoing review and re-orientation in an effort to maintain their operational viability. This Part of the updated Technical Brief provides an overview of:

- the current sources of capital funding
- which of these sources are likely to be most appropriate for Extra Care Housing schemes
- how the characteristics of schemes influence the available range of funding
- what funders expect to be considered in submissions for funding and in appraisals
- a review of the appraisal types that could be used.

Current sources of funding

This section is equally relevant to housing and care providers and local authorities with responsibility for housing and/or adult social care.

KEY POINTS

This overview of current sources of funding should be of use to:

Commissioners in housing and adult social care

- As a briefing on the diverse range of development funding sources that developers and providers may wish to utilise.
- As an introduction to funding terminology that may be unfamiliar.
- As a guide to the funding sources that may be most relevant to their particular commissioning objectives.

Developers/Providers

- To act as a prompt to consider a number of the current funding sources.
- To assist in deciding which funding sources may be most appropriate to their planned scheme.

In the previous Housing LIN Technical Brief, the emphasis was predominantly towards social rent and capital grants from central Government, including the Department of Health (DH) and Homes and Communities Agency (HCA). However, given that in recent years there has been a shift away from the former regime of grant funding, it is now appropriate to look at the alternative funding sources that contributed to the growth in private market provision of housing with care, along with consideration of the newly emerging additional routes to funding that can be accessed for both the social and market versions of this form of housing.

The funding sources covered here are listed in Table A on page 21, before being reviewed individually. Those that are most likely to be used for housing with care are marked with a tick ✓, the remainder are included as they have been suggested as possible sources in recent years.

Table A: Main funding sources

✓ indicates those most likely to be used for housing with care

SUBSIDY FUNDING	NON SUBSIDY FUNDING
HCA Affordable Homes Programme 2011-15 ✓	Local Authority prudential borrowing
DH Care & Support Specialised Housing Fund 2013-17 ✓	Local Authority housing revenue account ✓
Public land at nil or below market value ✓	Group banking facilities ✓
Capital subsidies from Local Authorities ✓	Own name bond issues ✓
Section 106 planning obligations ✓	Social finance ✓
Charitable fundraising ✓	Scheme specific banking facilities ✓
	Construction contractor finance ✓
	PFI and LIFT programmes ✓
	Private equity partners
	High net worth individuals
	Institutional investors ✓
	REITs and Property Investment Trusts ✓
	Property unit trusts and OIECs ✓
	Public pension funds ✓
	Consortia of pension holders

SOURCES OF SUBSIDY FUNDING

KEY POINTS

Given that Extra Care Housing schemes are relatively expensive in terms of build cost per unit and many of the schemes to date have been developed with high proportions of units for social rent and in areas with low property values, subsidy funding has been an essential contribution to the growth of the Extra Care Housing stock.

Although the size of the core HCA housing funding programme has been reduced, there are other significant subsidy funding sources that remain and this section considers the relative suitability and availability of these sources for Extra Care Housing.

✓ Homes and Communities Agency Affordable[20] Homes Programme 2011-15

While the proportion of the total affordable housing funded through the HCA allocated to housing for older people has been relatively consistent in recent years, (at circa 6% of the overall number of homes within the former and current programmes), we are now operating in the context of much reduced funding in the Affordable Housing Programme (AHP) for 2011-15, combined with the Homes and Communities Agency having a more diverse range of Investment Partners competing for funding, a shift towards loan type funding rather than grants, longer term programme-based rather than scheme-specific funding agreements with Investment Partners, and a shift to prioritise units at 'Affordable Rents' (ie, set at up to 80% of market rent) and low cost home ownership, rather than social rents.

These changes in the AHP greatly restrict the potential scope for subsidy funding of housing with care when compared with former years, but the programme remains relevant and useful to the HCA's Investment Partners (IPs), in particular due to familiarity of the participants with the process, and also the flexibility introduced in the new programme-based contracts which allows IPs to better manage changes in delivery timetables without losing their funding allocations. Conversely, at the time of writing, the large forward allocations made to these programmes means that less than a third of the total 2011-15 programme's value remains unallocated.

Notably, the AHP is based on much lower average subsidy levels per unit than in previous programmes and this will provide a significant test for funding applications for new housing with care schemes, as this model has evolved into a challenging combination of both high development cost and high operating cost. How new applications fare in the context of tougher tests of value for money remains to be seen, but most providers of the established Extra Care Housing model are already reconsidering their approaches to both build cost and operating cost.

A further complication of the current AHP is the separation of London from the rest of England, giving the Greater London Authority control of the programme within the capital, instead of the HCA, and potentially leading to differing priorities for allocations in London.

Finally, at the time of writing, we are awaiting details of the government's Comprehensive Spending Review and any announcement of further capital monies that may form part of the HCA's programme beyond 2015.

20 *In this Technical Brief, we use the capitalised form 'Affordable' when referring to the specific definition of affordability used in the Affordable Homes Programme and the Department of Health Care & Support Housing Fund, as defined below, ie rents at up to 80% of market rent. Elsewhere, we use 'affordable' in its everyday sense.*

✓ Department of Health Care & Support Housing Fund 2013-17

This recently launched Department of Health (DH) Fund is intended to fund housing for any of the following:

- older people
- people with dementia
- people with learning disabilities
- people with physical and sensory disabilities, or
- people with mental health problems.

The DH will make up to £160m available in this Fund to support the development of specialist housing outside London for older people and adults with disabilities over the 5 years from 2013/14. This new Fund will be administered by the HCA for schemes outside London, unlike its predecessor, the DH Extra Care Fund, which the DH administered itself.

The DH will also make up to £60m available for developments in London, which will be administered by the Greater London Authority (GLA) in a mirror of the arrangements for the current Affordable Housing Programme.

Unlike the programme based approach of the HCA's Affordable Homes Programme, awards from the new DH Fund for schemes will be made on a scheme specific basis and allocated in two phases, the first of which will only deal with Affordable housing, (defined in the DH fund prospectus as Affordable Rent and Shared Ownership). Applicants for schemes outside London must achieve HCA Investment Partner status before any payment can be made and all applications must involve a Registered Provider to act in the landlord role.

Notably, the Fund is intended to increase capacity of the following:

- housing that meets the Housing our Ageing Population: Panel of Innovation (HAPPI) design criteria and falls within the HAPPI definition of 'specialised housing models'[21]
- co-operative housing, or
- co-housing schemes.

The above are not yet well represented features of provision in the stock previously funded by either the AHP or the former DH Extra Care Housing Fund. However, the new Fund signposts to the Housing LIN's online directory of DH funded Extra Care Housing[22] to highlight innovation in the sector that has led to improved health and wellbeing outcomes for residents. With regard to the latter, and further to the Prime Minister's Dementia Challenge, the focus on dementia offers the potential for an improved quality of life for people with low level dementia, if new housing based specialised housing provision avoids, or at least delays, admission into institutional health or registered care settings. Further

21 *www.homesandcommunities.co.uk/ourwork/happi www.housinglin.org.uk/APPGInquiry_HAPPI*

22 *www.housinglin.org.uk/Topics/ECHScheme/*

information can be found in the Housing LIN resources on innovations in Housing and Dementia.[23]

One of the key features of the new DH Fund is to stimulate the wider market for specialist housing, and Phase Two is intended to encourage greater provision for private market home ownership.

This second phase of the Fund will be developed in the coming months and is expected to be launched in the summer of 2013. At this time, the DH and HCA are looking for expressions of interest from wider market developers for the funding on offer in Phase Two. The Housing LIN will be reporting back on the Fund's progress from time to time, as well as documenting the completion of successful schemes on its online directory of DH funded schemes.[24]

See the end of the section for a link to the full DH/HCA joint prospectus.[25]

✓ Public land at nil or below market value

The barrier of high development costs to the more widespread delivery of housing with care has, on occasions, been addressed through the use of public land at nil or below market value. This represents a number of challenges to public bodies considering this route, not least of which is an expectation in central Government that surplus land is disposed of for the highest achievable receipt. The key term here is the use of the term 'surplus' and the Housing LIN Viewpoint No 31, *Collaboration between Registered Providers and NHS Trusts: Building an Asset*,[26] and the report by One Housing Group, *Making creative use of NHS Estate*,[27] are both relevant to how reuse of existing health assets can be achieved in particular.

Some LAASCRs have also utilised their landholdings to subsidise housing with care schemes, usually linked to the Authority being granted Nominations Rights to units in the completed schemes. This is typically part of a re-provision strategy in areas where Authorities are seeking to reduce or end their direct provision of registered care and nursing homes and wish to increase the capacity of housing with care as a replacement for, or part of preventative measures to reduce their future need for placements in, registered care and nursing homes. At a unitary level, some Local Authorities have made former school sites available for redevelopment as Extra Care Housing schemes.

As with the DH Fund mentioned above, there are potential cost savings and

23 *www.housinglin.org.uk/Topics/browse/HousingandDementia/*

24 *www.housinglin.org.uk/Topics/ECHScheme/*

25 *www.hcaacademy.org.uk/sites/default/files/our-work/care_and_support_specialised_housing_fund_prospectus.pdf*

26 *www.housinglin.org.uk/_library/Resources/Housing/Support_materials/Viewpoints/Viewpoint31_NHS_Land_Disposals.pdf*

27 *www.housinglin.org.uk/_library/Resources/Housing/OtherOrganisation/Making_creative_use_of_NHS_estate.pdf*

improved outcomes to be had from increasing the capacity of housing with care for older people, which will continue to underpin Local Authorities' decision making in how their existing assets may best be used and in planning new provision.

How Local Authorities and other public bodies might use public land to pump prime new Extra Care housing is discussed further in the articles written by Darren Crocker, Charlotte Cook and Tina Hothersall in the Housing LIN 'Get Smart' Guide *Innovative Funding and Delivery Options in Extra Care Sheltered Housing* (published in December 2012).[28]

✓ Capital subsidies from Local Authorities

Authorities have in some cases allocated capital expenditure to foster growth in the provision of Extra Care housing; for example, utilising their Personal Social Services Capital Allocation to deliver services that support personalisation, reform and efficiency.[29] Despite budgetary pressures, this is again seen by some LA ASCRs as an intervention that will produce long term savings in social services spending on institutional placements.

This has acted as a very useful measure that delivers new provision in a highly targeted way without reliance on the AHP or other national funds. This is particularly effective in enabling the controlled closure of Local Authority care homes through subsidies for alternative forms of local provision.

One example of this is a County Council's recent procurement of nominations rights in new Extra Care Housing to be built on the Council's own land, which the provider will pay for at pre-determined values, in return for capital grants from the County. The Council has made available £12. 65m of capital for the 160 social rent units in the overall programme, which has been divided into two phases for procurement purposes. This capital effectively subsidises the individual units to a similar level as the previously available HCA grants and enables the programme to be delivered without a reliance on HCA or DH grants.

An alternative approach is that taken by a County Council, where £10m of capital was allocated to support Extra Care Housing, half of this being made available as a grant and the remaining half being created by Council borrowing, which is then repaid over a period as a revenue charge from the Adult Social Care budget. The capital fund of £5m can be used as a balancing figure in an 'internal market' in order to secure County Council sites that are available for redevelopment but have higher land values than can be derived from an Extra Care Housing scheme.

Continuing budgetary constraints are likely to affect such expenditure but the prospects for Authorities to achieve long term cost savings through alternative

28 *www.housinglin.org.uk/Topics/browse/HousingExtraCare/FundingExtraCareHousing/?parent=1007&child=8656*
29 *www.dh.gov.uk/health/2013/02/lassl-2013-1/*

forms of provision will remain a strong influence on decision making where capital expenditure is possible.

The potential use of Tax Increment Financing (TIF) by Local Authorities to fund new Extra Care housing remains a possibility albeit one that is at present being discouraged by the Treasury. TIF involves Local Authorities using projected future income, such as Business Rates or Council Tax, to underwrite upfront subsidy for development. This is described in more detail in the article written by Charlotte Cook in the Housing LIN 'Get Smart' Guide *Innovative Funding and Delivery Options in Extra Care Sheltered Housing* (published in December 2012). [30]

✓ Section 106 planning obligations

The use of Section 106 planning agreements to oblige developers to provide Affordable Housing will continue after the introduction of the Community Infrastructure Levy (which will address the wider investment requirements within each Local Authority). Most of the affordable housing provided to date under Section 106 agreements has been general needs accommodation and recent Central Government statements have suggested that Local Authorities should consider scaling down, or even removing, obligations to provide affordable Housing, (or make payments to the Authority in lieu of direct provision), if they are having an adverse effect on scheme viability which is preventing schemes being commenced.

Developers are well versed in negotiating Section 106 obligations of all types, but particularly in respect of Local Authority demands for affordable Housing as these can be challenged both through interrogation of the housing demand evidence provided by the Local Authority and also through the developer's scheme viability information.

The Community Infrastructure Levy may be used by Local Authorities to fund a wide range of infrastructure that is needed as a result of development. This includes transport schemes, flood defences, schools, hospitals and other health and social care facilities, parks, green spaces and leisure centres. The intention was to remove uncertainty from planning gain negotiations associated with Section 106 agreements, providing developers with improved forward visibility of the costs likely to be imposed on most forms of development. Note that CIL is charged on the chargeable floor area of the eligible types of development but also that not all Local Authorities have chosen to apply the levy. Affordable housing contributions are not replaced by CIL and still need to be negotiated for each individual site in the context of planning policy and project viability.

30 *www.housinglin.org.uk/Topics/browse/HousingExtraCare/FundingExtraCareHousing/?parent=1007&child=8656*

Given that Extra Care Housing has a far higher capital cost per unit than general needs housing, the potential for using Section 106 agreements to oblige developers to either directly provide Extra Care housing, or payments to the Local Authority to be used to provide Extra Care Housing, is probably quite limited due to the limitations of overall development viability and the increased complexity of negotiations regarding demand evidence and Extra Care Housing scheme costs.

However, there have been some instances of Extra Care Housing schemes being promoted by providers as a substitute for existing general needs affordable Housing obligations in Section 106 agreements and this may well suit all of the parties involved where an Extra Care Housing scheme can provide and share facilities on large scale housing developments that are normally difficult to fund and resource independently, for example: a local community hall; small shop, or GP consulting room (see Housing LIN case study No. 47, which describes Mill Rise in Newcastle under Lyme and provides an example of community facilities in an Extra Care Housing scheme).[31]

✓ Charitable fundraising

Many organisations that are active in the provision of Extra Care Housing have charitable status and benefit from large endowments and ongoing bequests. There are, however, further methods of charitable fundraising which are demonstrated in the activities of a large Extra Care Housing village provider. The provider's large scale villages of housing with care have used conventional sources of subsidy such as AHP and DH grants, but they have also obtained some additional funding through:

- a directly owned network of 60 high street charity shops
- pre commencement establishment of local community based fundraising and income generation activities
- donations from grant giving trusts and foundations.

The name and activities of this particular provider not only emphasise its charitable status, it also demonstrates an approach to fundraising similar to the mainstream big name charities outside of the housing and care sector. This additional source of funding is married with the involvement of volunteers in the operation of the completed schemes, fostering both initial forward interest from prospective residents and a growing local familiarity with the scheme which provides a pipeline of new residents as vacancies arise.

This type of relationship building is likely to require considerable management commitment and a resource to co-ordinate all of the activities and individuals involved. However, for providers adopting this approach, it does reduce their reliance on other funding sources and has in some cases also enabled them to become much more widely recognised by the public than many other RPs and not-for-profit providers.

31 *www.housinglin.org.uk/_library/Resources/Housing/Practice_examples/Housing_LIN_case_studies/Case_study_47.pdf*

SOURCES OF NON SUBSIDY FUNDING

KEY POINTS

The reduced availability of core HCA housing funding has contributed to an increased interest in development models that avoid a reliance on capital subsidies. A reduced need for capital subsidies may involve either a differing approach to scheme characteristics, eg accommodation size, extent of facilities, tenure mix or achievable revenue, or the use of alternative sources of funding, or a combination of both.

This section introduces the current non-subsidy sources of funding and considers their relevance to Extra Care Housing.

Local Authority prudential borrowing

There is little evidence of prudential borrowing by Local Authorities being associated directly with housing with care schemes, other than the County Council example given above on borrowing to specifically fund its Extra Care Housing plans. It is understandable that providers would be attracted to the use of money through prudential borrowing due to the relatively low interest rates. However, given the constraints on any form of public borrowing in the short and medium term, the prospects for funding new provision through this source seem very low.

Prudential borrowing is a form of public borrowing in the United Kingdom that can allow Local Authorities to exceed the caps placed on their other debt and liabilities. This type of borrowing must comply with the Prudential Code.

✓ Local Authority Housing Revenue Account

The discontinued Housing Revenue Account (HRA) subsidy system involved the national pooling of rents. Rents and expenditure needs were assessed: rents were then pooled nationally and allowances to spend money were allocated to Authorities on the basis of need. If the rents received in an Authority exceeded their allowance, then that Authority paid the surplus into the system (known as negative subsidy) and vice versa where the allowance was greater than the rents received.

The HRA self-financing settlement made a one off adjustment to the finances of all housing stock-holding Authorities in April 2012, after which time the Authorities will retain their future rent income and be free to invest in areas agreed with tenants and residents locally. This HRA settlement only affected those Local Authorities that still have their own housing stock and has the potential to allow some of these Authorities to fund new development, including Extra Care Housing schemes, subject to the specific borrowing restrictions set by Central Government at the time of the settlement. These are the subject of possible relaxations and do at the very least place Local Authorities on an equal footing to Registered Providers when they are bidding in the HCA Affordable Housing Programme.

The Housing Revenue Account (HRA) was the former system under which all Council housing rental income in England was aggregated together into a single ring fenced national account, (along with 75% of right to buy receipts). Central government then redistributed this HRA pool to those Councils in England with housing stock.

The HRA self-financing settlement came into effect at the end of the 2011/12 financial year and made a one off adjustment to the funding of Councils in England who had retained 50 or more units in their housing stock. Instead of housing rental income being pooled nationally and redistributed by central government, the self-financing settlement allowed Councils to retain their housing rental income and plan for 30 years of income and expenditure, including development and continuing improvements to the stock.

The intended outcomes of the settlement are a combination of reduced costs and greater local decision making, giving Authorities more freedom in housing asset management decisions, including the future of existing sheltered housing. The ability of each Authority to develop new stock will differ depending on: the amount of Decent Homes work that is still required; the decisions made regarding their housing investment strategy, and their new funding arrangements.

The potential of Local Authorities' HRA related income and investment to fund new Extra Care housing is discussed further in the article written by Steve Partridge in the Housing LIN 'Get Smart' Guide *Innovative Funding and Delivery Options in Extra Care Sheltered Housing* (published in December 2012).[32]

✓ Group banking facilities

This form of funding is typical of both speculative housebuilders and construction contractors, in that they have an overall banking facility, usually with a single bank, and are relatively free to manage their business activities and cashflow within the covenants of the banking facility. The terms of this facility may include specific limitations on the activities of the business, for instance project types, individual project values and their locations.

The emphasis in this funding model is on the internal risk management of the

32 *www.housinglin.org.uk/Topics/browse/HousingExtraCare/FundingExtraCareHousing/?parent=1007&child=8656*

business, usually through standardised project reporting and authorisation procedures that provide checkpoints at key stages of each individual scheme when senior management must formally review progress to date against forecasts, and agree to the scheme proceeding further. The setting out of fixed criteria against which all schemes are tested at various stages is key to the ability of businesses with both a large geographical coverage and multiple schemes in progress to operate effectively.

This approach is evident in one major private sector developer of retirement housing and 'tailored care' but is not widespread.

Similarly, the conventional volume housebuilders who are public companies listed on the major UK stock exchange have had their own banking arrangements severely tested by the post 2008 housing market. The resulting more demanding banking facilities have subsequently required schemes to reach higher levels of forecast surplus/gross profit/Internal Rate of Return (IRR) than pre 2008, as a method of introducing a contingency against shortfalls in actual financial outcomes. It is not untypical to see gross profit requirements of 25% (ie before deduction of office overheads and funding costs) in order for open market speculative general needs housing to be considered proceedable. In addition, this would be subject to a deduction of circa 12% for overheads and funding costs, leaving a typical target net profit of 13%.

Note: *managing cashflow is not just to stay within banking covenants but also to avoid under- utilisation fees being applied by banks where facilities are not being fully utilised. These can be particularly difficult to avoid in scheme specific banking facilities due to the inability to spread costs and revenue variations across multiple schemes.*

Internal rate of return (IRR) is a measure of the rate of growth that a project is expected to generate. While the actual rate of return that a project eventually produces will often differ from its originally forecast IRR, a project with a substantially higher forecast IRR value than other available options would still provide a much better chance of strong growth.

IRRs can also be compared against prevailing rates of return in the securities market, (securities being shares or bonds and the market typically being the stock exchange). If an investor is unable to find any projects with IRRs greater than the returns that can be generated in the financial markets, it may simply disregard the projects on offer and choose to invest its retained earnings into the market.

✓ Own name Bond issues

Large businesses may also use issues of own name Bonds as a method of raising funds, although the appetite for these in the market will depend on the covenant of the business. Some larger 'general needs' RPs and construction companies have begun to issue retail Bonds in recent years and these have been very well received by the markets due to the relative strength of these entities (due to their asset base), being oversubscribed and receiving investment grade credit ratings of between AAA and A.

Most Bonds are issued with long-term maturities in excess of 30 years or more and command a premium of around 2% to gilt yields. Total sums raised by RPs to date vary between £75m and £850m.

For smaller 'general needs' or specialist RPs or those without an established credit rating, private placement could offer an alternative route to new investors and, in recent years, there are examples of where this has raised sums of between £48m and £130m. Private placement can provide smaller sums than retail Bond issues but will probably incur higher interest rates than their retail equivalents.

Note: *sums raised through Bonds may not necessarily be used for new development; the terms of the Bond issue will set out the purpose of the issue and this may be limited to refinancing the ongoing operation of a RP rather than any expansion of its stock or activities.*

A Bond is a financial instrument for raising capital, often used as an alternative to issuing shares. Bonds differ from shares in two major aspects: firstly shareholders have an equity stake in the company whereas bondholders have loaned money to the company, secondly bonds are typically issued with a fixed duration as with a fixed term loan, for example a company may issue 5 year bonds paying an interest rate of 5%. In this sense they are more predictable than shares, although the value of the bond may vary during its duration, which in turn affects the yield arising from the bond.

A Covenant is a financial parameter that determines key aspects of a business, for instance the size of its borrowings. Covenants are usually imposed by lenders and bankers. If covenants are broken (or breached), the lender or banker may exercise their right to repayments of loans or other penalties.

Covenant is also a general term used in respect of the financial standing and robustness of a business. Lenders, bankers and investors will be wary of businesses with poor covenants as they are high risk investments with a greater likelihood of default.

Long term maturities may be 10 years or more, maturity being the point at which the principal value of a Bond becomes repayable to the holder.

Gilts are bonds issued by governments of good financial standing, such as the United Kingdom or United States of America, (the latter are referred to as Treasury Securities). Gilts are regarded as a relatively safe investment to hold with stable yields.

The use of **Private Placement** involves the sale of securities to a relatively small number of invited investors as a way of raising capital. Investors involved in private placements are usually large banks, mutual funds, insurance companies and pension funds. Private placement is the opposite of a public issue, in which securities are made available for sale on the open market.

✓ Social finance

Social finance is typically directed at interventions into groups such as rough sleepers, vulnerable adolescents, ex-offenders or those with long term health conditions. As the purpose of social finance is to improve outcomes and payments are dependent on these improvements being achieved, services must be planned in detail and delivered within a robust reporting system.

This makes social finance more appropriate to services and projects that can be set within very well defined baseline and completion positions over a fixed term, such as small scale provision for people with dementia or learning difficulties. There are already examples of health commissioning for dementia accommodation and services which improve outcomes and avoids an over reliance on institutional settings which could be very appropriate to social finance.

The potential of social finance to fund new Extra Care housing is considered in Housing LIN Viewpoint 16, written by Brian Bailey and Martin Rich, entitled *Can Extra Care Housing funding needs be met with funding from Institutional Investors?* (published in July 2010).[33]

Social finance is an outcomes based method of financing service provision using **Social Impact Bonds**. These bonds are associated with an outcomes-based contract in which public sector commissioners commit to pay for significant improvement in social outcomes. Private investment is used to pay for services, which are delivered by service providers with a proven track record. Financial returns to investors are made by the public sector on the basis of improved social outcomes. If outcomes do not improve, then investors do not recover their investment.

33 *www.housinglin.org.uk/_library/Resources/Housing/Support_materials/Viewpoints/Viewpoint16_Institutional_Investors.pdf*

✓ Scheme specific banking facilities

The use of scheme specific banking facilities is most frequently associated with Special Purpose Vehicles (SPV) and Joint Ventures (JV), where either: overall banking facilities are insufficient or inappropriate to fund the new scheme(s); an SPV is being used to manage risk associated with the new scheme(s); or multiple partners are involved so no pre-existing banking facility can be used. The banking may be provided by a single bank or by a syndicate of banks within which one bank acts as the lead.

In the current market, the number of banks willing to make new loans for any form of property development is very small and their terms are relatively short term, with refinancing being necessary after only 5 or 6 years. Rates being quoted are 6% – 6.5% but the main restriction on access to this finance will be the low Loan to Cost ratios now being applied, as these have fallen to circa 60% this year. This requires the developing entity (or the combination of partners in a JV), to have the necessary equity to cover the remaining cost, which will in turn limit their capacity to progress multiple schemes simultaneously.

It should also be noted that these types of facilities will incur costs for valuations, facility agent fees, arrangement, exit and legal fees plus the cost for monitoring surveyors to provide frequent scheme specific reporting to the bank(s). There could also be non utilisation fees, if the overall facility is underutilised, (as mentioned in the previous section regarding Group banking facilities).

Just as Bonds and company debts are traded, so too is scheme specific debt and this can be done without the prior knowledge or agreement of the debtor, breaking previous lines of communication and relationships built up from the origination of the scheme(s). This can be particularly disruptive in non-mainstream housing projects, such as Extra Care Housing, where the funders may not readily understand the client group or the operational model being financed.

A Special Purpose Vehicle (SPV) is a company or other legal entity, such as a Limited Liability Partnership (LLP), created solely for a particular financial transaction, or a series of transactions. The SPV's debts may, or may not, enable recourse of the lender to the parent companies of the SPV. In this way, the parent companies may use an SPV to distance themselves from the SPV's potential liabilities should it fail.

A Joint Venture (JV) may be formed for the cooperation of two or more entities in which each agrees to share profit, loss and control in a specific project, or programme of projects.

The **Loan to Cost ratio** is used in property and construction finance to compare the amount of the loan used to finance a project to the cost to build the project. If the project will cost £1 million to complete and the borrower is asking for £800,000, the loan to cost (LTC) ratio would be 80%. Note that the £1 million cost figure would have to include all of the costs necessary to complete the project, ie site acquisition, construction labour & materials, professional fees, statutory fees, as well as essential fitout items such IT equipment and furniture.

As an alternative to loan to cost, the **Loan to Value** (LTV) ratio compares the amount of the loan being requested to the open market value of the completed project.

✓ Construction contractor finance

Many of the larger main contractors now offer finance for the development phase of schemes in order to support their construction activities, including the development of Extra Care Housing. This may be bundled in with early equity contributions to cover the costs of pre-construction commencement work, such as site investigations, appraisals, planning and design development. It is important for client bodies to be able to distinguish between these external costs, internal costs being accrued by the main contractor, and finance charges directly arising from the finance being provided.

As a minimum, pre-construction costs should be budgeted in detail with the main contractor, which can then be used to benchmark competitive quotes, with selection, appointment and payment arrangements pre-agreed between the client body and the main contractor. In addition, the main contractor's internal costs and finance charges should be transparent rather than bundled into a single contract sum. Anything less than this cannot be checked for value for money and compared with the open market.

The rates charged by contractors for development finance will depend on their own funding situations; examples of current levels of main contractor finance are circa 6.5% – 7.5%. Where a main contractor provides some equity contribution to forward fund early costs this may well be charged at a higher rate, more akin to mezzanine finance levels, which could be 9% – 11.5%, hence the need to have these differing rates declared in the main contractor's offer.

Readers who are unfamiliar with the structure and terminology of loan facilities and debt funding may find it useful to refer to the article written by Niall Henderson in the Housing LIN 'Get Smart' Guide *Innovative Funding and Delivery Options in Extra Care Sheltered Housing* (published in December 2012).[34]

34 *www.housinglin.org.uk/Topics/browse/HousingExtraCare/FundingExtraCareHousing/?parent=1007&child=8656*

Equity contributions, or equity investments, are money invested in a business, usually in return for shares. This money is not repaid through the normal activities of the business, although the shareholder may receive dividend payments in return for their continuing investment in the business. The money is instead only returned when the shares are sold.

Mezzanine loans are often used by developers to secure supplementary (or top up) financing for development projects in addition to the main debt for the project, (usually known as the senior debt). Mezzanine loans are higher risk than the senior debt as they are subordinate to the senior debt; ie mezzanine loans are only repaid after the senior debt is settled. It is therefore normal for mezzanine loans to be at comparatively high interest rates and for mezzanine funders to require direct guarantees from the developer(s) as security for their loan rather than just relying on the project generating sufficient value to meet all of the loans associated with it.

✓ PFI and LIFT programmes

Extra Care Housing has previously been funded through the Private Finance Initiative (PFI), but came to a temporary halt while the future of PFI as a whole was reviewed. The 2012 Autumn Statement contained announcements regarding a new model for future PFI procurement, (to be known as PFI 2). These changes are intended to make the procurement procedure quicker, allow the public sector to appoint directors to the boards of PFI companies, require more frequent financial reports and enable public bodies to obtain a share of PFI profits.

Although the original form of PFI has been criticised as poor value for the public purse, the Local Improvement Finance Trust (LIFT) version used in healthcare has delivered small scale projects with fewer negative associations. Some LIFT schemes have been associated with Extra Care Housing projects on sites shared with new health facilities and this could still have merit on sites with are suitably located, large enough and where there is value in the proximity between the housing with care and the type of health facilities being provided (see Housing LIN Case study No. 40).[35]

The current use of PFI for Extra Care housing and a short description of how PFI schemes are typically structured is included in the article written by Coralie Foster in the Housing LIN 'Get Smart'

35 *www.housinglin.org.uk/_library/Resources/Housing/Practice_examples/Housing_LIN_case_studies/Case_Study_40.pdf*

Guide *Innovative Funding and Delivery Options in Extra Care Sheltered Housing* (published in December 2012).[36]

Local Improvement Finance Trust (LIFT) is a particular form of **Private Finance Initiative (PFI)** scheme, intended to bring private finance into primary and social care and community infrastructure, for example GPs' surgeries. The use of LIFT is led by Primary Care Trusts with the participation of Local Authorities and enables health and social care facilities to be built, or refurbished, and new profit-making companies made up of public and private sector partners, the private sector having a controlling interest. These facilities are then made available to the NHS through long term leases.

Private equity partners

Private equity has played a large part in business expansion and restructuring, the latter still being evident among businesses that have been underperforming and which offer private equity investors the opportunity to improve performance and achieve an increase in value to be realised through an exit from the business.

Private equity firms have recently taken large stakes in Housebuilders and Main Contractors, and are again increasing their presence in the care home sector, despite the failure of Southern Cross. The failure was caused by the rent burden arising from the sale and leaseback of properties previously instigated by private equity firms, along with the Property Company/Operating Company structures, (OpCo/PropCo), that have been adopted by some private sector care home providers. This pattern of whole business investment is unlikely to change and as private equity is less attracted to either steady returns or one off/scheme specific involvement, it is unlikely to provide any major new finance for housing with care.

Property Company/Operating Company (OpCo/PropCo) structures deliberately separate the property and operating activities of a scheme in order that these can be owned, traded and controlled independently of each other. A developer would typically use this type of structure to simplify the sale of these interests to other parties in order to achieve an exit from a scheme, for example the sale of the Property Company to a long term investor.

36 *www.housinglin.org.uk/Topics/browse/HousingExtraCare/FundingExtraCareHousing/?parent=1007&child=8656*

High net worth individuals

The most commonly used international definition for High Net Worth Individuals, (HNWIs), is people who have over $1m, (£620k), in investable, (ie, liquid), assets. According to the most recent World Wealth Report, (Capgemini/Merrill Lynch 2011),[37] there were around 441,000 people in the UK in this group in 2011, a fall of 2. 9% compared with 2010. While this group's investments are diversified across many asset classes, many HNWIs have been badly affected by poor results from their investments in previous property developments and in financial products designed specifically for them, leaving them with a legacy of 'problem' investments and a reluctance to engage in new property schemes. As a result, they are unlikely to provide a significant source of new finance for new Extra Care Housing schemes.

✓ Institutional investors

The HCA has sought to generate interest among institutional investors, (principally Pension Funds and Insurance Companies), in the housing sector. The key barriers were previously considered to be Stamp Duty on bulk purchases and shortcomings in the suitability of Real Estate Investment Trusts, (REITs), both of which had been addressed, yet investment had still been slow until very recently.[38] There are now signs that some of the large institutional investors are ready to make significant long term commitments to 'general needs' housing, with quoted rates of 4. 5% being on far more attractive terms than the other currently available sources.

How the resulting investment will be directed to housing with care remains to be seen and institutional investors will still be free to trade their investments according to their investing priorities, so it is notable that retail market orientated REITs and Property Investment Trusts for housing are also gaining traction, as both of these would feed an enlarged potential pool for retail trading of shares in housing investments.

The priorities of institutional investors and their expectations regarding returns are described in more detail in the articles written by David Dent, Niall Henderson and Coralie Foster in the Housing LIN 'Get Smart' Guide *Innovative Funding and Delivery Options in Extra Care Sheltered Housing* (published in December 2012).[39]

37 *www.ml.com/media/114235.pdf*

38 *www.gov.uk/government/uploads/system/uploads/attachment_data/file/11586/2204242.pdf*

39 *www.housinglin.org.uk/Topics/browse/HousingExtraCare/FundingExtraCareHousing/?parent=1007&child=8656*

Stamp duty is a form of tax charged on the transfer of shares or securities, as well as certain transactions involving partnerships.

Stamp duty land tax (SDLT), is a transfer tax for land transactions, derived from stamp duty.

A Real Estate Investment Trust (REIT) is a company that owns and often manages income producing property or property related assets. REITs provide a way for individual investors to earn a share of the income produced through property ownership without them having to buy and hold the properties themselves. The property assets owned by a REIT may include office buildings, shopping centres, hotels, warehouses, or, (in the US), mortgages or property related loans. REITs often specialise in one type of property.

Property Investment Trusts are offshore vehicles that were set up before the REIT legislation made onshore property companies tax-efficient. Some have since converted into REITs. Traditional investment trusts and property investment trusts are typically managed by external teams, unlike REITs which are usually managed directly by in-house teams.

✓ Real Estate Investment Trusts and Property Investment Trusts

The same aggregation effects raising the interest of Institutional Investors is also creating workable scale for the creation of new Real Estate Investment Trusts, (REITs), and Property Investment Trusts.

At present, UK REITs are solely property owning entities that collect rents from those properties and distribute this income to their shareholders. There are Mortgage and Hybrid REITs in the USA which, as their names suggest, either solely provide debt finance for property or blend debt finance with property ownership. The UK Government has been lobbied to introduce these other forms of REIT in order to create more liquidity in the property debt market and take up existing bank loans. Recent reforms have offered relatively little to foster the establishment of residential property focussed REITs. However, the recent 2012 Autumn Statement has included a commitment to further consultation in preparation for further reforms that will enable REITs to fit the social housing model.

As regards progress with other types of property owning REITs, those established in the UK to date are predominantly conversions of pre-existing commercial property investment portfolios and, in

the present economic climate, have not been well regarded as investments due to concerns regarding the weaknesses in the income stream from their holdings.

It is therefore interesting to note the recent evolution of the product, Single Access Funding – REIT (SAF REIT), now named 'Houses4Homes', as it is primarily intended to fund supported housing and housing with care. While the emphasis of the SAF REIT is on refinancing existing stock in order to reduce costs for housing providers, it has tested both the appetite of potential REIT investors for housing as a use class, and also the terms on which such a REIT can be acceptable to housing providers, Local Authorities and investors.

Further comment on the role of REITs in funding new development can be found in the articles written by Darren Crocker and Charlotte Cook in the Housing LIN 'Get Smart' Guide *Innovative Funding and Delivery Options in Extra Care Sheltered Housing* (published in December 2012).[40]

✓ Property unit trusts and OIECs

Other than the relatively new REITs, the existing non retail and unlisted property related investment vehicles on the stock exchange are primarily Property Unit Trusts and Open Ended Investment Companies, and these can be used by Local Authority Pension Funds or other institutional investors to finance new

40 *www.housinglin.org.uk/Topics/browse/HousingExtraCare/FundingExtraCareHousing/?parent=1007&child=8656*

development. As with the current UK property REITs, these are also property owning entities that collect rents and distribute income to their shareholders. However, these are not yet very active in the housing sector.

✓ Public pension funds

Public sector pension funds in the UK have traditionally had commercial property investments, often in shopping centres and retail parks, but the move into housing is still very small in terms of the overall size of these funds. Their counterparts in Canada have been regular investors in private sector housing with care, (ie, senior living in that market), due to the relative stability of this sector's returns and, while our specialised housing sector is configured quite differently to that of Canada, in future, the same long term benefits to investors and providers could be derived from public sector pension fund investment in UK Extra Care Housing across all tenures and needs levels.

The potential for public pension funds to participate in new development is considered further in the article written by Coralie Foster in the Housing LIN 'Get Smart' Guide *Innovative Funding and Delivery Options in Extra Care Sheltered Housing* (published in December 2012).[41]

Unlisted companies are not listed on any stock exchange and their shares are not traded through stock exchanges. Unlisted shares are instead traded either informally directly between the parties involved or through dealers.

Open ended investment companies are a type of company or fund in the UK that is structured to invest in other companies, with the ability to adjust constantly its investment criteria and fund size. The company's shares are listed on the London Stock Exchange, and the price of the shares is based largely on the underlying assets of the fund.

Consortia of Pensionholders

As most private sector occupational pension schemes have changed from being final salary based to money purchase arrangements, Self Invested Personal Pension Schemes, (SIPPs), and Self Administered Pension Schemes, (SAPS), have become an increasingly important part of pension planning for people across a wide range of income levels. Those using SIPPS and SAPS require pension administrators and often use online dealers for self-advised trading in equities.

41 *www.housinglin.org.uk/Topics/browse/HousingExtraCare/FundingExtraCareHousing/?parent=1007&child=8656*

However, the pensions rules also allow direct investment in property, (subject to some understandable restrictions, ie this cannot be residential property for the pension-holder's own use). This is only viable if the individual's pension fund is large or it can be combined with other funds in a consortium.

Some Independent Financial Advisors, (IFAs), have promoted the consortium approach to SIPPs pension-holders in particular, initially for hotel developments but now for care homes. This could potentially fund Extra Care Housing schemes, but the cost of meeting management fees and needing multiple individual participants is likely to limit the usefulness of SIPP consortia.

Public procurement considerations

Public subsidies through the use of public land or capital grants will fall under the rules regarding Procurement and State Aid, which are outside the scope of this Technical Brief. It should be appreciated that in the case of housing with care, Public Procurement considerations are further complicated by the operational aspects of the completed scheme, in particular the care and support services discussed in Part Three: Revenue Issues.

Practice has varied in England. To date, a minority of LA ASCRs have commissioned multiple services (accommodation, housing management, care and support) together in single procurement procedures, while most others have separated these out, or only procured the care – and possibly housing-related support – services. From a Public Procurement and State Aid perspective, the separation of bricks and mortar related provision from care and support services is prudent, as it mitigates against the risk of double funding and anti-competitive behaviour.

However, there are instances where developers and providers have specifically sought to provide all of the services in Extra Care Housing schemes, either to achieve operational continuity across each aspect of the scheme and/or to obtain some cost and revenue advantages. This multi service approach does offer some potential for offsetting the high initial costs of development with revenue generated through the long term operation of, and provision of services such as care and support in the completed scheme. Indeed, the financial outcome of simple development models that rely entirely on sales revenue, and separate their initial accommodation offer from any subsequent non-property services, is far more dependent on housing market conditions during the sales period than the longer term 'develop and operate' models. How the choice of operating model for an Extra Care Housing scheme can influence the available range of capital funding sources is considered in the next section.

How scheme characteristics influence access to funding sources

This section is equally relevant to housing and care providers and local authorities with responsibility for housing and/or adult social care, as an indication of how differing characteristics in Extra Care Housing schemes will have implications for capital funding.

KEY POINTS

This is important for:

Commissioners in housing and adult social care

- As commissioning objectives may determine the model of Extra Care Housing that developers and providers offer to commissioners.
- The model of Extra Care Housing adopted will in turn effect the range of funding sources available to Developers/Providers.
- The range of funding sources available will also determine the size of the funding pot available to each programme or individual scheme.
- As the funding sources chosen will in turn contribute to the overall cost of delivery.

Developers/Providers

- To act as a checklist at strategy and/or scheme concept stage.
- To highlight how funding options may be affected by decisions made during d the evolution of strategy and/or individual scheme concepts.

There is a strong correlation between the characteristics of individual Extra Care Housing schemes and the most suitable funding source. This section will consider the key characteristics that influence access to funding, which are:

- ownership or use only
- single scheme or multi-scheme programme
- scheme type & operational model
- public sector 'buy in'
- common partners in all schemes or multiple partnerships/JVs
- use of Special Purpose Vehicles, and
- tenure mix.

Ownership or use only

The first choice to be made is whether the completed scheme needs to be owned, as this would then exclude the use of property REITs, Property Investment Trusts, Property unit trusts and OIECs, or whether it is acceptable to have a lease or operating/management agreement for the property via an Operating Company, (OpCo), while the property is then owned by a separate Funding Company, (FundCo), and/or Property Company, (PropCo).

PFI is one such split structure, with annual payments being due to the FundCo/PropCo for use of the facility, the payments varying according to whether the property reverts to the 'client body' (which could be the commissioning Local Authority in a PFI scheme or the commissioning Health body in a LIFT scheme), or remains with the PFI delivery partners at the end of the term. These and other PropCo structures often seek to link payments to the Retail Prices Index (RPI) in order to prevent the income of the 'landlord' PropCo being eroded by inflation. As with the SAF REIT example given previously, this form of automatic rent escalation is unappealing to providers due to the lack of any correlation with changes in their own income from the scheme.

However, a more equitable arrangement can be used in OpCo/PropCo structures where variations in income are a shared risk and equally, both parties gain if betterment can be achieved. Given that the number of RPI linked leases is dwindling in sectors that had previously had this built-in escalation of rents, ie retail and commercial property, funders may be more willing to accept either risk sharing or periodic rent reviews in future.

Single scheme or multi-scheme programme

In terms of their suitability for either single schemes or multi-scheme programmes, Table B following shows which funding sources align most readily with either level of development.

Table B: Suitability of funding sources for single schemes and multiple schemes

Single scheme	Multiple schemes	SOURCES OF FUNDING
✓	✓	HCA Affordable Homes Programme 2011-15
✓	✓	DH Care & Support Housing Fund 2013-17
✓	✓	Public land at nil or below market value
✓	✓	Capital subsidies from Local Authorities
✓	✓	Group banking facilities
✗	✓	Own name bond issues
✓	✗	Social finance
✓	✓	Scheme specific banking facilities
✓	✓	Construction contractor finance
✗	✓	Institutional investors
✗	✓	REITs and Property Investment Trusts
✗	✓	Property unit trusts and OIECs
✗	✓	Public pension funds

Single schemes can potentially be aggregated into larger multi-provider programmes for institutional investment, REIT or Property Investment Trust purposes but this is more likely to be possible once they are complete and fully occupied. In the meantime, these schemes could be delivered using Construction Contractor finance but the Contractor would obviously need to satisfy themselves that the client body was capable of paying off the construction finance debt at the Contractor's desired exit point, ie Practical Completion or after a pre-agreed period after practical completion, usually 1 year, regardless of the client body's preferred long term method of finance.

Scheme type & operational model

Beyond the simple alignment of funding to the scale of the intended development, the actual nature of the scheme will be of keen interest to potential funders as this will directly influence their evaluation of the risk associated with the scheme. This is especially true of Extra Care Housing, as it encompasses a broad church of providers, occupants and operating models. As a result, funders may find it difficult to determine whether the proposed scheme should be categorised as housing, care or even more akin to a hotel or health scheme in terms of risk and value.

The importance of this categorisation cannot be underestimated, as it then leads to specific expectations regarding valuation methods and the returns from the completed scheme. Housing values outside the Home Counties are still 'weak', combining low rates of both sales and mortgage lending with a restricted release of distressed assets on to the market by lenders. This means that yields (returns to investors on the investment) for housing portfolios are high at 10% – 12%, reflecting the combination of relatively poor property values and high risks.

In comparison, the yields for care home investment portfolios are currently at 7% – 9%, which is still relatively high when compared to other asset classes, due to concerns regarding fee cuts by Local Authorities, difficulties in maintaining profitable occupancy rates and gearing.

Other than the conventional owner occupation retirement housing and assisted living products of the largest private sector developer, Extra Care Housing schemes vary to such a degree in their target markets and operation that simple translation into either a housing or care asset is not always appropriate.

The particular challenges of categorising Extra Care housing and how it relates to the established residential development and care provider sectors is included in the article written by Melville Knight in the Housing LIN 'Get Smart' Guide *Innovative Funding and Delivery Options in Extra Care Sheltered Housing* (published in December 2012).[42]

Distressed assets are often in default of their banking or borrowing terms (or covenants) and may have been taken under direct control of the lenders through possession orders or may be subject to a forced sale in order to repay debts. Distressed assets will typically be sold below their perceived value due to the forced nature of their sale.

Yield refers to the income returned on an investment. It may be the interest or dividends received from a security or project. Yield is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

Public sector 'buy in'

Funders will still attach significant weight to public sector support for schemes in their decisions regarding what to fund,

42 *www.housinglin.org.uk/Topics/browse/HousingExtraCare/FundingExtraCareHousing/?parent=1007&child=8656*

and the terms of that funding, even though block contracts and long term contracts are unlikely to be available. The key here is demonstrating 'buy in' from public bodies that will underpin the operational phase of the scheme, eg through Nominations Rights or referrals from public Social Care, Housing and/or NHS bodies ie Clinical Commissioning Groups. Schemes that have been procured through OJEU compliant public procedures and that use either public land or capital subsidies will have the greatest credibility here.

JVs that give the public sector a stake in the completed scheme will give funders comfort regarding 'buy in' but will necessarily be more complex to manage than a JV that will deliver and manage scheme(s) within which units will be made available to people who are nominated by Social Care, Housing and/or Health but which is independent of any other public involvement. JVs that do include public sector partners must be careful to balance involvement with risk allocation, as the sustainability of schemes through effective management and operational efficiency must not be compromised by impractical referral or occupancy practices. Multi sector involvement therefore has to be in the spirit of a shared objective, ie, the sustainability of the scheme(s), and allow flexibility in operating arrangements to accommodate changes in needs and demand.

The importance of joint working and partnerships between the public and private sector, both formal and informal, are described further in the articles written by David Dent, Niall Henderson and Charlotte Cook in the Housing LIN 'Get Smart' Guide *Innovative Funding and Delivery Options in Extra Care Sheltered Housing* (published in December 2012).[43]

Common partners in all schemes or multiple partnerships/JVs

Relationships and responsibilities will clearly be more difficult to manage across a programme of schemes that involve multiple partnerships or joint ventures, rather than in a programme involving the same partners in every scheme. Funders may well prefer the relative simplicity of the latter in deciding who to fund, as maintaining long term partnerships over multiple sites enables roles to be refined and expertise to be consolidated, with cumulative experience being rolled forward through each successive site.

Moreover, a funding arrangement for a single partnership delivering multiple sites could more easily be configured to allow for variations in the rate of progress, if the reporting and authorisation procedures provide management with control of the programme's overall draw down from the funding facility.

The alternative of serial partnerships involving differing partners will be far less efficient and run the risk of 'reinventing the wheel', with less consistent

43 *www.housinglin.org.uk/Topics/browse/HousingExtraCare/FundingExtraCareHousing/?parent=1007&child=8656*

performance in terms of cost, quality and programme. This is not to say that a one off partnership cannot produce an acceptable outcome, just that managing a multi-scheme programme with differing partners in each scheme is far more demanding for the client entity than a single overarching partnership.

Use of Special Purpose Vehicles

Special Purpose Vehicles (SPVs) are more useful to ring-fence assets and finance than to control the risk exposure of the parent bodies, as parent company guarantees are routinely required to ensure SPVs are not abandoned if their fortunes fall short of the original expectations. Looking at it another way, in the current economic climate, an SPV may actually be a useful risk management tool in separating the fortunes of a scheme from those of the parent(s), giving it a commercial and operational life of its own that can survive the failure of a parent entity.

Funders will need to see SPVs set up in a suitable legal form that addresses the equity stakes and tax priorities of the parent entities, with roles that make the best use of their respective experience and resources. Gaps can be filled by 'buying in' experience and resources, either as individual employees of the SPV, or as consultants or contractors. This can go as far as outsourcing the operation of completed schemes using management agreements and using third party providers for care, support, catering, cleaning, maintenance, etc.

Specific SPV types, such as Local Asset Backed Vehicles (LABV), are discussed in more detail in the article written by Darren Crocker in the Housing LIN 'Get Smart' Guide *Innovative Funding and Delivery Options in Extra Care Sheltered Housing* (published in December 2012).[44]

Tenure mix

The choice of tenure mix in an Extra Care Housing scheme will have a considerable effect on how the proposed scheme is perceived by potential funders, through the emphasis given to initial development revenue and operating income. For example, where units are offered for long leasehold outright sale only, the model is simple and well known with only the local planning requirements for Affordable housing units to complicate the achievable income.[45]

This type of long leasehold outright sale model is also simple in that the development revenue ends with the last legal completion in the scheme, (albeit costs can run on 1-2 years beyond this, due to the warranty commitments made within each individual sale). In traditional long leasehold models of development,

44 *www.housinglin.org.uk/Topics/browse/HousingExtraCare/FundingExtraCareHousing/?parent=1007&child=8656*
45 *www.housinglin.org.uk/Topics/browse/Design_building/Planning/?parent=8582&child=8654*

(such as blocks of general needs apartments), the subsequent operational phase of the scheme does not generate revenue that is available to the individual scheme appraisal. Instead it is entirely separate and subject to the provisions of the *Landlord and Tenant Act 1987* which require management to be carried out in a fair and transparent manner through whatever structure of Management Company and Managing Agents the developing entity puts in place.

In **conventional mixed tenure** arrangements for the UK, the split of tenures will determine how the scheme is perceived and also how it could be most effectively marketed and operated.

Wholly social rent schemes will rely heavily on nominations and referrals from public bodies, (which, as mentioned previously, is a great draw for potential funders), so marketing and branding can reasonably be aimed at relationship and community building, whereas open market schemes will require a different approach to reach the target market, explain the offer and achieve sales at an acceptable rate.

More **unusual or complex tenures** can be a much harder sell to potential funders and residents, in an already poorly understood sector. Private rented Extra Care Housing has the advantage that it can bundle together accommodation and services to provide a genuine alternative to traditional residential care homes. The fee arrangements can also achieve parity between self funded and state funded residents. This model is focussed on operating revenue derived from the long term provision of multiple services and, despite being a conventional combination of housing with domiciliary care, moves towards being perceived as a care home for funding and valuation purposes. (While private rented Extra Care Housing is unlikely to be aimed at people who need assistance through the benefits system, it is worth mentioning that such developments are unlikely to be classed as Exempt Accommodation, and eligible costs for Housing Benefit purposes will be pegged to Local Housing Allowances – see various references in Part Three: Revenue Funding).

Note: *this type of 'inclusive service' provision could well come under close scrutiny by the Care Quality Commission, (CQC), with a resulting risk of registration as a care home. While the CQC have so far been willing to accept that the current schemes of this type are housing provision, it is prudent to consult with the CQC before planning any new schemes based on this model and consider how the statutory definition of a care home applies in each case. Three key points to address in order to reduce the risk of registration are:*

- *there must be clear separation between the provision of accommodation and provision of care*
- *a suitable form of housing tenancy must be used*
- *tenants must have a choice of care provider.*

A less radical departure from conventional tenures is the Lifetime Lease, the fee for which is calculated based on the life expectancy of the resident at the time of entry. This will predictably be more cost effective for people with shorter life expectancies, who may be able to buy their lease for 50 – 60% of the outright leasehold sale price. This tenure is still evolving but can be adapted to provide an equity stake in the property resale value, (as an alternative to Shared Ownership/Shared Equity tenures), if residents are able to pay slightly more at the outset. This kind of tenure provides a conditional form of home ownership for people with limited equity, (or who wish to have a larger proportion of their equity in cash), but will again impact on appraisals in terms of the size and timing of anticipated revenue to cover development costs unless the units involved are sold on to an investor entity at full value prior to them being sub-let, for them to hold over the long term as a landlord.

An **Equity Stake** is held by the shareholders in a company and is often translated into the percentage they own in the business. The owner of a large percentage of the business (often described as a significant equity stake) may be able to exercise control over the company's activities or enable them to initiate a merger, buyout or other change in the ownership and control of the company.

12 Evidencing and informing funding applications

This section is particularly relevant to developers, housing and care providers, but also should assist local authorities with responsibility for housing and/or adult social care. It provides an indication of what topics funders will wish to see considered in applications for funding and appraisals.

KEY POINTS

This is useful for:

Commissioners in housing and adult social care

- To aid understanding of the number of topic areas which contribute to appraisals and submissions for the funding of Extra Care Housing schemes.
- To understand the alternatives available in each aspect of creating an appraisal and submissions for funding.

Developers/Providers

- To act as a checklist at appraisal stage.
- To ensure the implications for subsequent funding options are appreciated as the original concept for the scheme is translated into an appraisal and the submission for funding is assembled.

This section will consider the following funding application related topics:

- local demand and capacity
- scheme programming
- relationships with public bodies
- delivery costs
- tax/VAT treatments
- sales and marketing strategy
- scheme operating costs.

Local demand and capacity

The demographic data for the UK is readily accessible and all Social Care and Health Authorities use ONS forecasts of the local shifts in the population age profile in their strategic planning for Health and Social Care. At the time of writing, the Housing LIN and the Elderly Accommodation Counsel are testing out a predictive modelling tool to assess demand for a range of local housing with care options and help inform Local Authority Market Position Statements, as set out in S*trategic Housing for Older People: Planning, developing and delivering housing that older people want*.[46] Indeed, the implications for housing are less well consistently appreciated among the public bodies responsible for housing strategy, with many Local Housing Authorities yet to fully engage with the merits of, and growing demand for, housing with care for older people.

In addition to the Housing LIN and EAC modelling tool, the Institute of Public Care at Oxford Brookes University has written a useful briefing paper *Market Position Statements and Housing.* [47]

While providers will be encouraged to use the free Housing LIN resources, it will be more likely to fall upon them, as providers of proposed housing with care scheme, to design and commission their own form of market assessment, including a demand and capacity analysis for the specific location and type of Extra Care housing scheme under consideration.

For example, market assessments typically seek to establish:

- if their scheme's particular combination of location, accommodation and services will have a sufficiently large catchment of people who meet the proposed income
- any age and needs based eligibility criteria, and
- any other local market factors that may influence their investment decision.

Assuming the analysis shows the scheme is likely to readily achieve full occupancy, this type of detailed and scheme specific market assessment is then effective in explaining the merits and impacts of the scheme to local housing, planning, social care and health commissioners but, more importantly, it becomes a valuable tool in discussions with potential funders as it can demonstrate clarity in what the provider intends to offer, who this will be offered to and what proportion of these people will need to take up the offer in order to fill the scheme. Without this assessment of the potential market for a scheme, the assumptions in the appraisal will lack essential supporting evidence.

A fundamental part of assessing demand and capacity for a new Extra Care housing

46 www.housinglin.org.uk/Topics/browse/HousingExtraCare/ExtraCareStrategy/SHOPv2/

47 www.housinglin.org.uk/_library/Resources/Housing/SHOP/HLIN_SHOPBriefing1_MPS_digitalversion03.pdf scheme should involve an early stage review of the scheme mix, taking into account the varying occupancy rates for each unit size and tenure which are evident in completed schemes and the general needs housing occupied by older people.

Without such a review, cost per unit is relied on alone and it is increasingly appropriate to isolate capital cost per resident as an indicator of scheme value for money and to ensure schemes will be occupied as efficiently as possible, eg by avoiding under occupancy in larger units.

The need to consider unit mix and delivery costs in appraisals is also covered in the article written by Darren Crocker in the Housing LIN 'Get Smart' Guide *Innovative Funding and Delivery Options in Extra Care Sheltered Housing* (published in December 2012).[48]

Scheme programming

Programming an Extra Care Housing scheme from initial conception through team assembly, procurement, implementation and operation will inevitably require informed judgements on the duration of each stage. It must also recognise the key milestones and where the risk of unrecoverable delays is greatest. Realistically achievable time periods are therefore essential, as over optimism can convert into unavoidable underperformance and excessive pessimism can prevent schemes proceeding past initial appraisal stage.

Indeed, each activity will have its own benchmark time period for the type of scheme under consideration and it is best to base the-- programme on scheme specific advice from specialists in each field plus cross referencing with any information available from similar previously completed schemes.

Relationships with public bodies

Where schemes are either delivered due to public procurement, or are intended to compete for contracts or referrals, time and resource must be allocated at an early stage to ensure that relationship building and procurement processes can be accommodated. Funders will take comfort from any public 'buy in', but this takes time to achieve and can be subject to delays at any point in the process.

Delivery costs

Pre-development costs are often underestimated, usually due to the work involved being more complex than anticipated and more protracted. Pre-planning community consultation work is an increasing feature of the planning process in England but Extra Care Housing also benefits from a preceding stage of consultation and support gathering from Social Care and Health Authorities, before engaging in the usual pre-planning

48 www.housinglin.org.uk/Topics/browse/HousingExtraCare/FundingExtraCareHousing/?parent=1007&child=8656

consultation process with the Housing and Planning Authority. In addition to the core technical requirements for architectural, engineering and landscape design, housing with care schemes will still be subject to the potential need for a wide range of technical work, such as fire safety, noise surveys, vibration surveys, ecological surveys, tree surveys, ground investigation, remediation strategies, traffic surveys, highway and drainage assessments, sustainability assessments, green travel plans and landscape impact assessments, so it is advisable to budget for as many of these as possible.

Tax/VAT treatments

JVs and SPVs have their own implications for tax and VAT, with combinations of public bodies, charities and private companies being a challenge even for experienced financial officers. The development and operating phase of housing with care schemes can introduce even more complexity, especially where there are extensive communal facilities or mixes of uses ie, for residents and/or wider community within the same scheme.

Funders will expect the implications of differing partnerships and uses to be understood and provisions made in appraisals for tax and VAT where necessary, such as partial VAT recovery of building costs or business rates on areas used for commercial enterprises within schemes.

Sales and marketing strategy

The emphasis in planning the marketing of Extra Care Housing schemes will vary in some aspects according to the tenure mix of the scheme. A wholly social rent scheme may require more emphasis on consultation with potential residents as well as local relationship and community building. Open market schemes may have less formal engagement with social care, housing and health commissioners but still need to engage with local older people's community groups as one route to their potential market.

Budgets for marketing costs in open market schemes will typically be set at 2. 5% of the gross revenue, which is intended to cover: all staff costs; advertising; marketing material; plus the set up costs and running costs of the marketing suite and/or show units. The appraisal must show how and when the budget will be spent over the whole duration of the scheme's development phase, (ie, up to achieving full occupancy), and operational models that require the provider's ongoing involvement, (for example, in market rental income, buy backs, exercising pre-emptions and resales), will need a rolling marketing spend and resource.

The importance of the timing of marketing stages must be reflected in appraisals. Early pre-planning community consultation is the ideal time to begin explaining the offer and gathering forward interest, so marketing input is required in the design of the consultation process and material, with early information packs ready to be despatched to respondents and sufficient resource made available to manage this process and the forward interest list. The subsequent triggers for early bird sales releases, local information events, opening marketing suites and show units must all be set, programmed and resourced beforehand. A well thought out and fully costed marketing strategy, that correlates with the appraisal, programme and cashflow, will reassure funders that the scheme will be marketed to the best possible effect in terms of sales, lettings and fill up rates.

The achievable revenue assumptions in the appraisal will need to be evidenced, which can be done as part of the market assessment process described in the above section regarding demand and capacity analysis. As most open market Extra Care Housing is purchased outright with no mortgage, the individual units are only infrequently subjected to the normal processes of mortgage lenders instructing local valuers, and opinions on how units should be valued differ considerably. The main obstacle to the usual approach to valuation is the lack of comparator schemes, which also sustains a lack of understanding of Extra Care Housing among the local agents often asked to provide pricing advice.

Some providers have consistently sought a premium for open market Extra Care Housing, sometimes up to 20% above the most comparable local stock, (ie comparable in terms of accommodation, size and location). These providers argue that this premium is justified by the communal facilities and services available to residents in Extra Care Housing. Indeed, the facilities may well take up 30%–40% of the building floor area and a sales premium can help to offset their capital cost). However, appraisals that show revenues based on this premium approach will be subject to challenge by funders and/or residents, and providers will need to make a strong case that not only can premiums be achieved at first sale, they can be sustained at resale and a sufficiently large catchment exists for the scheme at this level of pricing.

In the present economic climate, the evidence regarding the sustainability of premium pricing is mixed, with open market resales frequently occurring well below the originally achieved sales prices and settling at, or even below, the most comparable local stock. It is therefore more prudent to base forecast revenue on the values of comparable local stock, allowing for the differences in quality, age and specification as you would for any new-build housing scheme when pricing it against the existing local stock. This will undoubtedly place stresses on the viability of the scheme and require a thorough review of what combination of saleable accommodation and communal facilities achieves the optimum overall financial return.

The Housing LIN has published a number of useful resources that explore in detail approaches for valuing and marketing Extra Care Housing. [49]

Scheme operating costs

The importance of revenue to offset capital costs has been mentioned previously, as well as the stresses on existing care and support arrangements in Extra Care Housing schemes. However, the basic operating costs of the scheme and resulting service charges are equally important to achieving appraisals that satisfy funders regarding the ability of the potential residents to afford the charges and whether they represent value for money.

The overall cost of occupancy is a key consideration for potential residents and Extra Care Housing schemes vary in what is included in their charges, eg heating and hot water in individual units may be metered as an individual's cost but could also be included in the service charge. Open market long leasehold residents are likely to react adversely to the principle of service charges in general, requiring a marketing approach that highlights what is included and, preferably, transparency and accountability in how these charges are used in the scheme. For example, high service charges can be a significant barrier to entry, even when unit rents or leasehold sale prices are set at levels that are commensurate with the local market, as this type of ongoing charge relies on income rather than equity.

Issues around the setting of service charges, and the availability of welfare benefits to assist Extra Care Housing residents meet housing costs, are addressed in Part Three: Revenue Funding.

However, appraisals for leasehold properties should also clearly show the proposed levels and treatments of Ground Rents, particularly the proposed escalation provisions for these and whether the capitalised value of the Ground Rents has been taken as revenue, based on an assumption that this interest will be sold on to an investor.

Note: *the latter requires a presale to be set up in order to avoid the freehold right of first refusal in the Landlord and Tenant Act, which would considerably diminish the prospects of an investor sale.*

49 www.housinglin.org.uk/Topics/browse/HousingExtraCare/ExtraCareStrategy/HousingStrategyExamples/?parent=975&child=8551

13

Appraisal types for extra care housing schemes

This section is particularly relevant to developers, housing and care providers, but also should assist local authorities with responsibility for housing and/or adult social care. It describes the various appraisal methodologies that may be adopted for Extra Care Housing schemes.

KEY POINTS

This is useful for:

Commissioners in housing and adult social care

- As an introduction to differing appraisal types that developers and providers may provide.
- As an introduction to appraisal terminology that may be unfamiliar.

Developers/Providers

- To consider the most suitable appraisal type for each model or scheme.

The appraisal type used will be influenced by both the tenure mix of the proposed scheme and the ownership/operating model being adopted. This section will briefly describe the most commonly used appraisal types, which are:

- Gross Yield and Net Yield
- Net Present Value
- Residual Land Value
- Internal Rate of Return.

Gross Yield and Net Yield (rent income and EBITDA versions)

Gross Yield is the simplest method of assessing viability and often used as a quick calculation for private sector residential and commercial property investments that generate rental income. This is simply the rental income expressed as a percentage of the capital investment required.

Net Yield is sometime used by RPs as a rough initial test of viability and uses the net rental income in the first year, rather than the gross rental income, again expressed as a percentage of the capital investment required. While a more accurate approach than Gross Yield, the Net Yield calculation is still only based on one year's performance and does not take into account long term fluctuations in operating or landlord's costs.

Simple Yield calculations are more appropriate to ownership models that let properties to occupiers on full repairing and insuring leases, typically commercial, retail and industrial properties, as the landlord's costs are much reduced due to the tenant's liabilities for routine maintenance. Major expenditure by the landlord will only be incurred if the building is remodelled, refurbished or redeveloped after the end of the lease.

EBITDA (earnings before interest, tax, depreciation, and amortisation) based yield calculations are more common for care and nursing home properties, ie, relatively complex operating businesses. In this case, the EBITDA figure is used in combination with the capital investment to calculate the yield.

In all of the above situations, the indicative market value of the property can be estimated by applying the currently achievable yields to the rental/EBITDA figures. The lower the yield, the higher the market value, hence properties in economically weak areas or use classes will show the highest yields, due to the combination of low property values and higher risk for the owner. Low yield properties at high prices in economically strong areas offer buyers lower risk and the potential for capital gains.

Net Present Value

This is the most common method of judging viability used by Registered Providers. It compares the Net Present Value (NPV) of net rent income with the finance required and produces an NPV Surplus (or deficit) figure from the following calculation.

In this case, the NPV of net rent and sales is calculated using discounted cash flow, ie, applying a discount factor to the cash flow figures to represent the costs of carrying debt, based on judgements regarding interest rates over the period of time being considered. This enables the appraisal to reflect the relative value of money at differing times, for example at a discount rate of 5. 0%, (this figure being whatever the market's view of average interest rates is at the time for the housing sector over the period of the investment), £200,000 in 30 years would be worth £46,275.

If the NPV shows a significant surplus then the scheme could be recalculated with alternative tenure mixes, lower rents, lower sales values or even higher costs, (if a higher standard or design or specification is desirable). If the NPV is a deficit, then the scheme requires a thorough review of revenue and costs to optimise them, ie,

eliminate, or at least minimise, the costs that do not add tangible value to the scheme. This may involve differing approaches to design, specification, procurement, management or operation.

Where it has not been possible to balance revenue and costs, subsidy will be required in order to break even, sources of which may be either: the external capital grant(s) referred to previously; current reserves of the client body; or, any operating surplus from services such as care and support.

The NPV appraisal is therefore the best method for testing differing operating models that include multiple income sources and ongoing operational costs.

Residual Land Value

The Residual Land Value (RLV) appraisal is the most common method for judging viability in the private housing sector, as it focuses on short term development outcomes and is used principally to establish an acceptable land value in appraisals, (this being the volume housebuilders' main variable between sites). This method itemises all of the direct costs of the scheme, (ie, professional fees, site preparation costs, build costs, sales and marketing costs and legal fees), and deducts these from the Gross Development Value, (GDV), which for speculative housebuilding is simply the total forecast sales value of all units within the scheme, (after allowing for sales incentives such as discounting from advertised prices, carpets and curtains and/or assisted move packages). Housebuilding Gross Profit is calculated as a percentage of GDV, (rather than the commercial sector practice of basing this on cost), and the appraisal template will show the resulting RLV for the required level of Gross Profit.

This method is used in negotiations for Section 106 purposes with Planning Authorities and District Valuers, as it demonstrates the scheme's ability to meet the costs of planning obligations such as the provision of Affordable housing. However, small variations in the inputs of build cost or sales revenue can lead to large variations in the achievable profit and RLV figures. This requires a high degree of judgment regarding the build cost and sales revenue figures to 'pitch' these at a level that is neither too optimistic, nor too pessimistic, hence the need for informed interpretation of these appraisals by Planning Authorities.

Non-housebuilder RLV appraisals will include the funding costs within the overall costs deduction, rather than treating these as a post appraisal deduction at Group level. RLV appraisals for leasehold properties should also show the capitalised value of Ground Rents, as these remain an attractive type of investment which can generate a useful additional source of revenue, as long as a presale is set up to avoid the freehold right of first refusal in the Landlord and Tenant Act.

The RLV method is ideal for schemes that have a clean exit point, ie, after concluding the onward sale of all interests in the scheme to either individual occupiers or third party investor(s), as this method relies on neat time limited assessments of costs and revenue, with an exit from ongoing liabilities. Where schemes are sold leasehold, appraisals will need to include shortfalls in service charges during the sales period but any liabilities are then assumed to end with the final legal completion, (other than warranty obligations and any adoptions of roads, sewers and open spaces which are subject to maintenance periods and final inspections at a later date).

Internal Rate of Return

For a long period of time, private housing sector appraisals were judged principally by the Gross Profit they produced and, as mentioned previously, a Gross Profit of 25%, (ie, profit before the deduction of office overheads and funding costs), is currently typical among housebuilders. This high threshold has been set by the housebuilders' bankers and senior management, as a method of creating a contingency against the high degree of risk involved in speculative housing development in the current housing market.

Over the last decade, Internal Rate of Return (IRR), has become at least equally as important as Gross profit, if not more important, in judging the relative profitability of schemes. IRR shows the return on the investment over the period and allows this to be compared with the return that would be available from placing the investment funds in a deposit account over the same period, (and other alternative investments for the same funds). In order to be consistent and reliable, IRR figures must be derived from detailed cash flows, ie, those based on accurate timings for costs, revenue and the investment of capital. They therefore require schemes to be sufficiently well advanced, (or of a predictable and consistent cost/revenue model, as is often the case with private sector freehold outright sale volume housebuilding), to allow a cash flow to be prepared.

14 Capital funding conclusion

The growth of the Extra Care Housing stock had, until recently, involved a considerable amount of capital subsidy from Central Government. This subsidy cannot be relied upon to the same degree and new schemes will have to be modelled differently both in order to require less, or no, capital subsidy and to enable them to draw from a more diverse range of funding arrangements. This in turn requires more creative and open minded thinking amongst all those involved, whether they are commissioners, developers or providers, in order to continue to increase the range and quality of Extra Care Housing for older people and other people with needs that general needs housing cannot accommodate.

KEY POINTS

- The range of funding sources is wide, but not all of these are suitable for Extra Care Housing.
- There is continuous change in the funding 'marketplace', with an increasing interest in long term investment in both social rented and privately rented housing.
- Government reforms, such as those to Local Authority pension funds and REITs, are gradually removing barriers to investment in housing.
- For commissioners, when setting their commissioning objectives, they should take into account the interconnections between any specific model of Extra Care Housing that these objectives envisage and the consequences of adopting that model for funding.
- For developers and providers, the implications for the subsequent availability of funding must be continuously acknowledged and reviewed during the conception of both strategies and individual schemes.
- In order to obtain offers of funding, developers and providers will need to consider and evidence the key assumptions on which their scheme and appraisal has been based.

Part Three: Revenue funding

Having considered capital funding in Part Two, Part Three considers the revenue funding of the services provided in Extra Care Housing. Whether from the perspective of a commissioner or a provider, this is of fundamental importance in relation to scheme viability.

The services under consideration in the Technical Brief can be broadly broken down into the following categories:

- Housing Management and other accommodation-related services – referred to in **A) Housing hosts recovery**, following.
- Housing Related Support services – referred to in **B) Care and support costs recovery** and **D) Crossover issues – care/support/housing**, following.
- Care services- referred to in **B) Care and support costs recovery**, following.

Other services also considered include:

- Assistive Technology and alarm services –mentioned in section on Service Charges in **A) Housing costs recovery**, following.
- Services aimed at promoting wellbeing including activities facilitation – see **C) Funding quality of life and wellbeing services**.

Fundamental principles

An underlying principle applying to the revenue funding of Extra Care Housing is that it is housing and not a 'care home'. The same rules generally apply to residents of Extra Care Housing as apply to people living in other forms of housing of the same tenure type.

KEY POINTS

Revenue Funding

Extra Care Housing brings together a number of different funding streams in order to provide a range of services which, despite their disparate funding sources, need to be well coordinated and cohesive at the point of delivery.

Providers (whether of housing or care and support) need to ensure that they achieve full cost recovery in operating Extra Care Housing. This requires a robust approach to which cost components 'fit' within which income streams, while acknowledging that there are a number of variations and complexities depending upon the model of Extra Care Housing being described, and the type of housing tenure concerned.

Residents are individually liable to pick up the majority * of a scheme's housing operating costs via rent and /or service charges. This requires that they can in turn find sources of financial support and assistance via the benefits system where individually eligible – in order to ensure the affordability of Extra Care Housing and to enable it to be accessed by as many people as possible.

** However some operating costs might be the liability of 3rd parties, eg where there is an external use of a scheme's facilities – for example by a commercial/retail organisation; or by a NHS service.*

Residents are also liable to meet the costs of care and support, either from their own resources, via the benefits system, and/or with financial support from the LA ASCR via the Fairer Charging system for assessed care provision.

Welfare benefits

Residents in Extra Care Housing are responsible for meeting housing costs which providers collect via rents (tenants) and service charges (all tenures). Depending on individual circumstances, residents may then receive various means tested benefits which can assist them to meet (eligible) housing costs.

KEY POINTS

- Maximising Extra Care residents' disposable incomes will assist them to meet both their housing costs, as well as the cost of meeting their care and support needs. The information in this section focuses on how the Welfare Benefits system contributes to the affordability of Extra Care Housing.
- Housing providers (both RPs and private sector providers) will want to ensure that as many potential residents as possible can meet their housing costs – in order to maximise demand, and to minimise the risk of people being unable to meet the costs of their tenancies/leases. While access to benefits has 'traditionally' been a key concern mainly in social rent Extra Care Housing, these considerations are relevant for any provider of Extra Care Housing aiming to include people with lower/modest incomes and savings within their 'target' market.
- LA ASCRs will want to ensure that Extra Care Housing residents:
  - can afford to fund their eligible care and support needs from their own resources, supported as far as possible by benefits, in order to contain the liability for the LA to cover these costs via the Fairer Charging system
  - have as many financial resources as possible from which to fund other care and support needs that are not eligible for LA ASCR assistance but which may play an important preventive role in delaying/reducing peoples' eventual reliance on more costly forms of social care and health care.
- Local Housing Authorities:
  - may in some cases still be housing providers in their own right so will have the concerns mentioned above
  - as housing enablers, will share the commitment to maximise access to affordable Extra Care Housing for as many people as possible in their area
  - as the LA also holding Housing Benefits responsibility, pending Welfare Reform Act changes, will wish to ensure that eligible Extra Care Housing costs are met in accordance with Housing Benefit regulations.

KEY POINTS

- It is also in the interest of Care Providers that residents' disposable incomes are maximised, since residents will be attempting to pay directly for those care and support services which are not eligible to be funded by LA ASCRs (across all sectors of Extra Care Housing).

While this Technical Brief is expressly not a guide to benefits (it does not, for example, deal with qualifying conditions such as means testing rules or capital limits etc., and only makes selective references to current benefit rates), we begin by broadly outlining the benefits applicable to funding Extra Care Housing. We are revising this Technical Brief at a time of major changes in the benefit system as a result of the Welfare Reform Act 2012 (WRA). We also refer to the relevant benefits when describing potential funding sources for each service in turn, in (A) Housing costs recovery.

BENEFIT RATES

Since benefit rates become quickly out of date we do not include them here. Rates are updated annually and are available from the Department of Work and Pensions (DWP) website and other sources. Those for 2012/2103 are available at www.dwp.gov.uk/docs/benefitrates2012.pdf

IMPACT OF THE WELFARE REFORM ACT 2012 (WRA)

In describing specific benefits that are relevant in Extra Care Housing, below, we summarise the current position – but where the WRA has an impact on that specific benefit, we add comments in a separate box.

The following more general aspects of the WRA are also expected to have a wider impact on older people, and/or on both sheltered and Extra Care Housing, and are referred to at the relevant point in this Technical Brief.

- New processes/systems for handling of benefit claims, queries etc.
- Future arrangements for funding supported housing and 'Exempt Accommodation'.
- Linkage between rents and Local Housing Allowances for private rented Extra Care Housing.
- Treatment of Service Charges.
- Council Tax Benefit.
- Disability Living Allowance.

SPECIFIC BENEFITS RELEVANT FOR EXTRA CARE HOUSING RESIDENTS

Housing Benefit

Housing Benefit (HB) is administered by Local Authorities with housing responsibilities (LHAs); is funded by central government (DWP), and meets the eligible housing costs of people in rented housing. Along with much other supported and sheltered housing in the social sector, Extra Care Housing will usually be classed as 'Exempt Accommodation' (covered more fully below) which in brief means that rents and service charges –providing they are 'reasonable'- will be covered by HB even though these charges may be significantly higher than in general needs housing, because of additional services and facilities.

HB can be claimed by tenants in rented Extra Care Housing – and by leaseholders in shared ownership Extra Care housing in respect of service charges (even though there is nil net rent payable under the OPSO model as described in paragraph 'Choice of tenures', previously).

However, those parts of the service charge which are never eligible for HB (listed next) will not be covered.

WRA issues for Housing Benefit and older people

- For older people generally:
  - the Welfare Reform Act abolishes Housing Benefit- older people in mainstream rented (social or private sector) non specialist housing who are eligible for assistance will instead receive help with rent via a new element of Pension Credit, to be called 'housing credit' (from October 2014)
  - new claimants will claim Pension Credit with housing credit from October 2014
  - existing HB customers over Pension Credit age (with or without Pension Credit) will be transferred to modified Pension Credit (including Housing Credit) between October 2014 and October 2017.
- However, following consultation, the Government has indicated that costs for supported housing (including Extra Care Housing) which is classed as Exempt Accommodation will not be paid for under these arrangements pending development of new systems, and that current arrangement will remain place – see 'Exempt Accommodation' in D) Crossover issues – housing/care/support following.

Pension Credit

Pension Credit is a benefit designed to ensure that men and women over the qualifying age have a guaranteed level of income through the Pension Credit Guarantee Credit element. The qualifying age for Pension Credit Guarantee Credit is the same as the minimum State Pension age for women. People over the age of 65 may also be awarded the Savings Credit element of Pension Credit, which is extra money for those who have made some modest provision for their retirement.

Pension Credit can be claimed for people in Extra Care Housing; for tenants in rented schemes, receiving Guarantee Credit is an automatic passport to receiving full Housing Benefit (while HB remains in existence). In addition, for leaseholders, Pension Credit can meet some of their housing costs, (as they are not covered by Housing Benefit) – if a person owns their own home and has a mortgage, home loan, or other housing-related charges to pay, their 'minimum guarantee' for Pension Credit purposes may include extra amounts to cover some housing costs.

Pension Credit and Service charges

A person's appropriate minimum guarantee for Pension Credit purposes can include help towards some charges, where they are deemed 'reasonable'.

The following services are eligible:

- services for the provision of adequate accommodation including some warden and caretaker services, gardens, lifts, entry phones, portering, rubbish removal, TV and radio relay charges
- laundry facilities like a laundry room in a sheltered housing scheme but not personal laundry services
- cleaning of communal areas and windows
- minor repairs and maintenance
- house insurance if it has to be paid under the terms of the lease.

However, it should be noted that service charges for community/emergency alarm systems, catering, and personal care and support services are not covered.

Although the definitions of (in)eligible service charge items should provide consistent treatment across claimants, certain private providers of leasehold Extra Care Housing, which operate across many areas of England, report great variation in the level of service charges that local DWP offices will regard as eligible to be covered by Pension Credit.

Finally, 'ground rent' is also an eligible cost for Pension Credit purposes and will be included in a person's 'minimum guarantee'.

Pension Credit – Mortgages and home loans

Most people will purchase in leasehold Extra Care Housing using their own resources usually from the sale of their previous home. However, Pension Credit allows help towards interest payments on mortgages up to £100,000 (but not capital repayments). Pension Credit will not cover insurance policies on a mortgage, or any arrears.

There are many issues, however, with using Pension Credit Support for Mortgage Interest, since in practice it has become very difficult to find mortgage lenders prepared to offer interest only mortgages to older or disabled people who wish to use benefits to repay the loan.

WRA issues for Pension Credit

General points

- Universal Credit (UC) and Pension credit are planned to operate 'on-line; which will be challenging for many older people, who – as a group – tend to be digitally excluded; this is likely to apply even more to extra care residents, who are generally older and frailer.
- To avoid risks to tenancies and to safeguard their income, Providers may need to offer more benefits advice and support during this transition period.
- Age changes – at present where a couple includes one partner over Pension Credit age and the other under Pension Credit age, the older partner can claim Pension Credit for both. In future the younger partner will have to claim Universal Credit for both, which will be paid at a lower rate – and Pension Credit will only come into play once the younger partner reaches pension age.
- Couples already in receipt of Pension Credit when Universal Credit is introduced will be able to stay on Pension Credit.

Leaseholders

- In Extra Care Housing, if they qualify for Pension Credit, leaseholders will continue to have 'eligible' housing costs included in their minimum guarantee as explained above.
- In December 2012, the final UC Regulations confirmed the range of eligible service charges (see (A) Housing costs recovery, section on Service charges, for more detail). These changes will not apply in Exempt Accommodation, but may impact on non Exempt Accommodation Extra Care Housing, eg in the private sector. Pension Credit rules on service charges have in the past largely mirrored those applying under HB in the rented sector. Some commentators expect that this will continue to be the case with the UC-defined eligible categories of service charges, but there is currently (January 2013) no certainty about this.

Attendance Allowance

While not linked to meeting housing costs, many residents in Extra Care Housing will qualify for Attendance Allowance. Attendance Allowance is a non-means tested benefit for people who are 65 years old or over who need help with personal care, or need supervision by day or someone to watch over them by night, because of 'physical or mental disability'. The disability needs to be severe enough for the person to require help caring for him/herself or supervision to do so, or for the claimant's own or someone else's safety. The allowance is based on the help needed not the help actually received, and is paid at 2 rates depending on the extent of the individual's needs.

Many older people living in extra care schemes in both the social and private sector may be eligible for Attendance Allowance even if their needs do not meet social care eligibility (sometimes known as FACS) thresholds. Their carers may be eligible for a Carers' Allowance.

Attendance Allowance is normally ignored as income for working out income-related benefits and other entitlements, and may be a passport to an increase in other benefits. Unlike a personal budget, if someone is entitled to the benefit, there are no rules specifying how it should be spent, but it could be used, along with any pension credit disability premiums, on purchasing care or support.

There are no current WRA implications for Attendance Allowance.

Disability Living Allowance

Disability Living Allowance (DLA) is for people who, because of their physical or mental disability:

- need help with personal care, or need supervision by day, or need someone to watch over them at night; or
- are unable to walk, have great difficulty walking, or need someone with them when walking in unfamiliar places outdoors; or
- need help with both of these.

DLA applies to people who make a claim before the age of 65. DLA is not taxable or means tested.

WRA implications for DLA

- There are major changes for DLA – in summary DLA will be replaced by Personal Independence Payment (PIP) from April 2013 for people aged 16 to 64.
- Between 2013 and 2016, everyone aged 16 to 64 receiving DLA will be reassessed for PIP instead of DLA. The details of this process fall outside the remit of this

Technical Brief, but –although PIP eligibility criteria will mirror DLA in many ways-assessment will be more stringent. There will for example be no equivalent in PIP for the lowest rate of DLA care – if existing claimants cannot reach the new standard rate of care for PIP, they will lose the benefit entirely.

- There are currently no proposals to replace DLA with PIP for people over the age of 65 who are already continuing to receive DLA. People will not be able to claim PIP after the age of 65 (or pension age if that is higher) but they will be able to stay on PIP after that age if they have claimed it beforehand.
- People on DLA/PIP will not be subject to the overall benefit cap being introduced under the WRA (see section on Other Impacts of the Welfare Reform Act 2012, following).

Council Tax Benefit

Council Tax Benefit (CTB) is a means tested benefit to help people on a low income who have to pay Council Tax; it applies to people living in all forms of tenure. It is not a benefit that is directly related to assisting residents pay their accommodation charges, unlike Pension Credit or HB; but, eg like DLA or AA, it does contribute to people's overall income.

Please note, CTB changes are not part of the WRA, but are generally seen as linked to the overall welfare reform agenda.

- CTB will be replaced with localised support in 2013-14. Instead of a benefit based on national rules, local authorities in England will receive funding to provide support, but expenditure will be reduced by 10%. Local authorities however have to develop schemes within broad parameters set out by Government.
- Key to the remaining national framework is protection for current and future pensioners, who should receive the same levels of support under the new scheme as at present. People in other 'vulnerable' groups should also be protected – this will generally include disabled people as well. There is however no certainty, given the wide variations expected between local schemes, that people living in supported housing will automatically be regarded as being 'vulnerable'.
- Support for other people of working age is likely to be reduced significantly as they will bear the brunt of the overall 10% reduction.

Inter-relationships between benefits

There are complex inter-relationships between different benefits which are beyond the scope of this Technical Brief. For example, eligibility for disability benefits increases the amount payable through means-tested benefits such as Pension Credit (through the additional disability premium). In addition, entitlement to certain benefits may ''passport'' residents to other benefits or subsidy.

Other Impacts of the Welfare Reform Act 2012 for people in Extra Care Housing.

Changes which do not affect people above pension age, but could affect younger people living in Extra Care Housing include:

- **Direct Payment** of Housing costs to tenants:

  Unlike most working-age social housing tenants, for whom direct payments will be the norm, older people and residents of 'exempt' supported housing:

  - will have their help with housing costs provided outside of UC, and
  - will be able to continue to have their Housing Benefit paid direct to their landlord.

The DWP has also accepted that there are some working-age people who will not be capable of managing a monthly payment, and for whom direct payments to the landlord will remain appropriate. There will be a mechanism within UC to facilitate the payment of benefit direct to the landlord once someone is identified as vulnerable. However, ministers have not yet announced what types of tenants will fall into this 'vulnerable' category.

- The **overall benefit cap** – for working-age households, total household welfare payments will be limited to £500 per week for couple- and lone parent-households and to £350 per week for single-person households where no children are present . Support for housing costs will have to be met within this cap. However the Government has announced in the 2012 Autumn Statement that the benefit cap will not apply to anyone living in 'Exempt Accommodation'
- The **'bedroom tax'/under occupation penalty** – A working-age household * deemed to be under-occupying their home will lose part of their housing benefit from April 2013. The size criteria in the social rented sector will restrict housing benefit to allow for one bedroom for each person or couple living as part of the household, with certain exceptions around children; a disabled tenant or partner who needs non-resident overnight carer will be allowed an extra room.

Any household deemed to have more bedrooms than they require, will either need to move to smaller accommodation or lose a proportion of their housing benefit.

- * The measure will affect only tenants of working age, defined as those below the Pension Credit age, which is expected to be 61 at the time the criteria come into effect, and to rise in line with the women's state pension age until equalisation with men is achieved in 2018. The Government has introduced proposals to increase the state pension age for everyone to 66 by 2020- it is likely that the Pension Credit age will follow this, leaving more people subject to the size criteria over time
- For couples currently claiming Housing Benefit, both the claimant and their partner need to be under the Pension Credit qualifying age to be treated as working age and subject to the size criteria. However from October 2013, if either member in a couple is under the qualifying age for Pension Credit, then the couple will be treated as being of ' working age', and thus expected to claim Universal Credit, and thereby be subject to the size criteria.

This rule will not affect existing claimants of pension credit; they will be able to continue to receive pension credit and therefore will not be affected by the size criteria.

Again this could impact on single people under pension living in extra care, or couples here one person is under pension age. This impact will gradually increase as the pension age increases over time.

Recovering costs of services in Extra Care Housing

This section is of general relevance to all concerned with the affordability and viability of Extra Care Housing in revenue terms.

A) HOUSING COSTS RECOVERY

KEY POINTS

It is particularly relevant, however, for housing providers (in all sectors), as we address:

- The range of housing costs that arise in Extra Care Housing.
- The way these costs are normally grouped into different income streams (eg 'rent' under various social rent regimes – and service charges).
- How this allocation varies according to the tenure concerned and the type of provider.
- Continuing with the affordability theme mentioned in the last section, how the various cost categories align with the benefits system; which costs are eligible to be met by benefits; and which are not.

Broadly the same kinds of costs arise in both social rented and in private/leasehold Extra Care Housing developments, but will be collected in different ways:

- In rented Extra Care Housing (and in respect of rented units in mixed tenure schemes) housing costs are recovered from tenants via Rents and Service Charges, as in other forms of social housing. The apportionment of costs between rent and service charge varies between providers.
- In leasehold developments (and in respect of leasehold units in mixed tenure schemes), costs which would be collected via rent in rented schemes are instead collected via the service charge.

In private rent developments, the landlord is wholly responsible for meeting the costs that would otherwise be dealt with as service charges and has to factor these into the rents charged to the tenants.

Residents' eligibility for financial support in meeting charges via the benefit system is – alongside the need for providers to achieve full cost recovery – the other key consideration when setting rents and service charges and in allocating costs to these income streams (see above for benefits information). The majority of housing costs in this section are eligible to be covered by Housing Benefit (for tenants who qualify for HB) or by Pension Credit (in case of leaseholders who qualify for Pension Credit) but there are exceptions- see above, particularly 'Other impacts of the Welfare Reform Act 2012'.

Where non-housing services/activities run by 3rd parties are based in and use scheme facilities, normal practice is that the RP will charge rent and /or service charge commensurate with the scale of the usage in question, thus protecting scheme residents from bearing costs via the rents/service charges levied on individual properties. The RP may however choose to offer the facilities at a reduced/ peppercorn rate, eg where the external service is seen as adding value for residents by enhancing service available to them – for example, some RPs will offer the care provider use of rooms and services in the building free of charge or below cost, in return for the care provider's support with activities or services not funded out of their contract with the LA ASCR.

The following table shows how, typically, costs are collected according to the tenure of Extra Care Housing in question.

Table C: Housing management – cost recovery by tenure

Housing Management Costs in Extra Care Housing	In social rented schemes[50]	leasehold schemes[51]
Landlord tasks such as administering the tenancies/leases, signing up new tenants/assigning leases, rent and service charge collection and arrears maintenance	Yes, via net rent	Yes-via service, covering service charge collection, management company administration, building management items
Arranging day-to-day repairs	Yes, via net rent	Leaseholder's own responsibility
Arranging property adaptations	Yes, via net rent	Leaseholder's own responsibility
Servicing loan costs on the development	Yes, via net rent	n/a[52]
Building insurance	Yes via net rent	Via service charge
Contribution to sinking fund/ reserve fund for major repairs	Yes, via net rent	Usually via service charge[53]
Scheme manager costs	Via net rent/ service charge/ support charge[54]	Via service charge

50 *And for rented units in mixed tenure schemes*

51 *And for leasehold units in mixed tenure schemes –with overall caveat that responsibilities are defined in lease terms that will vary provider by provider/scheme by scheme*

52 *Cost of servicing loans covered in income from initial sales*

53 *Depending upon scheme, provider – and actual lease terms, this contribution may be collected via service charge; or via a charge levied at vacation/re-assignment of lease; or a combination*

54 *Arrangements for allocating scheme manager costs are complex and vary both across tenures and also within schemes of the same tenure – see section on Scheme Managers in (d) Cross over Issues – Housing/Care/Support, below*

Lastly, some providers also subsidise operating costs through direct fundraising – this is referred to under Charitable Fundraising in Part Two; Capital Funding, section on Current sources of funding.

Table D, following, shows how other costs are typically collected via the service charge in Extra Care Housing, and the way in which people in different tenures may be treated differently.

RENTS – 'TARGET' OR 'AFFORDABLE'?

Rents in social rented Extra Care Housing developed prior to the introduction of the Homes and Communities Agency (HCA) 2011-15 Affordable Homes Programme (AHP) and funded under previous HCA/ Housing Corporation funding regimes, up to and including the National Affordable Housing Programme 2008 -2011 (and/or by the DH Extra Care Housing Fund 2003- 2010) continue to be set according to the rent restructuring policy for social rented housing set out by the HCA in *The Regulatory Framework For Social Housing In England (April 2012) Annex A: Rent Standard Guidance*,[55] which continues the rent restructuring policy originally issued by the Housing Corporation in 2001. These rents are often referred to as "target rents". Under this regime, Extra Care Housing and other specialist housing rents can be uplifted by up to 10% to reflect higher costs.

Schemes funded under the HCA's current 2011-15 Affordable Homes Programme (AHP) must adopt 'Affordable Rents'; these are set at up to 80% of gross market rents, reflecting the property size and location (and, critically, are inclusive of service charges). Details are also included in the HCA Guidance referred to above, which consolidates all of the previous guidance issued by the Housing Corporation, adopted by its successor body, the Tenant Services Authority (TSA) -and then by the HCA following the abolition of the TSA. It also includes the requirements of the Rent standard that applies from 1 April 2012.

Although 'Affordable Rents' should be based on similar types and models of service provision, this will be difficult in the case of Extra Care Housing and some other forms of supported housing, where private sector comparisons are hard to find – the HCA says that RPs should ask valuers 'to identify comparables from other areas, and extrapolate their best view of the gross market rent that would be applicable in the location in which the property is situated' (P. 13 in above-mentioned Rent Guidance Standard).

Because Extra Care Housing rents are relatively high, reflecting the scale of communal space and specialist facilities, the gap between market rent and the Affordable Rent is often considerably less than for other forms of social housing developed under the AHP. Exceptionally, RPs may set rents in new developments at below 80% of market rent but need to give reasons for this

55 *www. homesandcommunities. co. uk/sites/default/files/our-work/regulatory_framework_annex_a. pdf*

approach, as setting lower rents will mean a higher grant rate is needed.

Furthermore, RPs are also expected to charge start charging Affordable Rents when reletting existing properties.

However, for both target and Affordable rents, the maximum annual rent increase will be Retail Price Index (RPI) + 0. 5%. RPI will be taken as at September of the previous year, and lastly; 'affordable Rents' (as well as previous 'target rents') are eligible to be covered by Housing Benefit.

SERVICE CHARGES

The Service Charge is the route through which housing costs are recovered, other than those received via rent (for social tenants). Payment of these charges is a condition of tenancy or lease. Total cost is distributed between all units of accommodation with variation according to the size of the unit. The following table sets out how (according to tenure) the housing costs in Extra Care Housing (other than those shown in the table above) are treated in terms of service charges.

Table D: Collection of costs via service charges

Typical cost category – collected via service charges in Extra Care Housing	Social rented schemes/ units	Leasehold schemes/ units	Notes
SCHEME MANAGER COSTS			
eg Salary incl. on costs/ Office/Postage/phone/ IT/ other sundry costs	Yes – part of overall costs	Yes	See section on Scheme manager posts in (D), Crossover issues – housing/care/support, (below) for discussion on how costs may be apportioned There may be scope for overall cost savings if office accommodation and related costs are shared with the on-site care provider
COMMON PARTS/ COMMUNAL FACILITIES			
eg Utility Costs/Council Tax/ Rates/Internal Cleaning/ Window cleaning/Gardening/ Refuse removal/recycling	yes	yes	

Typical cost category – collected via service charges in Extra Care Housing	Social rented schemes/ units	Leasehold schemes/ units	Notes
COMMUNAL MAINTENANCE			
eg Common Room(s)/Guest Room/Laundry/Treatment/ health facilities/Assisted Bathroom/Staffroom/Staff Bedroom	Yes	Yes	
ANNUAL MAINTENANCE/ SERVICE CONTRACTS			
eg Lift/Call system – entryphone /Aerial /Security/ Fire Detection and Fighting / Laundry/ Kitchen/ Heating and Hot water	Yes	Yes	See sections below on Service charges in Leasehold and mixed tenure schemes
REPAIRS			
Individual properties Communal	No (in net rent) No (in net rent)	No[56] Yes	Individual leaseholder responsibility
INSURANCE PREMIUMS			
Buildings Communal furnishings and equip Lift Insurance	No Yes Yes	Yes Yes Yes	Collected via rent in rented scheme/units
SOCIAL ALARM COSTS			
Monitoring charge Dedicated phone line	In part Yes	Yes Yes	See Section following on 'Call systems and telecare monitoring costs'

56 *However, where communal services enter individual dwellings (eg where there are communal heating/hot water or ventilation systems), providers are likely to treat repairs as communal, and not the leaseholder's responsibility, in order to ensure a consistent quality of repair, and to maintain the overall safety and reliability of services .*

Typical cost category – collected via service charges in Extra Care Housing	Social rented schemes/ units	Leasehold schemes/ units	Notes
CATERING			
Catering costs net of food Food costs	Possibly Possibly	Possibly Possibly	See Section below on 'Catering costs' As above
EQUIPMENT RENEWALS/ RESERVE FUND			
eg Alarm system/entry phone/ Communal bathroom/dining room/Kitchen/ Boiler /Cleaning equipment/Common room/ guest room/Corridors/Fire Fighting Renewals/Gardening/ Laundry Renewals/Lift/Refuse/ Staff room and bedroom/ Hairdressing/treatment room/TV Aerial/Staff Office	Yes	Possibly	See section following on 'Service Charges in Leasehold schemes'
INDIVIDUAL PROPERTY UTILITY COSTS			
Heating /hot water/ Water Costs	Usually	Possibly	In social rent schemes, these services are normally provided communally (though satellite bungalows, eg, will have separate heating systems). Costs usually collected via Service Charge but not HB eligible Most private sector provision has independently metered heating/hot water/ cold water to each unit
Electricity	No	No	Separate metered supplies to dwellings the norm in all tenures

For tenants in Extra Care Housing, many of these services are eligible for funding from Housing Benefit. Those not eligible for benefit include:

- Utility costs – heating (including hot water and water to individual dwellings) – though usually collected via the service charge, these remain the resident's responsibility as in any other form of housing –(dwellings will also have individually metered electricity supplies/ accounts for which the resident is individually responsible).
- Personal services such as nursing or care – see B) Care and support costs recovery, following.
- Cleaning of individual dwellings.
- Emergency/community alarms – but see section on Call systems and telecare monitoring.
- Window cleaning (except for communal areas, and the outside of individual dwelling windows where no-one in household can undertake this).
- 'Housing-related support' – again, see B) Care and support costs recovery, and D) Crossover issues, following.
- A proportion of catering costs – see section on catering costs below.

Service Charges in Leasehold schemes

Service charge setting in retirement leasehold properties, including Extra Care Housing, is subject to the legal requirements of the Landlord and Tenant Act 1987 and the Commonhold and Leasehold Reform Act 2002, both of which enable leaseholders to challenge landlords if costs are considered to be unreasonable. The latter introduced new requirements for the statutory consultation of leaseholders, including circumstances where the leaseholder must be consulted before the landlord carries out works above a certain value or enters into a long-term agreement for the provision of services.[57]

The more usual arrangement in leasehold schemes is to create Management Companies, (which are owned and controlled by the leaseholders themselves), which then appoint Managing Agents for fixed terms to carry out the day to day management of the property on their behalf.

Providers must also follow the Association of Retirement Housing Managers (ARHM) Code of Practice,[58] which covers many aspect of leasehold management; in respect of service charges, it includes in detail how providers should for example set 'reasonable' charges, carry out effective budgeting, and undertake resident consultation. While the ARHM Code does not apply in the social rented sector, it is often seen as offering good practice more generally – in respect of service charges as well in other aspects of housing management.

Private sector management companies have legal obligations as registered

57 *www. lease-advice. org/documents/S20_Consultation. pdf*

58 *www. arhm. org/code_of_practice. cfm*

limited companies to submit audited annual accounts to Companies House, conduct safety audits, maintain a bank account for the service charges and either undertake the maintenance and repair directly or appoint a Managing Agent to do so on their behalf.

Service charges in mixed tenure schemes

As implied in the above table, service charges for tenants will differ from the charges for leaseholders living in the same scheme. However RPs will need to ensure that:

- those charges which apply to both groups are apportioned equally
- charges which differ are apportioned equitably, and
- that they are able to demonstrate how the respective charges have been arrived at.

WRA implications for Service Charges

In 2012, the Government consulted on possible changes in how service charges in social housing would be treated for benefit purposes; its initial proposals were that only a very restricted range of charges would in future be eligible. In the event, as part of the final Universal Credit regulations published in December 2012,[59] (and subject to a further period of consultation taking place in January 2013) a broader range of eligible service charge categories has been adopted.

In addition, linked to the Government's announcement that the funding of housing costs in supported housing will remain outside the framework of UC pending development of a new system, it appears that this revised approach to service charges will not apply in Exempt Accommodation, meaning that the current rules under which service charges are treated for HB purposes, will remain in place at the present time.

The implications of this for how service charges will be treated in future under Pension Credit rules (referred to above) remain unclear.

However, although the UC changes to eligible service charges will not apply to Extra Care Housing providing they are classed as Exempt Accommodation, we summarise the relevant material below. This is because some commentators believe that, even though the rules for Exempt Accommodation remain separate at the present time, LAs that will continue to administer HB for the time being for Exempt Accommodation may in practice start to refer to the UC regulations when deciding

59 *www. legislation. gov. uk/ukdsi/2013/9780111531938/pdfs/ukdsi_9780111531938_en. pdf (pp 66-68 refer to service charges)*

on the eligibility of service charges, and also that these rules may in any event form part of the new funding system which will replace the current treatment of Exempt Accommodation at some point in the future. (Also, it is assumed that Extra Care Housing not classed as Exempt Accommodation will be subject to these rules).

The following is based on *Universal Credit Service Charges – Guidance for landlords* from DWP:[60]

Universal Credit regulations (2013) relating to service charges fall into two distinct segments:

- a legal definition of what is meant by a service charge for the purposes of Universal Credit, and
- broad definitions of the four eligible service charge categories with some additional specific exclusion criteria.

Service charges are:

- payments of, or towards, the costs of or charges for providing services or facilities for use or benefit of persons occupying the accommodation, or
- fairly attributable to the costs of or charges for providing such services or facilities connected with accommodation as are available for the use or benefit of persons occupying accommodation.

Payments are excluded where the services or facilities to which the payments relate are provided for any person occupying:

- a tent
- 'approved premises' – accommodation for offenders in the community (formerly known as bail or probation hostels
- a care home, or
- **exempt accommodation** (our emphasis).

There are Four Conditions for eligible service charges payments.

CONDITION ONE

The right to occupy the accommodation is dependent upon the tenant paying service charges, for example where it forms part of the tenancy agreement.

CONDITION TWO

The service charge wholly falls into one or more of the following categories:

60 *www. dwp. gov. uk/docs/service-charges-guidance. pdf*

- Category A: Maintaining the general standard of the accommodation
- Category B: Areas of communal use
- Category C: Basic communal services
- Category D: Tenant accommodation-specific charges.

CONDITION THREE

The costs or charges are 'reasonable' and that they 'relate to such services as it is reasonable to provide'.

CONDITION FOUR

None of the following applies to the service charge

- public funding (in the form of benefits, grants or other sources) is designed to contribute towards the cost of the service or facility, irrespective of whether the tenant has claimed for the funding
- where the tenant would acquire an asset, or interest in an asset
- any charges for meals, medical services, personal services of any description, and
- charges deemed as ineligible service (see below).

EXHAUSTIVE LIST OF ELIGIBLE SERVICE CHARGES

Category A

- Charges for the external cleaning of windows where the tenant resides in the upper floor of a multi-storey property. , and, in the case of shared ownership tenancies only.
- Internal or external maintenance or repair of the property, but only where those payments are separately identifiable as being for that purpose.

Category B

The ongoing maintenance, cleaning and utility costs of:

- communal grounds maintenance (general basic gardening for communal gardens such as lawn mowing, tree management, hedge maintenance, litter removal etc. , lighting and maintenance costs for areas of external access (where the tenant is liable to pay for these)
- tenant parking (this does not extend to the manning of car parks for security purposes)

- communal laundry facilities
- children's play areas (equipment maintenance, surface maintenance etc.), and
- internal areas of common use outside of the home (hallways, corridors and rooms), including provision of security and fire alarm systems.

Category C

- Charges relating to the maintenance or repair of:
  - communal lifts (specifically excluding individual stair lifts)
  - a communal telephone (but excluding the costs of telephone calls)
  - secure building access (key-cards, keypad door locking mechanism etc), and
  - provision of equipment (such as aerials) to access free-to-air television and radio. Where this equipment includes the ability to extend services to include satellite/cable television or internet connection, any extensions to the service will not be eligible for benefit payment.
- Charges for the provision of:
  - refuse collection, and
  - Closed Circuit Television, where this is provided for the purpose of maintenance of areas of internal or external communal use (eg to prevent vandalism etc).
- Charges for the provision of services, but only the proportion that directly relates to time spent on providing that eligible service.

Category D

- Charges relating to the rental of basic furniture or essential domestic appliances to tenants in the accommodation they occupy, only where the items being rented remain the property of the original owner and do not form part of a purchase or part-ownership agreement.

EXAMPLES OF INELIGIBLE SERVICE CHARGES:

(for illustrative purposes, not exhaustive)

- Living expenses, such as heating, lighting, hot water or meals.
- Personal services, such as a laundry or cleaning service.
- Nursing or personal care services (help with personal hygiene, eating, dressing etc).
- Provision of personal emergency alarms.

- Counselling, medical or support services.
- Any medical expenses (including those relating to the provision of counselling).
- Transport.
- Installation, maintenance or repair of any special equipment or adaptations to the property in respect of disability or infirmity of tenants.
- Individual emergency alarm systems.
- Subscription or fee-based television (eg satellite television subscription).
- Such communal social recreational areas as gyms, bars, shops, hairdressers, internet rooms, restaurants, café's or swimming pools.
- Gardening for individual's gardens.
- Water, sewerage and utility charges relating to anything other than communal areas.
- Arrears of service charges owed by the tenant due to non-payment.

Catering Costs

Catering in Extra Care Housing may be provided in a variety of ways. Some RPs will provide and equip a kitchen which a third party caterer then uses to offer a service to residents on a 'pay as you go' basis, possibly extending the service to people in the wider community – but with all of the financial risk carried by that provider, and with the risk for the RP and residents that if the service is not viable it will cease operating. Costs for eg maintaining /repairing /renewing the

kitchen and its equipment will however fall to the RP. Unless they have leased the whole of the service including kitchen and equipment to an outside body (including the repairing/maintaining responsibility along with this) the RP will need to recover these costs out of rent or service charge income.

In addition, some providers may offer the service directly and carry the financial risk otherwise (above) carried by a 3rd party caterer. However, other providers will provide catering as a condition of tenancy or lease, and thus payable as part of the service charge, which of course reduces the risk that costs will not be covered. In the social rent sector, to make the service affordable for tenants on lower income, costs may be covered in part by Housing Benefit (but see the important caveat below about the possible impact of the WRA). The cost of food is classed as an ineligible cost for Housing Benefit.

However, many Extra Care Housing schemes in the rented/mixed tenure* sector offer a catering service (usually one meal day provided at lunchtime **) as a condition of tenancy which the resident pays for via the service charge, and – for tenants – the cost of this service can partly be recovered via by Housing Benefit if the cost is deemed reasonable,(at the full cost minus a standard deduction – which for 2012/2013 is £16. 85 per resident, per week).

Lastly, private Extra Care Housing schemes will often include the cost of some catering provision within the service charge, but without needing to address issues of benefit eligibility as described above. One model is to include a specific amount in the service charge, 'ring fenced' to fund catering which then allows the resident to consume a given no. of meals per month, and offers a degree of subsidy/certainty for the catering operation, while leaving the resident free to also buy additional meals or not as they choose. For further information see the Housing LIN Factsheet on Catering Arrangements in Extra Care Housing.[61]

** one model used in mixed tenure schemes, which offer catering to tenants as a condition of tenancy, is to include the full costs of the service less food costs within the leaseholder service charge, but leave leaseholders free to take meals on a 'pay as you go' basis. This is also used in some private models.*

*** Generally the 'condition' requires tenants to pay for meals on every day that the service is provided, usually 365 days a year, but there are some examples where the condition is to receive meals on some days but not every day (one example requires tenants to pay for a meal 275 days p. a.), leaving tenants free to choose to pay for a meal on other days. (It is not however possible to make payment for just non-food costs a condition of tenancy and attract HB support – the 'condition' must include the actual provision of food).*

61 *www. housinglin. org. uk/_library/Resources/Housing/Support_materials/Factsheets/Factsheet22. pdf*

WRA implications – catering funding

- It is hard to predict the impact of WRA changes on the funding of catering via service charges
- The revised approach to service charges set out under the Universal Credit Regulations reiterates the non-eligibility of meal costs. Although these rules will not for the time being apply in Exempt Accommodation, some commentators believe this could change in future, at which point they think it will be highly unlikely that this funding route for catering costs will remain available
- Others, however, point out that the current funding of catering through HB, where the service is provided as a condition of tenancy, operates despite the fact that meal costs are currently not eligible, and therefore speculate that this might continue to be the case in future
- Overall, it will be prudent for providers that use this approach currently, to consider contingency plans for whether and how catering services in schemes can be sustained in future.

Call Systems and Telecare Monitoring Costs

Although the funding of community and social alarms is designated as an ineligible cost for Housing Benefit purposes, the position in practice is more complex. Community alarm services in Extra Care Housing, as in sheltered housing, serve several purposes:

- Communication on housing and estate management matters: Residents use these systems to seek advice and information and to alert the housing provider – for example to report urgent repairs out of hours.
- Communication about care and support needs and issues: Residents can also contact the housing provider and/or the on-site care provider on care and support issues/needs, using the call system.

Moreover, funding should ideally reflect these dual purposes. Hence the response service given by the housing provider (via their own in house social alarm centre or externally contracted) has often been funded partly through the Service Charge, and covered by Housing Benefit – insofar as this is an aspect of housing management – and partly through Supporting People. In practice, allocating activity and costs between these two categories is difficult, so providers may aim to agree with funders an overall

apportionment of costs between housing management and support, possibly based on some evidence about the relative scale of the various types of contact. However, with the withdrawal of Supporting People money (in England), the position is less clear, and changes in service charge eligibility may cause further uncertainty.

In practice, providers can include the maintenance, repair and renewal costs of alarm systems – 'the hardware' – in their service charge as Housing Benefit-eligible items.

However, Telecare devices such as fall detectors, movement monitors and so on, will normally be funded initially by health or social care budgets based upon residents' individual assessments. These devices are often linked to the scheme's call system and monitored in the same way as voice calls from residents, in which case the cost of responding to alerts from monitors may be covered in the overall charge for responding to alarm calls. It may also, or alternatively, be funded as part of the resident's care package; from the wellbeing charge, if one applies in the scheme in question; or by the resident themselves.

Lastly, the availability of funding and route through which it comes, is likely to depend upon, among other things, on the regularity/ predictability (or otherwise) of the monitoring activity required. Even with the emergence of part wireless systems, there are significant differences in cost between the installation of Telecare sensors and systems during initial construction of a scheme and the subsequent retrofitting of this equipment into completed units. It is usually advisable to incur some speculative installation costs in the initial development to simplify the addition of the sensors at a later date, even if there is uncertainty as to how the running costs of the system will be met.

B) CARE AND SUPPORT COSTS RECOVERY

KEY POINTS

This section is most relevant to housing and care providers and local authorities with responsibility for adult social care, but is also relevant to health funders. It will also be of interest to those involved in other ways in the development of housing with care, for example potential capital funders.

This section elaborates on the following key points:

- Local authorities with responsibility for adult social care (LA ASCR) fund care for people with unmet care needs which meet the authority's eligibility threshold. They may charge the person following a means test.
- Personal budgets are the growing "currency" of care procurement in extra care housing.
- Personal budgets do not necessarily cover the cost of having care available around the clock
- Local authority approaches to funding care in Extra Care Housing range from micro-commissioning (spot purchasing) for individuals at one end of the spectrum to block-contracting the entire care provision at the other.
- Between these two extremes, a mix of spot purchasing for planned care and other approaches to cover the availability of care around the clock, is becoming increasingly common. In this Technical brief, this is called the "core and add-on" approach.
- Within the core and add-on approach, there are many variations around what constitutes the "core" and how it is funded. Approaches to funding the round-the-clock care as part of the core are outlined in this section.
- People who have care or support needs, but are not eligible for care funded by the LA ASCR may, in some areas, still be able to access Supporting People funding although this appears to be less common. They may also be eligible for an Attendance Allowance. This benefit cannot pay for both the planned support and the wellbeing charge if these are separate.
- Other potential sources of funding for care and support include health sources and – in very specific instances – insurance type products.

A key defining feature of Extra Care Housing, and what differentiates it from other forms of housing including sheltered housing, is the availability of scheme-based care and support around the clock.

In this section, we cover the essential financial aspects as far as possible, but the Housing LIN's *Care and Support in Extra Care Housing Technical Brief* (2010) should be seen as the primary source of information about the wider aspects of funding and provision of care and support in Extra Care Housing. That document is much more detailed with a broader focus, and although it is due to be updated this year, much of the funding-related information in it still applies.

Personal Care

Local authorities with responsibility for Adult Social Care (LA ASCRs) are the key source of financial support for individuals with care needs living in Extra Care Housing, both in the social and private sectors, if two conditions are met:

- Firstly that individuals' unmet needs for care following an assessment meet the prevailing eligibility threshold, AND
- Secondly that following a means test, their financial circumstances entitle them to full or partial local authority funding of services which meet identified needs.

Eligibility for care

Eligibility for social care is currently covered by guidance issued under section 7 (1) of the Local Authority Social Services Act 1970, *Prioritising need in the context of Putting People First: A whole system approach to eligibility for social care* (2009)[62] which replaces the 2003 *Fair Access to Care Services guidance*.[63] The new guidance retains an eligibility framework "graded into four bands, which describe the seriousness of the risk to independence and well-being or other consequences if needs are not addressed" across a number of domains (pp17-18). The four bands are categorised as low, moderate, substantial or critical. Local authorities can decide the levels from which they arrange and fund care. Many fund critical only, or substantial and critical only. This guidance appears to encourage local authority investment in wider support services including universal services and early intervention and prevention. More information on this may be found in the Care and Support Technical Brief.

The Commission on Funding of Care and Support[64] chaired by Andrew Dilnot noted inconsistencies in the way the eligibility framework was being applied across the country and recommended the introduction of a national eligibility threshold for adult care and support in England. The government has signed up to this and the draft Care and Support Bill includes the

62 *www. dh. gov. uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_113154*

63 *It should be noted that although the 2003 guidance has been superseded, the term "FACS eligibility" is still commonly used to refer to local authority eligibility criteria*

64 *www. dilnotcommission. dh. gov. uk/our-report/*

necessary powers to set a national eligibility threshold, to be introduced in April 2015,[65] though details have yet to be worked out.

Eligibility for financial support

The rules for charging for individuals' care services are governed by a national framework known as Fairer Charging. Because 'Extra Care' is a form of housing, not residential care, the care and support provided to those living within it are covered by non-residential charging provisions and principles. Section 17 of the *Health and Social Services and Social Security Adjudications Act 1983* (HASSASSA) gives councils a discretionary power to charge adult recipients of non-residential services provided by the council. This is likely to be repealed when the Care and Support Bill is enacted, but the principles are likely to remain the same. The associated guidance is also likely to be updated.

In addition, charging policies for these services vary across local authorities, but should comply with the guidance[66] updated to reflect the switch to personal budgets. For more information on charging for care in Extra Care Housing see *Care and Support in Extra Care Housing Technical brief* p. 64[67] and other relevant Housing LIN publications.[68, 69]

In February 2013, the Government announced its intention to implement a new funding model for adult social care, to be introduced from 2016, based on the recommendations of the Commission on the Funding of Care and Support (the Dilnot Commission).[70] Over coming weeks and months, the Housing LIN will produce analyses and comment on the new funding arrangements, and their implications for housing and Extra Care Housing. For the purposes of this Technical Brief, the headline features of the new scheme include a cap equivalent to £72,000 prices (equivalent to £61,000 in 2010/11 prices) on the costs an individual has to pay to meet their eligible care and support needs. This will apply to adults resident in England (a lower cap will apply for those of working age). This will apply to people's eligible care in all settings, so will embrace people living in their own homes, including those in Extra Care Housing.

65 *HM Government. Caring for our future: progress report on funding reform. July 2012*

66 *Guidance issued under s. 7 of the Local Authority Social Services Act 1970, Fairer Charging Policies for Home Care and other non-residential Social Services, Guidance for Councils with Social Services Responsibilities. DH (2010) Fairer Contributions Guidance: Calculating an individual's contribution to their personal budget*

67 *www. housinglin. org. uk/_library/Resources/Housing/Support_materials/Technical_briefs/Technical_Brief_01_0610. pdf*

68 *www. housinglin. org. uk/_library/Resources/Housing/Support_materials/Reports/Charging_in_ECH. pdf*

69 *www. housinglin. org. uk/_library/Resources/Housing/Support_materials/Factsheets/Factsheet19. pdf*

70 *www. dh. gov. uk/health/2013/02/funding-socialcare/*

> *'A personal budget is the amount of money that a council decides is necessary to spend in order to meet an individual's assessed needs. The budget can be allocated as a direct payment or the council can retain direct control of the budget.'* [71]

Funding currency – Personal budgets

LA ASCRs may fulfil their duty to make arrangements to meet eligible unmet care needs in a number of different ways: through direct provision (increasingly rare); through a framework, spot or block contract with an external provider who then delivers a service; through a managed personal budget where the local authority holds the contract with the provider as before, but the overall service to the individual is initially expressed in monetary terms; or finally, through a direct payment.

Direct payments are one form of personal budget in which the money passes to an individual who then controls the budget and uses it to meet defined outcomes. They are covered by Direct Payment Regulations.[72]

Personal budgets, both in the form of direct payments and managed budgets, are increasingly being used as the "currency" of care provision for individuals who live in Extra Care Housing and meet eligibility thresholds. This trend is likely to continue with the recent White paper *Caring for our Future: reforming care and support* reinforcing this direction of travel: *"We will legislate to give people an entitlement to a personal budget as part of their care and support plan, and will strengthen our ambitions on direct payments."*

In addition, an individual or the council may set up an individual service fund[73] with a provider to manage a personal budget on behalf of the individual; anecdotal evidence suggests this option is little used at present within Extra Care Housing.

Lastly, it should be noted that hand-in-hand with the introduction of personal budgets as the care currency is a shift of risk from local authority to provider. This is because block contracts as a procurement approach for care in Extra Care Housing appear to be in decline, and individuals should be under no compulsion to use their personal budgets on care provided by the on-site provider.

Other sources of funding for individuals' care needs

With regard to people living in Extra Care Housing whose primary need is for ongoing health care, they may qualify for continuing care funding. The National Framework for NHS Continuing Healthcare and NHS-funded Nursing Care, revised in July 2009[74] sets out

71 *Department of Health. (2010) Personal Budgets for Older People – Making it Happen*

72 *HM Government. Community Care (Direct Payments) Act 2006*

73 *Groundswell (2012) Choice and Control for all: The role of individual service funds in delivering fully personalised care and support*

the basis for deciding who is entitled to continuing care paid for by the NHS and free at the point of delivery. Four indicators are taken into account: the nature of the need(s), complexity, intensity and level of unpredictability. Continuing healthcare funding can be provided to individuals in their own homes and if the person is terminally ill, the assessment for it can be fast-tracked. For more information on continuing care funding and the National Framework, see: *www.nhs.uk/chq/Pages/2392.aspx?CategoryID=68&SubCategory ID=681*.

For people with long term conditions, personal health budgets may be an option. These are currently being piloted in some areas and are likely to be rolled out nationally. *"As personal health budgets are extended beyond the pilot sites, subject to the current evaluation, we will make it straight forward for people to combine them with personal social care budgets so that they can make the most of the support to which they are entitled."* (P. 58 of *Caring for our Future*, Department of Health)

What about the care that is not covered by these statutory arrangements?

There is no duty upon councils to pay for care provision over and above an individual's care plan. In Extra Care Housing, income for care plans is very unlikely cover the costs of care apart from those directly associated with care plan delivery. In other words, it is unlikely to meet the costs of a care presence at the scheme around the clock to respond to emergencies and fluctuations in need. In addition, by definition, anybody whose needs fail to meet eligibility thresholds is excluded. Thus, we need to consider the following:

- Sources of funding for round the clock care in housing with care – ie the gaps between the care plans plus having staff available to respond to unplanned care needs.
- Possible alternative sources of funding to help individuals meet the cost of care and support services if they need them.

74 *www. dh. gov. uk/prod_consum_dh/groups/dh_digitalassets/documents/digitalasset/dh_103161. pdf*

APPROACHES TO FUNDING ROUND-THE-CLOCK CARE

The Care and Support in Extra Care Housing Technical Brief outlines several 'models' for procuring and funding care in Extra Care Housing (See p. 25) with case studies illustrating each (see p. 42). Of relevance here is the range from "pure" micro-commissioning for an individual resident at one end of the spectrum, to block contracting all the on-site care for all residents at the other, with an approach which has elements of both in-between:

- spot purchasing or micro-commissioning
- the local authority block contracting care, with or without an opt-out for residents
- the "core and add on" approach.

A variety of terms may be used to describe the above approaches to care procurement in Extra Care Housing. It should not be assumed that where different local authorities use the same name to describe their models, these models are in fact the same; or that they do not broadly fit somewhere along this spectrum, despite many differences in the detail.

For example, two county councils both use the term "flexicare", yet their approaches are quite different. One is a form of "core and add-on" in which the council makes a grant to the housing provider to contribute to the cost of the minimal core service which comprises the 24/7 care cover plus an element of support and housing management, with all individual care packages spot-purchased. In the other, the bulk of the care, both 24/7 and planned, is procured under a block contract between the council and care provider; the contract includes sleeping night cover and planned care based on bands or levels – a third each of low (1. 5 hrs per week), medium (7 hours p. w.) and high (14 hours p. w.) – with the facility to spot purchase waking night care where needed.

Spot purchasing or micro-commissioning

In this model, care to meet assessed eligible needs is procured from a provider on an individual basis. This might be through personal budgets or the individual's own money. The income received by the provider is unlikely to cover the cost of providing round-the-clock care even if everyone at the scheme has care needs, unless the hourly charge is inflated to cover gaps between planned care episodes. Inflating the hourly charge is likely to make the on-site service appear uncompetitive, and if not everyone has care needs, those who do will be subsidising the benefit of a 24/7 care service for those who do not. Thus spot purchasing by the hour does not seem to be a realistic route, on its own, to achieving round-the-clock care in Extra Care Housing with some slack to respond to emergencies and fluctuations in need.

A variation is the spot purchase of care in bands or care levels rather than units of time, intended to introduce greater flexibility in the care provision. Whether this approach covers the cost of round the clock care will depend on whether people's care requirements are near the top or bottom of the band, the income per band, number of people receiving care – in other words, whether this less transparent form of procurement leaves enough money over from planned care to cover the cost of unplanned care.

Block contracts

In social sector Extra Care Housing, a common approach used to be for the local authority to set up a block contract with a care provider (who may also have been the housing provider if registered to deliver domiciliary care). This contract would cover both planned care and round-the-clock cover. This contract might simply have comprised the total number of care hours, been expressed in terms of the number of people in different care bands, or been more specific about the care configuration. Residents with care needs were encouraged or expected to receive their care from the on-site provider, and various charging arrangements were in place.

There are both advantages and disadvantages to having a block contract. These are explored in the Care and Support Technical Brief. Although personal budgets can be used to call off a block contract, with the move towards "personalisation" and self-directed support, the use of block contracts is discouraged, and potentially wasteful if the block is not fully utilised by residents who choose to receive their care from off-site providers. It is not known how many all-encompassing block contracts are still in place but the introduction of personal budgets, coupled with shrinking budgets and a growing demand for care services, has seen a reduction in the number of block contracts designed to cover the full care provision in Extra Care Housing. These will therefore not be covered in any greater depth in this Technical Brief.

Lastly, if given the necessary opportunity and support, residents may choose to pool their personal budgets, and collectively procure care from a single provider of their choosing, to a specification agreed by them – a genuine co-production approach.

Core and add-on model

In the context of personal budgets, the model which appears to be gaining most traction is the "core and add-on" model. This approach has been prevalent in private Extra Care Housing for years, but concerns about falling foul of care home registration deterred many social sector commissioners and providers from adopting it until the advent of personal budgets. In essence, the core comprises the round-the-clock care presence which at a minimum fills the gaps between the planned care, and the "add-on" is planned care in the form of individual care packages. These may be "spot" purchased by individuals using their own money as generally applies in private sector schemes, by social services through managed personal budgets or direct payments, or a combination.

It should be noted that even within this 'model', the variations are significant and revolve around:

- Who funds the core and on what basis?
- If a charge for the core service is made to residents, who makes the charge?
- Is it a separate charge or is it included as part of an over-arching service charge?
- What precisely is covered by the charge – or put another way, what does the core constitute?
- How much is the charge?
- How generous is the care element of the core? For example, does it simply cover the gaps between care plans or is some slack or floating time incorporated to enable a more flexible and responsive care service?

Those questions of relevance to the funding of housing with care services are considered in turn below.

WHO FUNDS THE CORE AND ON WHAT BASIS?

The core may be funded by a provider or by the local authority/public sector.

Provider funding:

- This model appears to be on the increase. The provider takes the risk to deliver a round-the-clock care service without any form of state subsidy. Where they do so, they are likely to make a charge to cover the costs of the provision over and above planned care. There may be an element of cross-subsidy from income for other services they provide, or spreading costs more widely by providing, for example, outreach care and support services to people in the wider community.
- They will promote themselves to residents as the provider of choice to deliver planned care, thereby spreading infrastructure costs and making the service more cost-effective and financially viable.

Public sector funding:

- **Local authority funding**

Where a local authority funds the care core, this may be directly procured through a block contract or by making a grant for the provision. In past years, Supporting People funding contributed to the round-the-clock cover. With the loss of the Supporting People ring-fence and tightening budgets, this appears to apply less and less

- **Health funding**

With the Department of Health White Paper's encouragement of preventive services and closer integration between health, social care and housing, a case could be made for the NHS to contribute to the cost of this service, particularly if there are health-related services provided at the scheme, for example intermediate care/step-up step down properties.

- **European Procurement and State Aid Rules**

Where state funding is involved, councils need to be aware of European Union procurement and state aid rules and obtain legal advice if necessary as these are extremely complex. A useful source of information on these as they apply currently is the June 2011 TLAP publication *Social care procurement: A briefing note on procurement, state aid and consultation matters relevant to the provision of social care services.*[75] It includes some useful flow charts on state aid, De Minimis Exemption and defining an "undertaking" as part of the Appendices.

These rules are beyond the scope of this Technical Brief. Put very simply, the state aid and procurement rules operate together. They aim to ensure transparency and fairness in selecting providers, and to avoid distorting competition and giving unfair advantage to one company over another. There are currently two categories of purchasing, Part A and Part B, the former being more onerous than the latter. Social care purchasing will generally be categorised as Part B services under the *Public Contracts Regulations 2006*.[76] If the value of a social care purchase is under the threshold (currently (£156,442), not even Part B regulations apply. All that is needed is a fair procurement process including a proportionate level of advertising, equal treatment between those who respond, being non-discriminatory and making the process transparent.

Even with grants, as distinct from a service procurement contract, the most practical way of avoiding any breach of state aid rules, while remaining compliant, is to have an open and competitive procurement or subsidy-allocating process. Payments should be no more than the market rate for such goods and services, or provided on a purely commercial basis or at a level consistent with the "De Minimis Aid Block Exemptions" (aid of less than €200,000 within any rolling period of 3 fiscal years).

These rules are expected to change in 2013 or early 2014. Social, health and educational services will have their own specific regulations and will be subject to a higher contract value threshold of €500,000 (circa €420,335) and simpler procedures.

IF A CHARGE IS MADE TO RESIDENTS, WHO MAKES THE CHARGE?

Local authority

If the local authority has a services contract with the provider, they may include an element for the 24/7 cover within their charging policy, subject to a Fairer Charging assessment. While legally

75 *www. thinklocalactpersonal. org. uk/_library/Resources/Personalisation/Personalisation_advice/2011/23. 6. 11_SOCIAL_PROCUREMENT_DOC. pdf*

76 *www. legislation. gov. uk/uksi/2006/5/pdfs/uksi_20060005_en. pdf*

it appears possible, in practice it may be difficult to recover the charge from those residents not in receipt of planned care. (For further detail see Care and Support in Extra Care Technical Brief).

Provider

Where the local authority has made a grant, or where the provider uses its own resources to fund the provision, the provider may make what is commonly called a wellbeing or peace-of-mind charge.

IS IT A SEPARATE CHARGE OR IS IT INCLUDED AS PART OF AN OVER-ARCHING SERVICE CHARGE?

Both approaches are used:

- Typically in the private sector, the cost of round-the-clock staffing forms part of the broader service charge. The service charge might also include other care-related elements such as the cost of registering with the Care Quality Commission, and the care call equipment.
- In the social sector it is often a separate charge, but even in this scenario it may not be limited to care costs.
- If the charge is non-elective, whether as a separate charge or as part of the service charge, it is de facto a condition of occupancy. There is a theoretical risk of this being seen as accommodation and personal care provided together and liable to registration as a care home, but assuming that residents have free choice over their planned care, the risk in practice appears negligible. It is unclear which is safer in this context: a separate charge, or being bundled together with housing-related elements in an all-encompassing service charge.

WHAT CONSTITUTES THE CORE?

This has a bearing on what additional funding is needed for other services provided at a given Extra Care Housing scheme. The charge may simply cover the availability of care staff around the clock. It may also include housing-related support or more general support services. It may cover activities facilitation and community development activities. It is not unusual to see a specified unit of domestic support included.

Even if the charge only covers round-the-clock care, a significant proportion of staff time may be made up of planned care, with only night cover not tied in to care plans, or it may allow for floating time over and above the gaps in care plans. Whatever the core charge covers, it is essential that residents are made aware of their entitlements under the charge, and the boundary between ad hoc provision and planned care. For example, where would responding to an exit alert triggered by a resident with dementia sit – as part of a care plan, or, given that these episodes are unpredictable, under the core charge?

In the private sector, where the on-site care presence is part of the overall service charge, the charge will also cover accommodation-related service elements – scheme management, communal cleaning etc. There may be an element included for the catering staff. This is common in the private sector schemes that have onsite dining facilities and in the social sector in models where meals are explicitly made a condition of tenancy, in which case they are currently covered by housing benefit, minus a fixed deduction for food costs (see more detail on Catering Costs in section on Service charges).

LEVEL OF CHARGE

The amount charged varies greatly across the country and depends on:

- Whether there is an element of subsidy
- What precisely the charge covers
- How many people or properties the charge is divided between (and across one scheme or several schemes)
- Staffing structure, levels, terms and conditions
- The basis for deciding the charge (eg on actual costs or assumptions about availability of benefits).

In some local authorities, the cost of the core service is included in the personal budget and the charge is taken into account when undertaking a Fairer Charging assessment for those in receipt of planned care. In others it is not, and individuals are expected to fund it out of their own resources, which raises the issue of affordability if it is too high. When setting the amount, it should not be assumed that Attendance Allowance will necessarily be available to residents to pay the charge; not all residents will be entitled to Attendance Allowance, and some local authorities count the Attendance Allowance as available income when undertaking Fairer Charging assessments. It can't be available twice.

Affordability is a key issue where the core/wellbeing charge is not subsidised in some way. Further work on affordability is being undertaken by the JRF as referred to earlier.[77]

See tables E and F, following, for diversity of charges for the core service in Extra Care Housing.

77 *www. jrf. org. uk/publications/quality-life-housing-care*

Table E : Charge Made By Local Authority

	Those eligible for care			Those ineligible for care		
LA	Contractual basis	Level of charge	What it covers	Contractual basis	Level of charge	What it covers
A	Part of care agreement	£25.00	Presence of care round-the- clock to respond to emergencies and unpredicted fluctuations in need	Not clear	£25.00	Presence of care round-the-clock to respond to emergencies and unpredicted fluctuations in need.
B	A care charge agreement is signed prior to scheme entry	£39 per week	1hr 45 mins care and support to be chosen from a menu of services and 24/7 presence of care and support team	A care charge agreement is signed prior to scheme entry	£39 per week	1hr 45 mins care and support to be chosen from a menu of services and 24/7 presence of care and support team

Table F : Charge Made By Provider

Type of provider	Contractual basis	Level of charge	What it covers	Size of scheme(s)
1) A couple of schemes of one RP (providing both housing and care) in one LA area – source LA	Arrangement between resident and care provider but not clear whether anything in writing to make it mandatory	Varies between schemes: £14 per week in 70 unit scheme and £25 per week in 40 unit scheme	Contract with LA to provide 24/7 care response (one staff during day plus care team leader office hours) and 1 waking night staff, some help with activities facilitation and catering infrastructure. No Housing Related support as such.	One 70 and one 40

Type of provider	Contractual basis	Level of charge	What it covers	Size of scheme(s)
2) Registered housing and care provider- source LA	Condition of occupancy	£30 per week	Emergency response 24/7, personal care if taken ill, general support and assistance, activities facilitation and some housing management tasks.	65 properties
3) Charitable Trusts –separate housing and care providers – source provider	Charge forms part of the tenancy agreement	£7 per week	Availability of care 24/7	63 properties
4) Private provider – for sale properties – Source provider	Part of lease and included in the management and service charge	Approx. £120 for a one-bed property and £165 for a two-bed property per week	Estate management and admin, usual accommodation-related services such as gardening, utilities to communal areas, communal cleaning, catering infrastructure 24/7 care presence, 1 hour's domestic assistance per week per property.	52 properties (55 properties is the level at which costs can be covered)
5) Registered housing and care provider – source-provider	Separate wellbeing contract between resident and provider	£130 in a 24 unit scheme per week £22 in a 104 unit scheme per week	Alarm call, waking night staff, 24/7 presence, and other care infrastructure costs	24 and 104

POTENTIAL SOURCES FOR INDIVIDUALS WITH INELIGIBLE CARE OR SUPPORT NEEDS

Supporting People

In the last Funding Technical Brief, Supporting People (SP) revenue funding provided a regular income stream to many social sector Extra Care Housing schemes. The Supporting People Fund was ring-fenced. Eligible services were defined centrally (although interpreted in different ways by local authority SP commissioners and administering authorities) and registered and monitored using a Quality Assessment Framework which changed over the years. Although it was intended to be tenure neutral, those in receipt of housing benefit were passported (subsidised) without further means-testing, while many authorities did not make the fund available to homeowners.

However, Supporting People is no longer ring-fenced (in England) and the picture appears now to be much more varied. There is less money available. *"Supporting People was rolled into Formula Grant from April 2011 increasing authorities' freedom and flexibility in how they are able to spend their funding. As Formula Grant is a single grant that is not divided by any service in any way, there is no specific budget allocation for Supporting People services."* [78] Some local authorities have not retained SP teams and even where they have, they do not all support people in extra care schemes; where they do, the amount seems to have diminished as local authority budgets have been squeezed. Some authorities do still maintain local structures around Supporting People funding, commissioning and quality assurance even though the formal, national structure is no longer in existence. Where housing related support remains as a separately designated funding stream, residents may continue to be liable for paying a separate support charge, and may still be eligible for passporting to free support if they are Housing Benefit recipients, or may be assisted to pay the charge after a Fairer Charging assessment.

We do not have an overview of how many schemes across the country benefit from Supporting People funding. However, housing related support has been shown to help maintain individuals' independence, fulfilling a preventative function, and even if it is not a block-contracted service SP funding may be available to some individuals in Extra Care Housing schemes as a specific floating support service. And lastly, even though support funding is becoming more marginal overall, there are still important issues in how housing related care and support activities are configured at scheme level, in respect of:

78 *www. communities. gov. uk/housing/housingresearch/housingstatistics/housingstatisticsby/supportingpeople/*

- how core/wellbeing charges are set up – see previous
- The impact of the 'Turnbull Judgment' – see D) Housing, care and support crossover issues, following
- The role of Scheme Managers – again, see D) Housing, care and support crossover issues.

Attendance Allowance

Attendance Allowance is a benefit that can assist people to meet their care and support costs. See Section on Welfare Benefits above for more information.

Equity release schemes

Equity release is a term that refers to the various ways in which older homeowners can use their homes to generate income or lump sums, either with a loan secured on their home or by selling their property. It is a possible route for some people in Extra Care Housing to fund the costs of their housing and/or care and support.[79]

However, while some Extra Care Housing providers offer financial products aimed to help residents release equity, this is not (at least yet) a well-developed market. The Joseph Rowntree Foundation funded the development of a pilot project using a specially designed equity release product from January 2010 to June 2011.[80] After 18 months of publicising the product, the number of enquiries was small. It is reasonable to conclude that equity release products will need to be well tailored to the needs of older people, and well trusted before they can offer a route for more than a minority of people living in or contemplating Extra Care Housing to fund their costs. Housing market conditions are also key determinants of the availability and viability of equity release products, bringing a further degree of uncertainty to how widely these could be used.

A recent Age UK factsheet on equity release[81] sets out a range of issues that should be borne in mind by any older person contemplating this route; anyone in this position should of course also be recommended to seek independent legal and financial advice. Further information on equity release from a policy perspective can be found in the recent Housing LIN Affordability Guide.[82]

79 *www. housinglin. org. uk/_library/Resources/Housing/Support_materials/Viewpoints/Viewpoint19_Downsizing_II. pdf*

80 *JRF (2012) Assessment of equity release pilot scheme www. jrf. org. uk/publications/equity-release-pilot-schemes*

81 *www. ageuk. org. uk/Documents/EN-GB/Factsheets/FS65_Equity_release_fcs. pdf?dtrk=true*

82 *Copeman, I. and Pannell, J. (2012) Can self-funders afford Housing with Care? A guide for providers and commissioners. London: Housing LIN www. housinglin. org. uk/Topics/browse/HousingExtraCare/FundingExtra CareHousing/?parent=1007&child=8655*

Insurance type products

A small number of RPs and private sector providers have developed insurance type products which are provider-specific and not generally available to residents in Extra Care Housing.

The current changes in how actuarial assessments are made, which have resulted from the EU Gender Directive, will prevent gender being factored into the forecasts of life expectancies which are necessary as the basis for insurance products. The immediate effect of this Directive will be to reduce the amount of income available to women through annuity type products, (and increase the income available to men). It would also adversely affect the risk management of new actuarial-based assessments for future accommodation, care and support costs which seek to quantify these future costs for each individual, based on their age expectancy and health, and then commit to provide these in return for a one off payment from the individual. This payment is then pooled with others received for the same purpose and invested as a fund to meet the future accommodation, care and support costs.

C) FUNDING QUALITY OF LIFE AND WELLBEING SERVICES

KEY POINTS

This section is most relevant to housing and care providers, local authorities with responsibility for adult social care, Health and Wellbeing Boards and Clinical Commissioning Groups. It will also be of interest to those involved in other ways in the development of housing with care, for example potential capital funders.

- Funding sources for activities facilitation in Extra Care Housing have always varied between schemes, authorities and providers, with a range of combinations including: forming part of the service charge or wellbeing charge; included in a local authority block contract for care and/or housing-related support; a charge for taking part in specific activities, and fund-raising.
- Health funding may be available for health and wellbeing-related initiatives such as intermediate care flats, wellbeing nurse, dementia provision and falls prevention/exercise programmes. Providers need to engage with Health and Wellbeing Boards and Clinical Commissioning Groups where possible.

ACTIVITIES FACILITATION AND COMMUNITY DEVELOPMENT

There is a significant body of evidence demonstrating the value of communal facilities, social activities and community life in combating loneliness and social isolation, and promoting the social wellbeing of people who live in Extra Care Housing. In their research[83] as part of the evaluation of Department of Health funded schemes, the PSSRU at the University of Kent identified a range of approaches to organising activities in housing with care schemes, from those led primarily by residents at one end of the spectrum, to those where a staff member arranged them at the other, and many variations in-between. Facilitation of activities is particularly important in schemes where many residents are frail, but also to ensure that all residents, not only those on the social committee, have access to activities they value and enjoy. Who undertakes this task varies; it may be the scheme manager or assistant, care/support staff or an activities co-ordinator.

83 *Callaghan, L (2009) Social wellbeing in Extra Care Housing: Main findings www. pssru. ac. uk/project-pages/extra-care-housing/index. php*

Furthermore, funding of activities facilitation has always varied. In some areas, Supporting People funded this function. In others it formed part of the contract with Social Services. In yet others promoting wellbeing was the subject of a grant to the provider. It may be part of the "core" along with round-the-clock care and support and included in a wellbeing charge. Typically, RPs' scheme manager roles in social sector schemes include the role of supporting and facilitating social activities, but with the reduction of Supporting People funding, it remains to be seen how far it will be possible for providers to still fund this activity out of HB-eligible rent and service charge income. Larger RPs of sheltered and Extra Care Housing are in some cases funding non-scheme based staff, eg at a national or regional level – and funded out of core rather than scheme budgets – to help local staff facilitate community links and volunteer activity in their schemes, in response to the 'Big Society' agenda.

Private developments may include the cost of facilitation in the overall service charge – and in many schemes, in both social sector and private developments, a charge is made for taking part in specific activities. Depending on the generosity of personal budgets, residents may be able to pool part of their budget to pay collectively for activities of their choice.

Lastly, prevention, early intervention and promoting wellbeing have been part of the government agenda for several years now. The current government continues this theme in the White Paper: *"As part of this shift to a more preventive approach to care and support, the Government will include a duty on local authorities to commission and provide preventive services in the draft Care and Support Bill"*. It is unclear whether this will increase funds from the public sector in a situation where government social policy and limits on public expenditure compete for priority. In the current economic climate, public sector sources of funding appear to be dwindling. There are, however, examples where Extra Care Housing schemes are hubs for the wider community, and authorities seek to promote the welfare of older people in the wider community, as well as those living in Extra Care Housing, by making funds available. For example, in one care village given as a case example in the Care and Support in Extra Care Technical Brief (Case study 1 p 44), the local authority made a wellbeing grant as part of a framework contract to promote the wellbeing of village residents and the wider community.

SUPPORTING AND PROMOTING MENTAL AND PHYSICAL HEALTH

In some Extra Care Housing developments other "quality-of-life" services are also available, for example, specialist dementia services, wellbeing nurse and health checks, step-up and step-down /intermediate care provision, and falls prevention schemes. In addition, some of the offers in Extra Care Housing can be argued to improve health and wellbeing and fulfil a preventative function. The White Paper states: *"We will place a duty on local authorities to join up care and support with health and housing* *where this delivers better care and promotes people's wellbeing"* (p. 53).

There are already examples where PCTs pay for services in Extra Care Housing, for example, intermediate care flats. The current re-structuring of the NHS presents both threats and opportunities. It may prove difficult to persuade Clinical Commissioning Groups of the health benefits of housing-related services. On the other hand, Joint Strategic Needs Assessments and Health and Wellbeing Strategies offer an opportunity to include housing-related options.

The Housing LIN Information Pack – *Getting to Grips with Integration: Making Housing Count* (in Briefing Paper Three – *The new NHS commissioning landscape and its impact on housing and care for older people*)[84] says that *"Opportunities may be created for providers of housing and housing related support to engage with CCGs (Clinical Commissioning Groups) at a local level to ensure the right mixture of local services, both in terms of the 'bricks and mortar' but also the services that might be provided by health care professionals within older people's housing developments."*….and that…*"Preventative approaches, which can and should include housing, can help to stimulate a shift of resources across the healthcare system. This in turn may lead to housing providers being able to contribute to improved quality of care and a reduction in healthcare costs."*

As highlighted by the National Housing Federation (*On The Pulse*, 2012),[85] RPs are beginning to explore possibilities offered through NHS changes, but it is far too early to say with any confidence, especially given the overall public spending climate and the NHS's own budgetary pressures, that these changes will unlock significant revenue funding for activities or other kinds of support in older people's housing . It is important that RPs nonetheless bear in mind the possibility that NHS funding might support services based in Extra Care Housing, and possibly beyond those that are directly 'health related' (such as Step up/ down services, End of Life care, and dementia related), given the recognised value of social activities that can support prevention, combat isolation, promote wellbeing and support positive health outcomes. However it will be critical when making the case for this funding to demonstrate as clearly as possible how activities can produce such outcomes, based on evidence wherever possible.

FUND-RAISING ACTIVITIES

As highlighted in Part Two, charitable funding and fund raising have been used by many Extra Care Housing providers, and continue to be important options for raising funds to pay for added value services. For example, one major RP has a number of shops selling second-hand goods, and schemes themselves, will run fund-raising events for specific purposes with their residents.

84 *www. housinglin. org. uk/_library/Resources/Housing/Support_materials/Information_Packs/IP1_Briefing3_GP. pdf*
85 *www. housing. org. uk/publications/find_a_publication/care_and_support/on_the_pulse. aspx*

D) CROSSOVER ISSUES – CARE/SUPPORT/HOUSING

KEY POINTS

This section deal with several issues (some of which have been mentioned already under housing or care revenue), where housing, care and support considerations are all very closely inter-linked, with significant implications for how costs can be recovered by providers.

From the standpoint of providing cohesive, well-coordinated services, deciding the most effective configuration of housing, care and support services is relevant for all Extra Care Housing providers. However, from a funding perspective, these issues are particularly important for RPs; non registered housing providers in the social sector, and for the (so-far small) privately rented Extra care Housing sector, since they are closely linked with:

- The demise or reduction, in many areas, of former Supporting People funding.
- How far housing costs can be recovered via Housing Benefits, depending upon whether Extra Care Housing schemes have 'Exempt Accommodation' status, and the impact of the Turnbull Judgment.
- Future funding arrangements generally for supported housing; the future treatment of Exempt Accommodation and the expected impact, once more, of WRA changes in this area of policy (in as much detail as is available when going to press in March 2013).
- How scheme manager posts may be configured and funded (and from which revenue streams).
- Whether shifting costs between various possible funding routes is a viable option (for example the use by some providers of the category of Intensive Housing Management).

These issues are also directly relevant to LHAs carrying out their Housing Benefit responsibilities (which for Extra Care along with other supported housing, are expected to continue for some time into the future as a result of the Government's intention not to fund supported housing via Universal Credit for the time being).

The crossover issues described here are also relevant for LA ASCRs as they have a direct bearing on:

- how care – but more particularly, any remaining housing-related support services – should best interface with housing management services, and
- which services should be provided by which kind of organisation, in order to provide the most cost effective, as well as the most well-coordinated, approach.

Specific WRA impacts are, once more, highlighted where applicable.

'EXEMPT ACCOMMODATION'

It should be noted that social rent Extra Care Housing generally counts as 'Exempt Accommodation',[86] defined as:

- Accommodation which is exempt from the determination of the rent officer. The effect, broadly, is that the local authority HB department cannot restrict, by reference to a rent officer's/Local Housing Allowance determination, the amount of rent eligible for housing benefit unless the HB authority deems a dwelling to be larger than reasonably required, or that the eligible rent is unreasonably high by comparison with the rent payable in respect of suitable alternative accommodation.
- Accommodation provided [under Schedule 3 of the Housing Benefit and Council Tax Benefit (Consequential Provisions) Regulations 2006 (SI 2006/217)] by *"a non-metropolitan council in England within the meaning of section 1 of the Local Government Act 1972 (15), a housing association, a registered charity or voluntary association* ***where that body, or a person acting on its behalf also provides the claimant with care, support or supervision****."*

  Note: *the highlighted wording is of particular significance in relation to the 'Turnbull Judgment' see end of section.*[87]

"Exempt Accommodation" is clearly also defined (through the reference to "care, support or supervision") as accommodation for people in a range of vulnerable groups, which for these purposes includes people over pension age. HB will only refuse to meet of the charges in "Exempt Accommodation" if it deems a dwelling to be larger than reasonably required or that the eligible rent is unreasonably high by comparison with the rent payable in respect of suitable alternative accommodation.

In addition, RP – or LA – run sheltered/supported/Extra Care Housing is "Exempt Accommodation" where:

- The RP also provides the care, support or supervision.
- The RP's property is managed by a registered charity or voluntary organisation that provides care and support on behalf of the RP.
- The RP's property is leased to the registered charity or voluntary organisation that provides the care and support.

However, RP properties are not "Exempt Accommodation" where managed by a registered charity or voluntary organisation that does not provide care and support on behalf of the RP.

86 *Sometimes also currently referred to, eg in Government documents, as 'supported exempt accommodation'*
87 *www. dwp. gov. uk/docs/a8-3301. pdf*

Exempt Accommodation – Issues which arise for Extra Care Housing:

Each of the following is addressed in turn:

- WRA – Issues/implications arising from the 2011 Consultation on Supported Housing Revenue
- Implications for housing providers other than RPs or LAs
- Configuration of Housing, Care and Support and impact of the Turnbull Judgment.

WRA – Issues raised by the 2011 Consultation on Supported Housing Revenue

In 2011, the Government carried out a Consultation on the future of Supported Housing Revenue funding via Housing Benefit, in the broader context of the transfer of funding for housing costs to become part of Universal Credit from 2013. The consultation raised questions about the future status of 'Exempt Accommodation' and sought views on several options.[88] The consultation categorised supported housing as falling into 2 categories:

- People in conventional supported housing – *"those who commonly need lower levels of personal care and support to help them remain in the community, which is often provided in more communal and easily recognisable types of accommodation such as hostels, refuges, Foyers and purpose-built sheltered housing"*;

  For this group, DWP consultation proposed to base payments around the Local Housing Allowance but with fixed additions to recognise the higher costs of providing supported housing this type of housing.

And

- People with more specific housing needs," *who often need more intensive levels of personal care or support to help them live independently in the community …and often have more specific housing needs that cannot be met by mainstream or existing supported housing and which is often provided in housing specifically built, acquired and/or adapted for the individual tenant(s)."*

  For this group, DWP said: *"additional help will be provided, where necessary, over and above the standard Local Housing Allowance, with decisions about the extra amount possibly made within the commissioning process for supported and specialist housing in which the individual is involved or represented."*

Sheltered housing was specifically referred to in the first category but there was no specific reference to Extra Care Housing or an indication in which group Extra Care Housing might fall.

88 *www. dwp. gov. uk/docs/consult-supported-housing. pdf*

In September 2012, in response to the Consultation, the Government set out in broad terms their approach to the future of paying for housing benefit in supported and specialist housing; DWP clarified that:

- Additional housing costs for supported and specialist housing, 'Exempt Accommodation', will be managed outside Universal Credit (UC) when the latter is introduced in 2013.
- In the short-term, there will be an interim system that is broadly similar to current arrangements. People in supported and specialist accommodation with higher housing costs will continue to be eligible for Housing Benefit from their local authority.
- In the medium term, DWP will design, develop and potentially pilot a more localised system for managing these costs outside the Universal Credit.

At the time of writing (March 2013) it is not clear when further details will be announced, and uncertainties remain, e.g. whether the definition of Exempt Accommodation will remain exactly as it is now.

It is generally assumed that the current funding of Exempt Accommodation will continue to be administered by Housing Benefit departments, but responsibility for funding housing costs will gradually transfer from local authorities to the DWP Universal Credit between autumn 2013 and 2017.

An eventual linkage of eligible costs to the Local Housing Allowance would raise concerns, given the relatively high rents and service charge levels associated with the additional facilities of Extra Care Housing, depending of course on the scale of the 'additional help' that might be available, as mentioned in the DWP consultation.

"Exempt Accommodation" – Implications for other housing providers

It can be difficult to decide whether Extra Care Housing other than that provided by RPs can be classed as "Exempt Accommodation". (SITRA has recently produced guidance and a flowchart to help providers understand how these rules may impact on their particular services).[89] For example:

Private rented Extra Care Housing

While the scale of privately rented Extra Care Housing is thought to be small, such schemes are not classed as "Exempt Accommodation", meaning that the level of housing costs recoverable through housing benefit, or in future by housing credit under universal or pension credit, will be tied into the Local Housing Allowance limits.

89 *www. sitra. org/1779/ and www. sitra. org/fileadmin/sitra_user/2012/Policy/Benefits/Exempt_Accomodation_Briefing. pdf*

WRA Implications – private rented Extra Care Housing

The linkage between LHAs and cost recovery in private rented Extra Care Housing will become more challenging as a result of WRA changes. Since 2011 LHAs have been capped nationally, but from 2013 they will additionally be set at the 30th percentile level of local private sector rents , rather than – as previously – at the 50th percentile (so making roughly just 3 in 10 privately rented properties affordable for those on housing benefit in any given area, rather than 5 in 10 as before).

This will also lead to complications where schemes offer an inclusive rent which bundles accommodation costs with other services such as food, housekeeping or laundry. Providers in these schemes are sometimes reluctant to break down their overall charge into its constituent parts which makes it impossible to benchmark the property rent against Local Housing Allowance, even if the overall charge appears to provide good value for the services it includes. If providers in such schemes wish to continue to have residents who are reliant on subsidy through the benefit system, then they will have to adopt more transparent pricing policies.

Note: *the recovery of high levels of Housing Benefit from the DWP is subject to the annual audit process applied to Housing Authorities, who may well be challenged regarding high rent levels in "Exempt Accommodation". If the DWP decides to reject the Housing Authorities justification, then severe penalties can be imposed on the subsidy claim. It is therefore preferable to avoid rent settlements that are major variances from the Local Housing Allowances.*

Not for profit (but non registered) providers:

Although the current definition of "Exempt Accommodation" includes voluntary organisations and registered charities, some such providers are exploring the options of, for example, becoming registered providers in their own right; or developing legal relationships (eg through management agreements and leases) with registered providers, in order to further secure their Exempt Accommodation status.

It is beyond the scope of this Technical Brief to describe these issues in any detail; even though the September 2012 announcement about the medium term continuation of Exempt Accommodation has maybe made such steps less pressing, the overall future of supported housing revenue funding is unclear.

It may therefore still be prudent for unregistered charitable and voluntary housing providers to appraise the risks and benefits for them of developing a relationship with a RP.

CONFIGURATION OF HOUSING, CARE AND SUPPORT AND IMPACT OF THE TURNBULL JUDGMENT

Although not strictly a matter for this Brief, providers and commissioners need to reach decisions about where support best 'sits' in particular schemes, and who should provide it-not least since, for reasons given below, this can impact on the ability of schemes to achieve cost recovery. In practice a variety of models are adopted, linking support either to the housing provider or the care provider –there is no single right or wrong answer. In a few cases, there may even be separate care, support and housing providers, with correspondingly greater challenges around operational co-ordination. To quote from the Care and Support in Extra Care Housing Technical Brief (2010) -page 21:

> *"While it is valid to argue that care and housing-related support need to dovetail with one another, housing management and housing-related support are also very closely linked, and it is equally valid to argue for the combination of these two functions. Specialist sheltered and supported housing providers see the support element as intrinsic to the service they offer and have concerns with performing landlord functions only. In the same way that there are grey areas between care and housing-related support, there are grey areas between housing-related support and more intensive housing management... Care providers may have little understanding of housing-related support issues, for example information and advice about tenancies, benefits etc. Where the housing provider also provides the care and support, all three functions may be more effectively dovetailed, although there may also be lack of transparency, and other issues of concern"* [90]

90 *www.housinglin.org.uk/_library/Resources/Housing/Support_materials/Technical_briefs/Technical_Brief_01_0610.pdf*

Furthermore, within this overall picture, an increasing trend has however been for commissioners to separate housing-related support from housing management and combine it instead with the care contract. This approach runs the risk of falling foul of the 'Turnbull Judgment' (2006)[91] which revolves around whether or not a scheme is classified as Exempt Accommodation. This judgment dealt with the connection needed between the housing provider and care/support provider in order to conclude that a supported housing service can be classed as "Exempt Accommodation"; it says *"The amount of care, support or supervision provided by the landlord can vary considerably but it must be more than **minimal**"* and must go *"beyond that which is normally provided by a housing provider."*

If the care, support or supervision is not **directly** provided by the landlord or someone acting on their behalf, then 'Exempt Accommodation' status will not apply. In such a case, if the local authority also considers the combined rent and service charge levels too high, it may refer the rents to the Rent Officer, who could restrict housing benefit to the local reference rent rather than covering the full rent at the scheme, significantly reducing the level of income received by the housing provider.

The Judgment, which has been upheld in similar subsequent cases, is clearly a challenge for providers and commissioners, given the way in which services are frequently commissioned separately in Extra Care Housing. While many housing providers do not provide care, many have in the past provided – and still do provide – 'support', thus avoiding the impact of the Turnbull Judgment; however the trend towards to joint care and support contracts can undermine this. This trend, coupled for example with a greater recent focus in recent years on personal choice and personal budgets, means there are now far less rigidly defined links between the provision of housing, care and support – in Extra Care Housing as well as other supported housing – than Turnbull appears to require of such services if they are to be confident of achieving full cost recovery, supported via the benefit system.

Despite this, in practice there does not seem to have been a large number of cases where local authority HB departments have challenged Extra Care Housing providers on these grounds – but providers need to bear this in mind; the risk of closer scrutiny by HB Officers may be become greater, since "Exempt Accommodation" is continuing for the time being, while resources for funding Housing Benefit resources are hard-pressed. Some approaches that have been adopted to mitigate the risk include:

- Where a joint care and support contract is being let, with (otherwise) no direct role for the housing provider, the local authority continuing to still fund the housing provider to carry out some specific

91 *see also Care in Extra Care Technical Brief p 21* support activities that 'sit' better alongside housing management activity, or

- The care and support provider sub-contracting some aspects of support provision back to the housing provider, or
- The housing provider holding the support contract but subcontracting this role to the care provider, where the commissioners are keen for these 2 functions to be linked operationally with a single provider.

And lastly, in any such configuration, it is key that the support in question is 'more than minimal' so as to satisfy Turnbull criteria. However, there is currently no national consistency about what 'minimal' means.

Scheme Manager Posts

Within Extra Care Housing, scheme manager posts are designed and funded to reflect the configuration of housing, support (and where applicable, care) undertaken.

In schemes where the housing provider is separate from the care provider, posts will embrace housing management, and possibly some support activity if the housing provider still provides support.

In schemes where the provider undertakes both housing and care, the scheme manager post may cover both roles; alternatively the provider may still separate housing and care management posts. On the other hand, private sector scheme managers may have very limited roles, usually more focused on the cleaning and maintenance of the property than on any form of service to individual residents.

Funding implications

With particular reference to social rented and mixed tenure schemes, funding of these posts is set up to ensure maximum benefit eligibility for those relying on HB and Pension Credit. Of course, the funding of scheme manager posts reflects the range of responsibilities undertaken in each situation, but this is changing for many providers as Supporting People funding is reduced. Housing providers undertaking housing and support have relied upon 2 revenue streams (rents/service charges, and supporting people) – the allocation between 'net rent' and service charge in turn varies between providers but at least some of the manager's costs are usually allocated to gross rent (ie combined rent and accommodation-related service charge) as a proportion of their time is allocated to 'housing management' as well as to activities that fall within the service charge. For leaseholders, the relevant costs are any such 'rent' element is instead included in their service charge.

Moreover, in schemes where the scheme manager has a hybrid care, support and housing role, a proportion of their costs may be allocated to social care budgets, with the remainder coming from housing and support revenue. This model has never been that common and in some cases LA ASCRs have withdrawn this part of the funding in recent years.

For posts that include housing and support functions, the proportion of costs allocated to support and housing revenue has varied widely between providers, reflecting their assessment of the relative risks and benefits of placing funding in the different streams. Some providers have historically allocated a high proportion – sometimes up to 80% – of these costs to Supporting People funding, reflecting their view that the post is predominantly about offering support to residents, while others have adopted a much lower proportion of support funding.

However, with the reduction of Supporting People funding, providers have generally had to review their position, clearly with the biggest impact falling on those who had allocated a high proportion of costs to SP. In some cases housing providers are no longer providing support at all – either because the funding has been withdrawn, or because the support function has been transferred to the care provider. Often the 'support:housing' funding ratio for scheme manager has changed; for example, from 80:20, to maybe 50:50 or even 0:100. Of course, providers who initially adopted a lower ratio will have less room to manoeuvre.

In such instances, housing providers are then faced with several choices:

- To maintain the current level of scheme manager presence, often seen as vital to maintain the provider's co-ordination and oversight role in the scheme, by reapportioning the costs of the manager across housing revenue – with the following implications:
  - Housing Benefits will need to agree to pick up these extra costs (perhaps under the category of Intensive Housing Management – (see section on Intensive Housing Management, following)
  - Any element that is added to net rent has to come within the headroom allowed by 'target' rents – or for very new schemes, within the 80% 'Affordable Rent' figure
  - Residents who are not eligible for Housing Benefits will be liable to pick up increased costs – at the same time as possibly still picking up support costs for the activities of the care and support provider – unless of course the support service and charge goes down by a commensurate amount.
- To maintain the current level of scheme manager presence by a support charge directly to residents but without Supporting People subsidy. This maintains the service and does not add to the Housing Benefit bill, but may well be unaffordable for residents, all of whom (not just self funders) will have

to pay the charge. Of course, the charge will be lower, and affordability issues less, if the SP contribution was lower in the first place.

- To reduce the level of scheme manager presence, in order to maintain costs at their present level.
- To make economies in the way support is provided, eg reducing support input to those with care plans – so that the support element in the scheme manager role can be reduced to fit within whatever funding remains available.

Note: *some schemes also have support assistant posts employed by the RP – although the above refers to specifically to scheme manager posts, the implications apply to all posts that include a support function.*

Furthermore, evidence suggests that providers in some instances are retaining the current level of scheme manager input, and successfully adding the cost previously covered within 'support' to the costs covered – currently at least – by Housing Benefit. In some cases, parts of these costs have instead been added to Core/Wellbeing Charges, which have been covered earlier.

Lastly, as highlighted earlier, there are implications and risks for housing providers where support is no longer part of their function arising from up the Turnbull judgment. Partly in response to this, but also to maintain a cohesive approach to overall scheme management and coordination, some local authorities are continuing to fund housing providers to deliver an element of housing-related support alongside the support funding which is channelled to the care provider. In other instances, the housing provider may be subcontracted by the care and support provider to provide some support (eg via a % of the scheme manager costs/time, and/or to fund the on-call response) – or the housing provider may sub-contract housing-related support to the care provider, thereby still meeting the definition of Exempt Accommodation.

'INTENSIVE HOUSING MANAGEMENT'

With the reduction in Supporting People funding, some providers have actively explored the option of designating some activities which fall between 'support' and 'housing management' as 'intensive housing management'. It has been described as including all of the housing management activities carried out in general needs housing, but carried out more frequently and thoroughly because of the nature of the service and the needs of residents in question. Examples might be the need for a scheme manager to spend a lot of time around sensitive lettings /allocations processes, involving lengthy discussions with referral agencies as well as with prospective residents; or the need to spend more time with residents once they have moved in explaining how the scheme operates, tenancy conditions, etc. , than might apply in general needs or indeed in 'ordinary' sheltered housing.

It should be noted that 'Intensive Housing Management' is a term that has long been widely used in supported housing generally, but it does not have any formal standing or recognition – for example in Housing Benefit regulations. Despite this, it seems HB officers, in at least some areas, are prepared to consider costs that arise from Intensive Housing Management, and which might have previously been classed as 'support', but clearly there are other 'support' activities that will never be seen as HB-eligible.

It is also important to bear in mind that the potential scope to use Intensive Housing Management is greater where housing providers have previously classified much of their activity as support, not housing management. By contrast, providers who have adopted a much more restricted definition of support will have far less scope to shift services and costs into Intensive Housing Management.

Lastly, the scope for additional costs, providing they are deemed as 'reasonable', to be met via the HB system also depends upon the continuation of Exempt Accommodation; as noted above, this category is continuing for the time being, and housing costs (including those covered by service charges) in supported housing will for now be met outside Universal Credit. However, pending more detailed information about the future of supported housing funding, there can be no longer term certainty that additional costs allocated to (intensive) housing management will continue to be funded via the benefits system at current levels.

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Revenue funding conclusion

This section provides a short summary of the issues facing commissioners and providers funding care and support in extra care housing.

KEY POINTS

- Revenue funding in Extra Care Housing falls under the 2 main categories of housing revenue, and care /support revenue:
  - housing costs are collected via rents and service charges; the kinds of costs covered are broadly comparable to those in other forms of housing, though the higher level of charges reflects the enhanced accommodation, facilities and services offered in Extra Care Housing
  - care and support costs are recovered in ways that are broadly similar to those applying where people are living independently in their own homes elsewhere in the community, but reflect the particular characteristics of Extra Care Housing, especially the need to fund round the clock services, often via a wellbeing charge of some kind, as described above.
- Affordability for residents is critical in all kinds and tenures of Extra Care Housing. This in turn hinges, especially but not exclusively in the social sector, on how far people with lower or modest incomes and savings can access the benefit system to meet at least some of the costs of Extra Care Housing. This in turn means it is critical that providers address the eligibility for benefit of various costs categories, when setting rents and service charges.
- Particularly in the social sector, the way housing, care and support services are configured is very important in ensuring that costs can be recovered, because of the Exempt Accommodation rules, which are now expected to remain in place for the time being, following Government consultation in 2011 on possible changes, and because of the impact on legal rulings on benefit eligibility such as the Turnbull Judgment (and subsequent similar rulings) referred to earlier.
- The major changes arising from the Welfare Reform Act 2012 currently have only marginal impacts on older people and on Extra Care Housing, but as welfare reform policy is still evolving, commissioners and providers need to be vigilant in this area.

Overall Conclusion

The funding of Extra Care Housing has become far more complex and challenging since the original version of this Technical Brief was written in 2005. Major, on-going structural and policy changes in housing, social care, health and the benefits system have dovetailed with a period of unparalleled financial stringency. Previous major, familiar funding routes for Extra Care Housing (both revenue and capital), have become far less dependable and more marginal in scale – in some cases, almost disappearing (such as Supporting People). This has called for a radical reappraisal of how funds can be found to invest and develop new Extra Care Housing, and the need to explore opportunities in what has hitherto been very unfamiliar territory, certainly for social sector providers and commissioners, in the commercial finance sector.

Other major changes since 2005 which impact on funding include the greater focus on developing Extra Care Housing of various kinds for home owners, reflecting changing tenure patterns among older people, and greater emphasis on choice, impacting particularly on how care and support is arranged and paid for in Extra Care Housing in the era of Personalisation and Personal Budgets.

Despite these changes and challenges, there is an ever increasing interest in Extra Care Housing, reflecting its popularity among the growing numbers of Extra Care Housing residents, and widespread recognition of its advantages and benefits by providers and commissioners. Our aim in this Technical Brief has been to map how both new and existing Extra Care Housing can be funded in a sustainable and affordable way in these new and challenging circumstances, in order that Extra Care Housing can continue to flourish.

The Housing LIN is therefore pleased to be at the forefront of identifying new and emerging thinking about funding Extra Care Housing. Our dedicated funding webpages[92] with an extensive range of learning and improvement resources such as this Technical Brief, reports and case studies are essential tools for commissioners, funders, developers and providers. In the face of reduced capital and revenue funding, we also offer opportunities for information exchange and knowledge transfer through our regional networks to explore and find imaginative ways to raise finance to plan, design and deliver housing that older people want. Get involved with the Housing LIN.

92 *www.housinglin.org.uk/Topics/browse/HousingExtraCare/FundingExtraCareHousing/*

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About the Housing LIN

Previously responsible for managing the Department of Health's Extra Care Housing Fund, the Housing Learning and Improvement Network (LIN) is the leading 'learning lab' for a growing network of housing, health and social care professionals in England involved in planning, commissioning, designing, funding, building and managing housing, care and support services for older people and vulnerable adults with long term conditions.

The Housing LIN welcomes contributions on a range of issues pertinent to housing with care for older and vulnerable adults. If there is a subject that you feel should be addressed, please contact us.

For further information about the Housing LIN's comprehensive list of online resources and shared learning and service improvement networking opportunities, including site visits and network meetings in your region, visit www. housinglin. org. uk

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