



Housing LIN

Connecting people, ideas and resources

Funding Extra Care Housing TECHNICAL BRIEF

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 of 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)– 2010²

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 Paper⁴ 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

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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 planning⁷ 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

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

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.

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)*

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 Licences 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.

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.

‘...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

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

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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