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Get Smart

Innovative funding and delivery options in extra care sheltered housing

A Housing Learning and Improvement Network "Get Smart" guide

Edited by **Brian Johnston** and **Jeremy Porteus**

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Contents

Front cover: We are grateful to Hanover Housing Association who gave permission to reproduce this image

Foreword

Capital funding and investment – without which no new building of extra care sheltered housing can take place – is going to play a large role in determining how local authorities and registered providers ensure a much-needed increase in extra care housing over the next 20 years.

How to obtain that investment and use it to best effect continue to be the critical challenges in meeting the accommodation and care needs of older people. The effects of the banking crisis and the subsequent economic downturn continue to reverberate across the entire housing sector in England and Wales. Public sector capital investment constraints necessitate the need for innovation and radically different ideas to come forward to meet the proven need for new older peoples housing.

During summer 2012, the Housing Learning and Improvement Network (LIN) invited a range of housing sector specialists with a range of professional perspectives to give some thought to what is currently “innovative thinking” that early adapters are seeking to develop, and can be more widely used across the public and private sectors.

Each article is written to stand alone, and this **Get Smart** publication, *Innovative funding and delivery options in extra care sheltered housing*, can be read in any order. The articles inevitably cover some similar territory and themes, but each has a very individual perspective. They are hopefully able to inform and generate further debate and development of practical proposals, of use to public sector commissioners, housing development agencies and commercial sector partners and voluntary organisations.

This **Get Smart** 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 accommodation arising from Housing Revenue Account reform; the anticipated introduction of Real Estate Investment Trusts; Tax Incremental Financing; and other options. It reviews innovative delivery models that may be adopted by Local Authorities, Registered Providers, not for profit organisations and mutual/ social enterprises - such as Local Asset Backed Vehicles. It suggests future approaches by Registered Providers to providing additional extra care housing – and innovative commercial options that are currently in use or in development, such as joint ventures with funders, institutional investors and private developers, in delivering the accommodation on a social rented, shared equity or private for sale basis.

The timing of this **Get Smart** guide is opportune in the light of recent government announcements including the Chancellor’s Autumn Statement, Department of Health capital investment funding for specialised housing, and Real Estate Investment Trusts. The Housing LIN is also publishing a new Technical Brief which considers capital financing approaches in greater detail.

We are extremely grateful to all those that contributed to this Guide. The message to emerge from this collection of papers is the need for all those involved in developing, commissioning and providing extra care housing is to “get smart” and continue to be creative in order to make the investment solutions happen.

Brian Johnston
Commissioning Editor

Jeremy Porteus
Director
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Extra care: Unlocking the market potential

by Melville Knight, Chief Executive, Castleoak Group

Introduction

Accommodation for older people covers a very wide spectrum. The market that I am exploring in this article is “Extra care”, sometimes called “housing with care or “close care”. It is for people who either have, or very soon will have a care need. Moving into new accommodation is mainly driven by need, rather than a lifestyle choice. The alternative will be continuing to live at home in the community and receive domiciliary care. The older person may be concerned about loneliness; the unsuitability of their property; maintaining the fabric and garden; or a feeling of vulnerability and insecurity. Their children, sometimes living at a distance, could be worried about these things too and a whole host of ‘what if’ scenarios. It could be a couple, where one person has increasing care needs, and the other provides informal care. Both may need support.

Furthermore, I am concentrating on the large proportion of older people who are homeowners. The huge ‘mid-market’: those who don’t qualify for social housing but on the other hand don’t have large amounts of savings available to buy property on a cash basis. However, their equity in their home is unencumbered as they have paid off their mortgage.

The decision to move

So, an older person, possibly with a partner and usually in conjunction with a child or children decide that moving into purpose-designed accommodation with care and support on site would be a good idea. Often, this decision is sparked by the emergence of a suitable scheme nearby. Sometimes, is triggered by a crisis, such as a fall or a discharge from hospital. Typically, such people are in their 80’s.

The attractions for them of a purpose-built extra care scheme include :

- Suitable accommodation – wheelchair access, level access showers, aids to daily living, adaptable to suit changing needs
- On-site facilities such as restaurant, shop, activities, hairdresser
- On-site care and domestic staff, 24 hours a day – available on a flexible support package
- Living in a community – companionship
- A secure environment
- Garden and property maintenance done by others.

This accommodation could be in a standalone extra care scheme, or apartments or bungalows in the grounds of a care home (close care) or part of a care village.

Having made a decision that the scheme is right, what they need is a quick and straightforward process to enable them to move in. Unfortunately for many people they either don’t get this far – or if they do, the hurdles to moving in, perceived or real, are too high.

Barriers to moving

There simply aren’t enough schemes being developed, and so the availability of accommodation, if any exists, is limited. So too are levels of awareness and understanding and, because there is such a vast spectrum of ‘retirement accommodation’ of varying levels of suitability and quality, the perceptions that do exist are misplaced or plain wrong.

Secondly, where schemes do exist, they often involve a complex property purchase with service, maintenance and support charges attached, and restrictions and exit fees payable when selling. Because these schemes are not commonplace, there is uncertainty about the ability to sell and preservation of capital value. In order to fund the property transaction, the purchaser typically needs to sell their house too.

So, suddenly, in addition to the emotion attached to the decision to leave the family home, the older person or couple and their family are faced with a complicated property transaction and a whole host of conflicting questions and concerns. All this at a time of their life when they are looking for support and simplicity.

The result? Either they stay put or find some other solution to their accommodation needs. Or, if they do find an extra care scheme, the process of purchase is racked with indecision, involves the sale of a property and purchase of another, and takes a long time. It's no wonder that developers of extra care report very long sales periods.

The need for extra care

We are all aware of the latent demand for a significant supply of extra care accommodation, particularly for the 'mid-market'. This is coming from older people who otherwise continue to live in unsuitable accommodation, possibly receiving domiciliary care – often a lonely and unsatisfactory existence; or who otherwise end up living in residential care, which may not be the best option for them.

Attached to this demand is an enormous pool of equity: the pool held by over 65's is often reported at more than £750bn and rising.

In terms of meeting this demand, the scheme models, development and property management expertise are well proven. There are many examples of extra care, close care, assisted living and care village developments up and down the country that have been completed successfully and are fully occupied. The capability exists and now is a great time to be developing, as build costs have fallen considerably since the start of the credit crunch, reflecting the spare capacity that exists.

Why is the pipeline of new development so thin?

In my view the main reason for this is a lack of funding, both equity and debt. Why is this? Well, extra care falls between 'two stools': residential and care.

Established residential developers appear well funded at the moment: predominantly listed companies with access to equity and bank debt. They have a tried and tested model for developing and selling residential accommodation, where speed of sale, phasing and cash flow is all-important. There is emerging interest in funding for general needs residential accommodation for open market rent; from pension funds and other institutions looking for asset backed long-term income.

Similarly, there is a reasonable amount of funding for care providers at the moment, from private equity funds, banks and specialist property funds. This reflects the confidence in the market, underpinned by demographic trends and projections, and the fact that the residential care market and model is well understood. This market efficiently creates linkages between customers (self-funding or otherwise), commissioners and care providers with beds to sell. The recent acquisition of Four Seasons Healthcare (the UK's largest residential care provider) by Terra Firma is an example of the appetite that exists. Many specialist property funds have emerged, typically backed by pension funds, that invest specifically in care homes and include forward funding for development. Examples include CarePlaces Fund, Medicx HealthFund and a fund set up by Aegon.

Extra care sits in the middle of these two established markets. It is not of interest to general needs housing developers, for reasons which include:

- Specialist nature of the market
- Restricted customer base and slow speed of sales
- Limited ability to phase development
- Linkage to care and property management, which feature large in purchase decision.

The mantle has been taken up, to a certain extent by housing associations, which have successfully developed mixed tenure developments, offering affordable rented, shared equity and for sale products. However, in the main, these organisations are not set up for mainstream private residential and the volumes needed to satisfy the latent "mid-market" demands. This is evidenced by the slow-down in the extra care pipeline now that the grant regime has tightened up.

Similarly, care providers operating care homes do not have the capability or balance sheet structure to undertake residential development for sale or for rent. Why should they, it is a different market and product? Many of these organisations see potential to develop extra care on land parcels adjacent to new or existing care homes. However, there are few options available other than self-development, with all of the attendant risks and distractions from their core business of care provision.

So, we have a market that is not functioning: demand exists, coupled with a large pool of unencumbered equity; product solutions are tried and tested. However, the market is fragmented, not well understood by customers and barriers (perceived or otherwise) exist to purchase. Funding sources are scarce and this limits supply and supply mechanisms.

What needs to be done?

Of course, there are some notable exceptions which serve or could serve this 'mid-market' very well. Several organisations have established products, development pipelines and report considerable success in signing up occupiers for their schemes, including "off-plan". These include Extracare Charitable Trust, Belong and MHA (Methodist Homes), which, despite the current economic climate are successfully developing care villages and extra care schemes – sometimes without public grant.

It seems to me that the ingredients for their success are:

- Strong balance sheets with debt funding capacity
- Clearly defined products
- Tried and tested sales and marketing processes
- Flexibility over customer entry and exit terms.

Flexibility over customer entry and exit terms is of paramount importance. For example, at Fulwood Court in Liverpool, MHA offer prospective residents a choice of an 'all inclusive living plan' which includes rent, service charge, utilities, 24 hour well-being service and meals. Alternatively a purchase option is available, with a guaranteed buy-back at 95% of the price paid. A range of personal care packages is offered separately.

Similarly, at their care village in Shenley Wood, Extracare Charitable Trust offers apartments on a purchase, shared ownership or rental basis – with a guaranteed buy back when leaving the village.

I recently visited a "Belong" village in Cheshire, which provides extra care (branded as assisted living) alongside residential care facilities. Belong offers similar flexible terms for entry and exit, and reports that a high proportion of assisted living units are rented.

All of these models have been successful in making the market more liquid, making it easier for residents to move in and out of schemes whilst at the same time removing the complexity and perceived risk of the transaction.

How can the volume of developments be increased to meet demand?

The constraint at the moment is funding. If the funding were available, I am sure that specialist developers would emerge, with the right products, sales processes and terms. Some housing associations may take on more of a 'private sector developer' role. Either way, the likelihood is that they would partner with care providers, either care home operators or domiciliary care providers.

The key is attracting equity funding at levels which require only modest levels of debt gearing. This is probably not 'private equity' territory as their required returns are too high and their timescales are too short. However, packaged correctly, with the improved liquidity of flexible sales packages I do think that 'extra care' investments can be created which are attractive to pension funds and other institutions that are looking for long term income with modest capital growth.

How might this work?

The investor could invest directly in a scheme or schemes or indirectly into a specialist extra care fund. The investor or fund would provide "forward funding" to a developer at a point where the scheme has planning permission and construction is ready to start. At this point there may be a number of pre-sales in place, or certainly a list of prospective purchasers or tenants who have expressed interest. The developer would deliver the scheme for a guaranteed maximum price and there would probably be some sharing of the sales/letting risk. A property manager would take responsibility for the property management and facilities management aspects and a care provider would deliver the care services. These would be brought on board prior to development commencing, and could be a single organisation.

The investor would receive the net sales proceeds from unit sales, ground rents from units sold and rents from units that are leased. So, a proportion of the initial investment would be repaid and there would then be a rental income representing an on-going return on the remaining investment. Of course, all of this would be modelled in advance, based upon an assumed split of outright sale, shared equity and rental units in the scheme, in order to calculate the IRR – the internal rate of return on the investment over a defined investment period. The investor would, in effect, generate some development profit on the units sold and then an income return on the balance.

It is likely that some debt would be introduced to improve the overall IRR, with some of this being repaid out of unit sales and some then left in as long term investment debt.

Provision would need to be made for capital to finance "buy backs". It is unlikely that the investor would wish to re-introduce capital for this purpose. One option to cover this would be a flexible debt facility. The risk of capital losses for the investor in connection with "buy backs" would need to be mitigated and some provision would need to be built in to make sure that the units can be brought up to a marketable condition i.e. some allowance for refurbishment. With regard to rents, these ideally will be linked to an annual inflationary increase, possibly with a cap and collar.

Investors would want to identify an exit route after a period of stabilisation and hold. The exit could be a sale to an alternative investor or possibly a housing association or private sector housing investor/ manager.

Other options

I am sure that other, more innovative funding models exist, and the latent potential in the market is large enough to accommodate a number of these. Examples include "resident bonds" as developed for the Australian older peoples' accommodation sector or the attraction of investment from private individuals interested in buying individual units "for let".

I hope that interested parties can collaborate effectively to create, analyse and refine a number of funding solutions, and then take these to the market. This needs to be done alongside the widening availability of flexible purchase and rental models which facilitate easy entry and exit for residents.

I am convinced that the potential exists and in addition to the financial returns that can be made, there is the opportunity to improve the lives of a significant number of older people who otherwise will be denied the accommodation and related care and support services which they need.

About Melville Knight: Mel is an Engineering graduate of Cambridge University, He undertook a Bristish Rail management training programme before joining Bredero Properties PLC overseeing town centre retail schemes. He was then Assistant Commercial Director at Bristol Development Corporation before joining the family business, Castleoak, in 1993. Under Mel's leadership, Castleoak has grown into a national development, design and build group, working solely in the care sector, and launched its own development fund, the CarePlaces Fund. He sits on the Board of Your Care Rating and was instrumental in its development.

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About Castleoak Group: Castleoak is a specialist development, design and build group operating solely in the care sector since 1996. The Group has delivered over 150 care homes and more than 3000 apartments in extra care schemes and care villages across the UK, working across the commercial and not-for-profit sectors. It offers complete turnkey solutions, from inception to equipping, plus a range of development services, including freehold sale, leasehold and joint ventures. Castleoak's commitment to care is second-to-none, and it enjoys strong working relationships with all the key sector bodies.
www.castleoak.co.uk

Private sector investment into older peoples housing

by David Dent, Managing Director, Elliott Dent

Background and context

There are a number of principal drivers as to why the private sector is now showing an appetite for financing and holding investments relating to the provision of affordable housing for older people, These can be defined as follows;

- Longevity – Within 20 years the population of over 80's in the UK is set to double from 3 million to 6 million. Related to this the number of dementia sufferers is also expected to double from 750,000 to 1.5 million.
- Government funding – Approximately 60% of gross social care is currently set against older people and is likely to rise dramatically. The financial cost of dementia alone is set to treble. The Government acknowledges that every person admitted to a nursing home increases costs by £26,000 per person per annum. Funding gaps are further compounded with a reduction in the tax generating 18 to 65 year olds as our population becomes older. This is clearly unsustainable and in short the Government and its citizens face a ticking social/financial time bomb.
- Registered Provider (RP) landscape – Typically such accommodation would be funded through Registered Providers who capitalise social rents and fund the gap through grants from the Homes and Communities Agency (HCA) and or the Department of Health. These grants were in the range of £60k per unit. Such levels of grant are however no longer available and this when combined with a reduction in long-term money from banks being made available to Registered Providers is reducing the extent of schemes being funded in this manner. Such a decline is likely to continue in the next HCA bidding round and is not helped with the fragile housing market which is not supporting the cross subsidy of schemes through mixed tenure approaches and the introduction of market sale units into developments.
- Pension Funds – Private investors are now acutely aware that the institutions are moving into this sector, attracted by the long dated stable returns with inflation linked indexation which hedges their liabilities. This development is attractive to private investors as it potentially provides an onward sale to the major institutions, as and when portfolios reach a critical mass.
- Lack of supply – Currently there are only about 40,000 Extra Care units within the UK. Clearly this is insufficient to cope with current and projected demand for such accommodation.

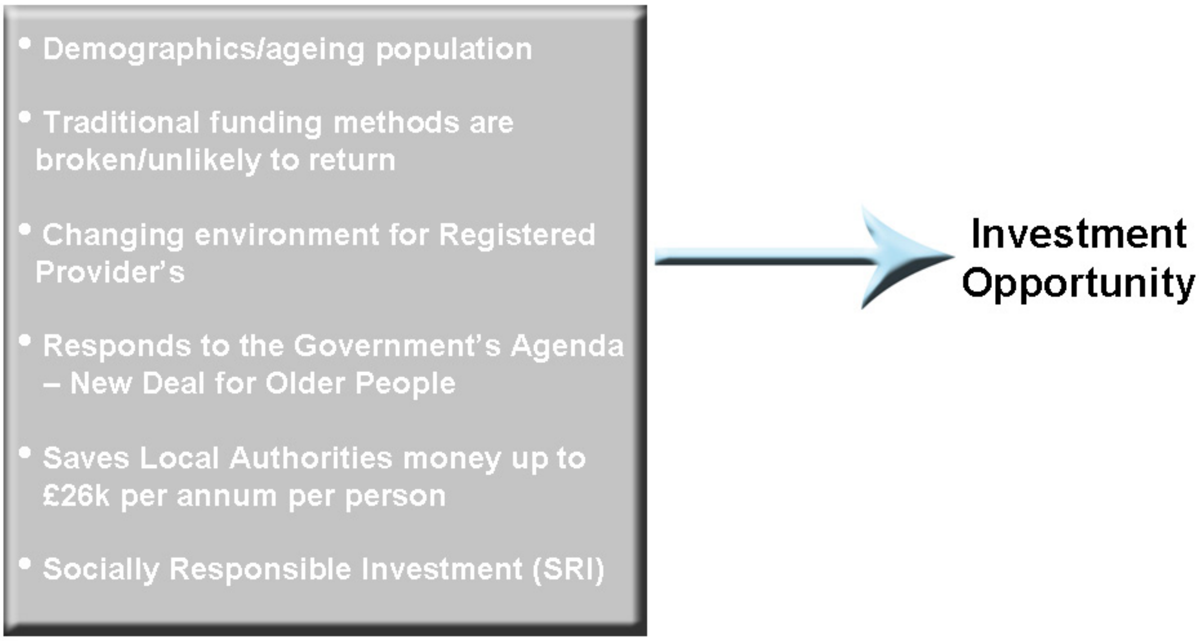
The investment opportunity

Private investors and pension funds require access to long dated, stable returns which provide inflation linked cash flows. Affordable older persons housing has such characteristics with rents being linked currently to the Retail Price Index (RPI).

This is attractive to investors who will look for an annual income of at least 5% and who will be committed to holding the investment for at least 4 to 6 years prior to onward sale. Such a return would generate a return on Internal Rate of Return (IRR) of circa 7.5% over the investment period.

All of the returns would be index linked to RPI plus up to 1% and would be underpinned with a 25 year lease being in place with a Registered Provider. These returns would be predicated upon rents falling within Housing Benefit Allowances and with the Registered Provider collecting the rent.

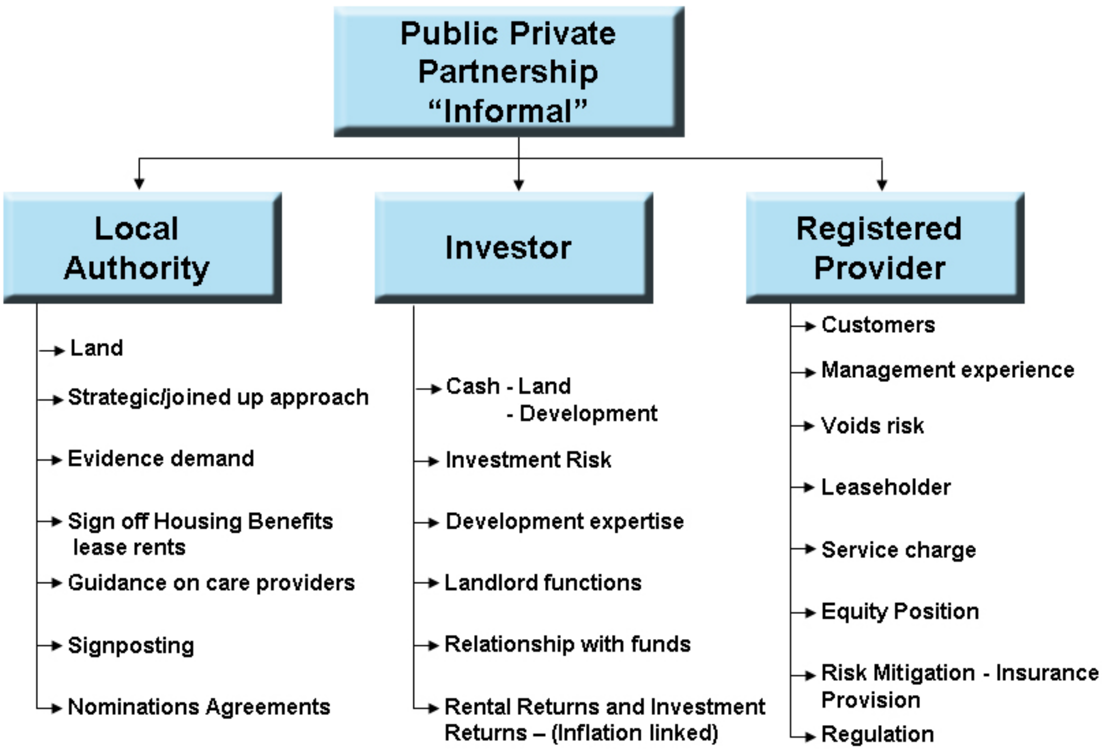
An appreciation of the private sectors investment position is important, as is an understanding that such investors can place their money in liquid, regulated funds with less risk. In attracting investors we need to acknowledge that they will realise the same annual income even if development costs increase and their investment is essentially illiquid in nature with no guarantees for a return of their capital employed upon sale of the investment. We therefore need to strike a pragmatic balance between Housing Benefit Lease rents which would attract investors, but at the same time set them at a level which would demonstrate a significant cost saving from alternative forms of accommodation for older people in the form of residential care, which for many will be the only option as they become more frail.



How does it work?

Whilst this model represents an investment from the private sector, in reality it cannot come to fruition if there is not in place a robust and committed partnership between the Local Authority, Registered Provider and Investor. The partnership in many ways will be informal, however all parties need to have an understanding of each others objectives, risk profiles and timeframes in order for this form of investment model to be realised.

Summarised below is a graphical representation as to what each party brings to a typical development :



The Local Authority

Turning firstly to the Local Authority, each has a number of key roles to play in shaping such development opportunities. It has access to land and they have the means to dispose of land either at open market value or, under the Local Government Act 1972, sell land for less than best consideration if it will help to promote the economic, social or environmental well being of the area.

The Local Authority has a key part to play in signposting the development to potential customers and can provide guidance on appropriate care providers who operate within its boundaries. The Local Authority will have access to significant amounts of data relating to housing need and demand and this will be important to both the Investor and Registered Provider when assessing their risk profiles on any given scheme.

A key issue for the Local Authority, the Registered Provider and the Investor will be Nominations Agreements. The starting point for the latter party will be for the Local Authority to carry all void risk throughout the lease period and whilst this may seem unreasonable it will of course provide the Local Authority with greater control of potential occupiers and in reality help ensure that nominations are from within the Local Authority. Conversely should the Local Authority wish to take no voids risk, then it is exposed to the Registered Provider filling the units from both within the Local Authority and critically outside of the Local Authority area, which places a greater financial burden on the Local Authority concerned. A sensible and equitable compromise is to arrive at a Nominations Agreement in which risk is shared, with potentially the Local Authority taking responsibility for voids up to at least full occupation of the scheme and the Registered Provider then taking responsibility for say a 52 week void period and thereafter either the Registered Provider or the Local Authority or indeed both sharing the risk. In parallel, robust management arrangements should be put in place between the Local Authority and Registered Provider to fill voids at the earliest opportunity.

The Local Authority must at an early stage in the development process advise upon appropriate levels of Housing Benefit and this demands a strategic, joined up approach within the Local Authority, to ensure that levels set are attractive to investors but at the same time represent a saving from other budgets within the Local Authority, predominantly through providing alternatives to moving frail older people into residential care.

The Registered Provider

Moving onto the Registered Providers, they bring with them a wealth of housing management experience which will promote investor confidence. They are also regulated by the HCA which again supports investment value and critically they will sit behind the lease for 25 years in return for a management fee and in certain circumstances an equity position on any given scheme. This is a key issue for Registered Providers, who will be taking the void risk over 25 years and who will be entering into a lease agreement which is index linked to RPI. Undoubtedly this will not appeal to all Registered Providers, however for some it represents an opportunity to support in providing continued and much needed investment into older persons housing without impacting upon their balance sheet, it provides an on-going revenue stream, and in certain circumstances provides Registered Providers with the opportunity to enhance their asset base, during or upon expiry of the lease.

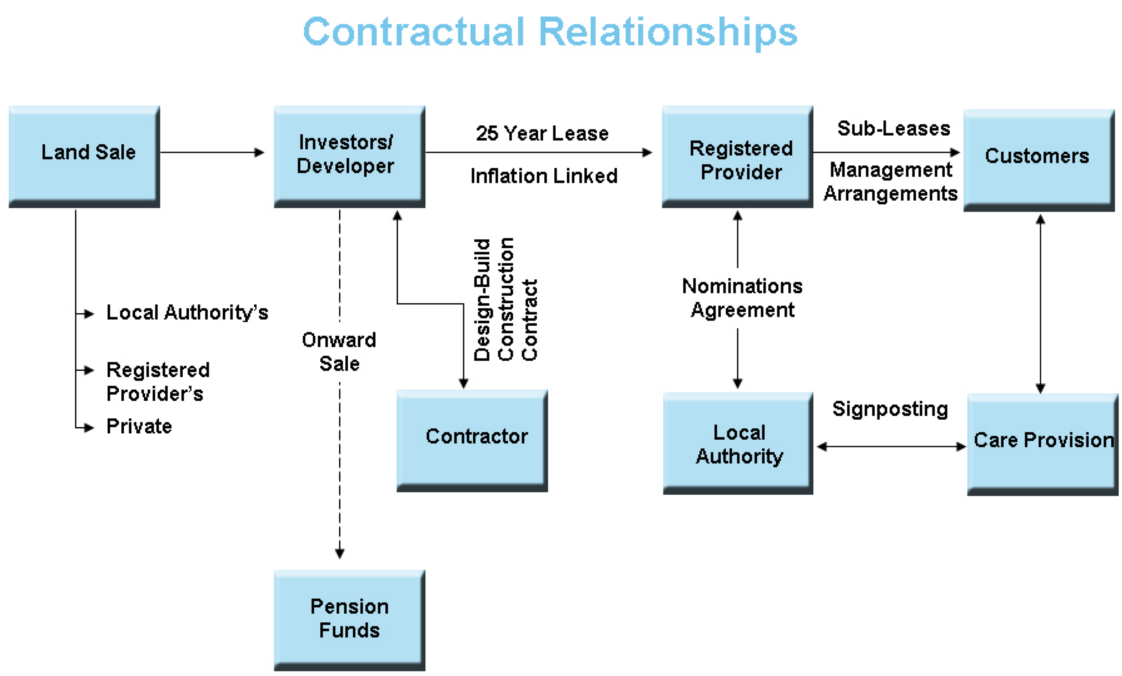
Risks associated with voids risk can be mitigated through specialist voids risk insurance which would provide cover for up to 52 weeks. Issues around welfare reform, indexation and the like are well documented within the sector. Indexation needs to be considered pragmatically. All Registered Providers who enter into fixed term loan deals from banks are implicitly committing to indexation, as the banks will undoubtedly hedge their inflation risks when committing to such rates. These deals should also be considered as part of a balanced portfolio of Registered Provider investments, some being traditional, which again hedges risk. Turning now to welfare reform, this issue represents a risk across all aspects of a Registered Provider’s business and arguably given the demographics and the Governments precarious financial and social position, older persons housing is arguably more future proofed from welfare reform measures than any other aspect of affordable housing.

The Investor

Looking now to the Investors input into the partnership, clearly they bring cash both in the form of short term development finance and long-term investment monies. They bring access to funds which will hold the investments for a number of years, and the expertise and resources to establish such funds - which is an extremely time consuming and not inexpensive task. These funds will not invest until the assets are revenue producing, which effectively means that the Investor and/ or a contractor partner has to cash flow the development through the land acquisition, planning and construction stages. This can take months/ years and the commitment of the Investor at this point cannot be under-estimated, particularly when considering that up until planning approval and signature of lease agreements and sale agreements for the land the Investor is essentially working at risk.

The Investor is acting in the capacity of a developer during the development process and in so doing they will be taking the development risk of cost over runs and the like. Once lease rents have been agreed with the Local Authority and Lease Agreements agreed in principle with the Registered Provider, there will no increase for cost over-runs incurred during the development process. The Investor must therefore have the necessary skills and/ or support to manage development risks and in so doing the Investor will then realise an annual income once the development becomes completed, which as previously highlighted, will be indexed with the developer enjoying the security of a regulated Registered Provider sitting behind the lease. This is what attracts Investors to this market place and promotes investment value.

A brief overview of the arrangement between the respective parties in a contractual context is as highlighted below:






Case Study - Seafarer's Way *Sunderland*

This scheme has been progressed in line with the private investment model as described within this paper and provides support to older people and their partners in extra care style accommodation made up of 38, 1x and 2x bed new properties, complete with the refurbishment of a Grade 2 listed building to provide an element of communal and community facilities for the local area.

Investors and a Registered Provider for the development have been identified for some time now, Heads of Terms for the respective agreements are in place and the scheme is now going through legal's with a view to an Agreement to Lease being signed in September 2012 and a start on site being planned for October 2012.

The processes that the team went through are similar to those outlined elsewhere within this paper, however the team had the added challenge/ complexity of addressing the refurbishment of a listed building in which the interests of English Heritage needed to be adhered to and grant had to be drawn down from the Heritage Lottery Fund in order to promote scheme viability. The timeframes and processes of Heritage Lottery Fund in many ways dictated/ prolonged the overall development process and the degree of refurbishment works meant that additional funds had to be sourced in order to make the refurbishment works viable. The existing building in reality brings in no revenue stream but does bring added liabilities in terms of on-going maintenance, which needed to be absorbed within the service charge provision for the development as a whole. Given the refurbishment nature of the works, the building attracts VAT liabilities, whilst the funding made available was net of VAT. This required the Investor to seek specialist accountancy support to explore ways in which these VAT liabilities could be best managed.

The above highlights lots of challenges which were eventually addressed through innovative sourcing of funding through the Local Authority, compromises in terms of sinking fund provision within management charges, value engineering with the preferred contractor and the realisation of economies through running the existing building in parallel with the development of the new build scheme. The over-riding requirement was however an on-going commitment and investment from all parties, over a protracted period of time, who stayed with the development when others may well have given up.

In many ways, the straightforward part of the development was the provision of the new build Extra Care Dementia Units where costs were established at an early stage as were Housing Benefit lease rents, which then provided the Investor with an indication of the level of return that they would enjoy on the scheme at a relatively early stage in the proceedings.

The Housing Benefit lease rents agreed were higher than traditional extra care schemes within the Local Authority, reflecting the bespoke requirements of the users and also that if historic benchmarks had been employed then the Investor would simply not have been able to invest in this particular scheme. This required a strategic and joined-up approach from the Local Authority, led by a senior officer who acted as a single point of contact for the development as a whole and who engaged with the project team and the executive team within the Local Authority on this and other issues. In reality, in supporting our lease rents, which were higher, the Local Authority promoted the development of a scheme which provided an alternative to residential care, which will save the Local Authority hundreds of thousands per pounds per annum, for the provision of only 38 units.

The design of the scheme closely followed industry best practice and a check list of how the scheme compared to Housing LIN Viewpoint 25, *"Breaking New Ground: The Quest for Dementia Friendly Communities"*, was carried out with the scheme comparing extremely well. This investment from the team will hopefully help create a place which supports the occupiers health and well being, prolong any amelioration in their health conditions and from an investment perspective, help promote the scheme as a place where people want to live. All parties have now been working on this development for over 12 months and for some in excess of 18 months. The added complication of planning and funding associated with a grade 2 listed building, which brings in no revenue stream, has played a part in this protracted process, however given that most of the parties are working at risk, the process in moving forward needs to be streamlined. A significant amount of that risk has been borne by the preferred contractor and the consultants, who in the current climate have been prepared to stay with the scheme and support it through the planning and legal process. This needs to be addressed on future developments as does a more fast tracked and efficient process which will embrace agreement of lease rents; legal drafting around land positions to support Investors taking a position on the land, which promotes confidence; planning with the release of associated Section 106 agreements; and finalisation of Nominations Agreements, which define and cover void risk at a much earlier stage in proceedings.

The above highlights lessons learnt. What, however, should be built upon and reinforced in future schemes is the early identification of a Local Authority "Champion" for any given development. On this particular development, the Local Authority identified a suitable resource from their Health, Housing and Adult Services departments and she has been instrumental in working across both the public and private sector in ensuring a complicated scheme has been progressed and is now on the verge of commencing on site. The mobilisation of such a resource, who had the ability to interface with the Council Executive has been invaluable, as has the commitment from the professional team and the contractor supported by the Registered Provider and Investor, who all had a detailed understanding of not only construction issues but property, legal issues and risk management processes.

Summary

This paper demonstrates that there is demand within the sector, an appetite from private investors and support from Local Authority and Registered Provider partners to support in ensuring such developments are realised without any recourse to the HCA or the Department of Health for capital grants.

We are now starting to see precedents emerge within the sector, the above case study being one of these which demonstrates that it is no longer a theoretical model but one which can work with the well being of people who are going to occupy the building being an integral part of the development brief.

The model will not be a good fit for every Local Authority and or Registered Provider and is not without risk for all parties concerned. These risks can however be identified and in most cases mitigated through understanding, equitable risk share agreements and through bespoke insurance cover in the case of voids risk.

The model does however offer each party concerned access to social and financial benefits, it contributes towards the Government agenda to allow people to stay in their own homes for longer and arguably promotes a better life for older people providing a blended offering of housing and health and well-being, delivered in an economic manner.

In order for these schemes to come to fruition, there must however be a joined up approach within Local Authorities and across the private and public sector. We need to understand the Local Authority's budgetary issues and we must also appreciate the Registered Provider's position and the reality of Investor options across this sector and other markets if Local Authorities wish to attract investment into their boroughs.

About David Dent: David is a Chartered Surveyor and worked for Turner & Townsend and then for Faithful & Gould, being promoted to Director and responsible for regeneration nationally. In 2004 he established Elliott Dent in Sunderland, and now employs 14 staff, developing a reputation and sector expertise within all aspects of Affordable Housing. David works for Registered Providers in northern England. Recently he has worked in conjunction with Investment Banks, Private Equity houses and Fund Managers to facilitate private investment in Affordable Housing.

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ELLIOTT DENT

A long-term game for an old age problem

by Darren Crocker, Gleeds

The Proven Case for Extra Care

The case for developing extra care accommodation appears to be overwhelming:

- The elderly population is growing exponentially. The Parliamentary Paper *'Our Ageing Population'* (2007) identified that the over 65 population would increase by 50% in the next 20 years.
- People are living longer in retirement – current expectations suggest that men will live on average 18 years in retirement and women 21 years (ONS: 2010)
- The 'very old' population is growing at an even greater rate. Extrapolation of ONS data on centurions suggests that when the Queen celebrates her 100th birthday in 2026 she will have to write a further 36,000 telegrams – 250% more than the present number.

Calls for urgent change are being made from across those on the 'front line' of managing our ageing population.

- The Audit Commission suggests that if Local Authorities do not invest and instead simply flex current arrangements to meet increasing demand, current budgets will need to have doubled by 2026.
- In December 2011, an article in the national press cited a combination of NHS statistics and Government estimates that identified that 900,000 hospital bed days were lost as a result of bed blocking, each instance costing the NHS at least £260 (plus the lost opportunity of treating another patient).

Independent papers by the International Longevity Centre UK (2011) and the Personal Social Services Research Unit, University of Kent (2011) conclude that investment in extra care facilities will serve to reduce costs for both Local Authorities and the NHS. The economic argument put forward also appears to correlate with the aspirations of older people themselves. The report *'A Better Fit'* (Shelter, 2012) identifies that over a third of older people are interested in the idea of retirement housing now or in the future. Lord Best's All Party Parliamentary Group (APPG) on Housing and Care for Older People Inquiry (Living Well at Home, 2011) concluded there was a "burgeoning market for new types of housing for older people, especially for 'last time buyers'….there are already 70,000 people aged over 60 effectively on a waiting list for suitable housing….expected to quadruple to a least 300,000 by 2019".

There is clearly a structural issue however, in that investment in extra care will largely fall to Local Authorities to drive, with such investment mitigating the risk of additional expenditure in the future. Whilst this is beneficial, as highlighted above, it is the NHS which stands to gain substantially more. Again, in all likelihood, efficiencies generated in the NHS will be swallowed up as more and more demands are placed on the service, but a means of redressing this balance may be required to drive genuine growth in extra care places.

Long-term problem, short-term constraints.

The long-term economic and social arguments appear to be compelling, so why is progress so slow? The answer appears to lie across a range of primarily short-term factors that strongly interrelate.

- The nature of extra care means an ideal setting requires a relatively substantial site in a good strategic location close to local amenities and populations. These factors mean sites are inherently more valuable, with private landowners seeking to maximise the value of their investment and Local Authorities duty bound to demonstrate best value on a site by site basis, or juggle competing priorities (notably education or employment uses) when their overall fiscal positioning is rapidly tightening.
- The current housing market is supressed (rather than depressed) – lower market values are generally matched by lower construction costs but the slow growth in values mean financial

viability tests are conducted in the 'here and now' rather than in the future to meet the demands of investors and funders, who in turn seek to manage their perceptions of risk with more onerous terms and increased risk capital requirements.

- Reduced or removed financial support from Government. Reduced grant funding requires individual projects to be largely or wholly self-financing at a time when development funding is at historically expensive levels and available over ever shorter terms.
- Development gain via Section 106 agreements have fallen as the volume of house building has reduced. Planning authorities are driven by service colleagues to try and maintain contributions to education, highways, affordable housing as best they are able. This remains the case even though emergent Government policy suggests relaxations might be appropriate, as any concessions potentially add to local government fiscal pressures.

As the above demonstrates, the prevailing mind-set of the majority of organisations on the frontline of potentially delivering extra care facilities is one of 'let's get through this' short-termism. Clearly this is unhelpful given the economic arguments for extra care extends beyond political cycles or shareholder expectations. Unlocking extra care development requires approaches that appease short-term pressures, and the involvement of decision makers who are 'bold' enough to embrace creativity and innovation to take advantage of the opportunities primarily afforded by relaxed legislative frameworks to drive projects through, perhaps recognising that the benefit will be for their successors.

Some elements of the sector are more immune than others – the upper end, private developments continue apace albeit still hindered by some of the above factors and frustrated in part by the inability of potential purchasers to sell their existing homes in a sluggish housing market. It is at the lower levels of the market where the greatest problems exist as it serves those less likely to have a meaningful financial provision in retirement.

The legislative framework

Over recent years, a number of changes have been made to provide wider powers and freedoms to explore different ways of delivering schemes. Key developments pertinent to the delivery of extra care include:

- Powers conferred through the Localism Act 2012, including the reform of the HRA arrangements
- The potential use of Real Estate Investment Trusts (REITs) in housing

In order to overcome the short-term constraints, there is an imperative to explore how the powers under these can be advantageously applied to allow schemes to be realised. Each in their own right is unlikely to fully provide a solution, but when collectively applied in a mix to suit individual projects, it is probable that a solution can be found.

The Localism Act: HRA Reform

Housing Revenue Account (HRA) reform will allow Local Authorities the freedoms to spend surpluses generated from the rent roll to fund stock improvement or create new stock. That said, in creating this freedom, those same authorities will undoubtedly have short-term issues as they deal with the debt burden received as part of the reforms, or the issues they now have to address with deficits now solely for their account. The effect of this is that it is likely to be many years before the surpluses generated will be sufficient to directly fund any capital programmes.

In the short-term, more interesting options exist around funding future debt payments from the HRA. This could be achieved through:

- Generating revenue efficiencies within the HRA that create smaller surpluses nonetheless sufficient to support debt repayments (how efficiencies are generated is a substantive topic for another paper!).
- Funding debt repayments from the additional income realised by new developments

In either case, it is unlikely that the level of capital that can be supported will be able to fully fund a scheme, but it could to a greater or lesser extent fund the part of the scheme that would have previously been supported by government grant.

Wider Localism Act Reforms

The key reform in the Localism Act 2012 is the power of competence, which in simplistic terms allows a Local Authority the opportunity to 'spread its wings' and undertake a much broader range of opportunities. Key within this is the power to assume a wider platform to take risk and reward. Good corporate governance will of course dictate such powers are used responsibly, but it opens up the real opportunity of Local Authorities investing for the long-term. Investment does not necessarily just mean cash – it could equally be in terms of land assets.

Acting as a developer, a Local Authority could dispose of a site by way of lease or freehold and defer associated receipts for a period of up to several years during which the value of any development will have hopefully enhanced the receipt then payable (this takes into account that the value of your investment can go down as well as up!). Subject to the application of a reasonable set of assumptions on how this investment may grow, this mechanism could be used to demonstrate best value over other more immediately realisable receipts, especially if any revenue efficiencies generated within the Local Authority as a result of development are captured.

At its extreme, a Local Authority could build an extra care development on a site that it owns and then seek a sale of the completed development. A more likely scenario (and indeed one that has been available for some time before the reforms) is within a joint venture structure as detailed below.

Joint ventures

Joint ventures (JVs) have been around for many years, generally passing as Local Asset Backed Vehicles (LABV) or Public Private Partnerships (PPP). In their most usual form, the Local Authority invests its assets (usually surplus land) and the private sector invests cash and expertise. The JV would develop out the surplus land and the returns would be shared. In effect, they allow the public sector to share the risk and rewards on schemes with the intent of either increasing receipts or packaging risk so as to allow schemes to proceed.

LABVs have generally focussed on developing enhanced values on Local Authority assets through residential developments (primarily homes for sale) or commercial development. The applicability of this model to extra care is limited without an 'exit route' to a Registered Provider or private extra care operator, and typically development activities would be undertaken by these parties direct rather than them purchasing completed assets. The only benefit of a LABV approach would be to package up the land and secure planning consents but even this is unlikely given organisations involved in extra care are increasingly seeking bespoke accommodation arrangements to match their delivery models.

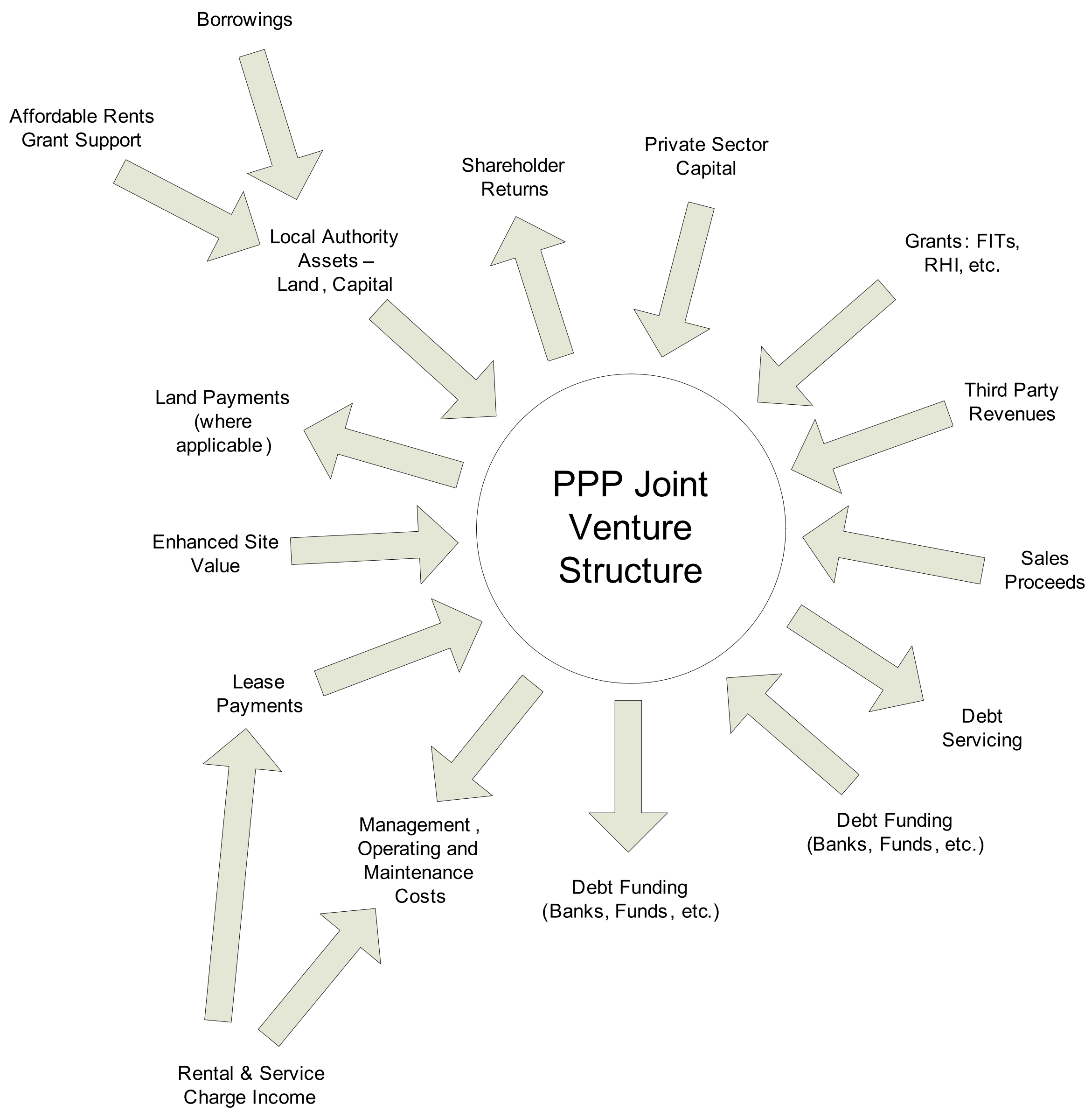
PPP models that hold and operate the asset are a much more likely source of success. Within these models, the assets and expertise of the Local Authority can be maximised in an environment that also takes advantage of the commercial expertise of the private sector in driving value on challenging issues such as planning, funding and contracting.

The diagram on the next page represents a possible PPP arrangement and how it could deliver a commercial wrapper within which schemes could be delivered. Whilst all of the inputs may not necessarily be required, it demonstrates nonetheless that 'raiding every pot available' and combining all, offers the best opportunity to arrive at a commercially viable outcome.

Real Estate Investment Trusts (REIT)

In April 2012, the Treasury and the Department for Communities and Local Government (CLG) launched a consultation paper on the use of REIT's in the provision of social housing in the UK. REIT's are well established within the commercial property sector but have never been used exclusively for residential development either at the market rental or social housing level.

Under a REIT structure, the REIT would build, acquire or refurbish housing stock and lease the housing units back to the social housing provider at an agreed rate for an agreed term. Social housing would appear to lend itself to REIT financing with a stable asset base and long-term returns linked to inflation growth with the government setting rent levels at RPI + 0.5% for the term of this parliament.



One of the front runners in the establishment of the UK's first social housing REIT is Single Access Funding Housing Solutions which is planning to raise up to £500m from investors to create an AIM listed social housing REIT. The factors impacting upon the attractiveness of the scheme will be:

- The ability of the housing provider to be willing to underwrite the demand risk on the housing units
- Whether the index linked return required by the REIT is comparable to existing funding streams such as the bond market

Registered Providers see the REIT option as a potential way to raise funding in a market that has seen a significant reduction in traditional bank lending. Registered Providers have started to rely on the bond market but now see REIT's as a potential source of funding for the development of new stock and the refurbishment of existing stock. This can clearly include extra care accommodation, with Registered Providers working alongside the Local Authority to scope and develop schemes as they do at present.

Ministers are likely to approve the use of REIT financing in social housing in late 2012 to assist the significantly under-funded market. With strong long-term demand, extra care would lend itself to REIT financing and would likely form part of a mixed portfolio of social housing investment within the REIT.

The larger Registered Providers are expected to seek the formation of REIT's up to a value of

£500m and the smaller Providers are likely to form combined REIT's to generate the scale required for the AIM listed investment. At this level of funding the larger REIT's could provide around 5,000 units which would be a significant investment into the sector.

The proof of the pudding will come if Ministers approve the REIT approach. We will see the true level of interest from investors in social housing REIT's and whether significant volume is created or if the more cautious investors will wait until the first couple of schemes mature to demonstrate their viability.

Managing expectations to drive value

People have a right to expect high standards of accommodation in their retirement, and carers clearly wish to meet these expectations. For those that can afford it, they can clearly control this. For those that rely on others, it is nonetheless reasonable to expect good standards. There is a difference between quality and amenity, and in an environment where managing the capital cost to ensure scheme viability is necessary, difficult decisions might be required. Such decisions include the type of units delivered as well as the communal facilities.

Many providers target 2 bedroom accommodation (or at least what is generally referred to as 'one bed plus' accommodation where an additional single bedroom falls short of wheelchair standards), rightly citing that this provides increased flexibility. This choice also serves to reduce viability. The capital cost is a relatively small consideration in the viability equation – with the additional space occupied by a 2 bed unit equating to around an additional £25,000. Typically, a 2 bed unit might generate an additional rental income over a 1 bed unit of around 15 to 20%. The key issue is, that with sites and space at a premium, for every 3 two- bedroomed units, you almost provide 4 one-bedroomed units (based on 2 bed units at 68m2 and 1 bed units at 52m2). Communal accommodation aside, for a 52 dwelling scheme with 100% 2 bedroomed units, a 68 one bed unit scheme could be constructed on the same footprint. Assuming a 20% higher rent for a 2 bed unit, a solely 1 bed scheme occupying the same area would provide a rental income increase of more than 50%, improving the viability of the scheme.

A recent trend also appears to be looking more at the existing amenities in the locality of proposed schemes, and seeking opportunities to 'breathe life' back into existing community halls, leisure facilities and the like rather than recreate them within the extra care scheme setting. Opinion differs on this: for some, encouraging extra care residents to move beyond their immediate environment is very positive; whilst others see the risks. Clearly the circumstances of the individual resident are fundamental to the workability of this, and the economics of a 'management solution' rather than a built environment solution should be explored to see if expenditure on mini-gyms, village halls, hairdressing salons and library spaces is a necessity or a luxury.

Planning as a facilitator rather than blocker

Many extra care developers have cited issues over planning being the main stumbling block to viable development. Whilst the government has changed the planning framework to presume in favour of any application, it is generally not the principle of extra care that has been the problem. Key challenges through the planning process appear to be those that load cost onto a scheme, rather than questioning the scheme itself.

Rightly or wrongly, sustainability credentials have been relaxed at the centre, but to date there is little evidence of this at a local level. It is true that the progressively increased standards mooted several years ago (notably step increases in the Code for Sustainable Homes) have not come to pass, however many planning authorities seem 'stuck' at a defined environmental sustainability outcome that often drives construction standards beyond those set down in the Building Regulations. Sustainable development is essential to all of our futures, but in these straightened times a culture of "what is sensible?" would be preferable to the arbitrary attainment of 'green badges' and may allow schemes that contribute to social and economic sustainability to progress.

The other area that requires a cultural shift is in Section 106 developments. As highlighted in the latest APPG Inquiry (*Housing our Ageing Populaton: Plan for Implementation* – HAPPI2, 2012), this is a difficult challenge as the financial envelope of every Local Authority is squeezed ever tighter at the same time as the volume of development (and therefore development gain) decreases. The recipe here is a simple one – the arbitrary application of formulae and 'get all you can' mind set has often been blamed for developments becoming unviable. Contributions need to be founded in reality to enable schemes to remain viable, after all a lesser contribution is better than no contribution at all. To aid this process, developers need to work more effectively to demonstrate viability 'tipping points' on schemes in an environment of joint working rather than ruthless commercialism.

Conclusions

The demand for extra care both now and in the future is clear. All of the obstacles to successfully bringing forward developments in significant numbers are situated in the short-term. Whilst some schemes will inevitably fall foul of the current environment, as highlighted above there are multiple mechanisms that will often combine to skew viability calculations in more favourable directions, especially when linked with funding solutions that seek more modest returns over the long-term instead of the higher margins associated with bank debt and developer returns.

There are many who continue to develop and seek innovative models for delivery and this is to be applauded even though the risk of continued paralysis remains where such models are so complex as to be impenetrable to those charged with delivery.

What is actually required is a readjustment of focus: for those willing to take the longer-term view rather than simply develop and exit, extra care is likely to provide stable, long-term, low risk returns. Coupled with a more pragmatic approach by all parties involved in the capital delivery of extra care schemes, this would seem to offer the best opportunity to delivering the volumes of accommodation necessary to avert a future crisis.

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Darren has worked at a portfolio or project level for the public sector, social housing providers and contractors for a number of years. During this time, he has provided procurement, project delivery, asset management and consultancy services to a diverse range of social housing and care providers. Darren has acted as principal negotiator in complex PFI/PPP arrangements, has established and implemented activities to deliver financial efficiencies and non-cash benefits, and helped develop project structures to meet social housing and/or social care needs.

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Extra care housing - financed by institutional investment

by Niall Henderson, Project 1 Housing Ltd

Introduction

This paper considers new institutional investment models (IIM) in context of a new economic era. It has been produced mindful that extra care housing is a solution to improving the quality of life for older people in conjunction with a number of other possibilities.

I consider the changing economic era and what this means to the commissioners and providers responsible for delivering extra care housing. I ask where we are now - in particular, what are the issues affecting delivery of affordable housing, more specifically extra care housing? Is it funding, the delivery model, land availability, market confidence, planning policy or market values, all these and more?

I summarise the State Funding Model (SFM) pre 2007, where we are now in 2012 entering 2013 and where we might need to be post 2015 which is defined by the Homes and Communities Agency "Affordable Housing Programme 2011 to 2015". There is current debate within the housing industry relating to the funding of affordable housing post 2015, and this includes extra care housing. The term 'fiscal cliff' commonly ascribed to the situation currently facing the USA relates to the impending tax increases in early 2013, and has similar overtones for the UK moving into a new economic era. At the time of writing, I understand that the Treasury are working on the next funding programme and to what extent there is any change remains uncertain - however we are aware of further spending cuts going forward.

Other recent investment models used are the Private Finance Initiative (PFI); the Real Estate Investment Trust (REIT) which is still largely untried and tested, although early reports suggest potential annual yields of 7% to 8%, meaning rents at 80% of market rent (Inside Housing 15th June 2012), and the Equity Release Model which has a limited time frame to be implemented because the model is predicated on the current existing demographic -home owners with significant equity locked in to their existing properties suitable for release to finance the development of extra care. The mechanics of implementing this remain uncertain.

Context

Our starting point has to be, "Are we willing to adapt to a new economic era or wait for a return to the State Funding Model pre 2007?" For the purposes of meeting supply and demand, moving forward is rational; therefore one can argue so is the search for a new viable economic and delivery model.

These issues, namely funding, delivery models, land availability, planning, frame the context in which Local Authority commissioners and housing associations find themselves in. If the question were focussed through the prism of institutional investment, would the context remain the same? Would enablers and commissioners be presented with the same issues, or a new set of issues? Are the roles of the commissioning authorities due to change under a shrinking role for the State anyway, and if so where does this leave them engaging with the capital markets in a new economic era?

Drawing distinctions between the SFM and IIM helps us recognise how and where commissioners and providers need to change and adapt, and indeed areas where they don't need to change and adapt, including Institutional Investors.

If we accept that demand for affordable and extra care housing is acute, then the public sector has access to significant, untapped, long-term and low risk inward investment potential, which is a very attractive proposition to the capital investment markets. In turn, these markets have access to capital to finance infrastructure projects, such as affordable general needs and extra care housing.

State funded approach

The traditional approach to financing and developing extra care housing via the Department of Health (DoH) and or the Homes and Communities Agency (HCA) is in a process of change going forward in the present economic climate.

The State has played a major role in stimulating extra care developments with capital funding to enable commissioners and providers to lever in private subsidy or equity loan arrangements to fund housing developments.

Under the traditional approach, the housing association/ Registered Provider (RP) acts as developer and provider in receipt of capital grant, working with Local Authorities through a design development, planning and tender procurement process. It manages the development process up to practical completion when its role changes to that of housing manager and in some instances care provider. The RP would enter into a Lease with the Local Authority and would include a Nominations Agreement in favour of the commissioning authority to occupy the building underwriting the rental income stream for an agreed time frame, say 30 years. The RP development finance appraisal uses a capitalised rental cash flow and sales receipt model based on this time frame.

The current Affordable Homes Programme 2011–2015 saw a reduction in the grant rate per new build housing unit, meaning increased subsidy is now required from the RP. The Government subsequently allowed RPs to increase their rents to generate additional revenue to cross subsidise new developments. RPs are also required to increase borrowing against their assets and raise finance with the use of bonds. This model inevitably implies more debt, ergo more risk with a switch from 30% to 70% debt ratio in line with the new grant regime.

Institutional Investors

The Housing LIN commissioned Viewpoint 16 in July 2010, ‘Can extra care housing funding needs be met with funding from Institutional Investors’, was written by Martin Rich, Social Finance and Brian Bailey, West Midlands Pension Fund. It identified that major financing is potentially available from banks and institutions.

Banks and institutions would continue to be commercial in their approach, meaning ‘any equity or loan type investment would be balanced against the risks and return on those investments both in terms of the liabilities the investments needed to fund and the risks relative to different types of investment’.

The central premise focussed on what the capital markets would look for from a commissioning Local Authority seeking to develop extra care housing without State funding.

The concern for investors as pointed out in the Viewpoint 16 is that risks are relative to the type of investment - meaning that investors would consider the development phase to be high risk compared to the operational phase. To this end, the building development phase would be financed with capital at a higher interest rate to reflect the risk and refinanced once completed for the operational phase. These are commonly known as:

- Mezzanine Debt Tranche is structured with the intention to repay the capital required at the end of the development phase with the long term refinancing debt at a lower rate of interest.
- A Senior Loan facility enables the operators to refinance the debt required to build the development at a lower interest once the building becomes operational, where the risk is mitigated completely and is less expensive than the Mezzanine Debt Tranche.
- Subordinated Development Capital Tranche again uses capital to finance development and is refinanced using a longer-term debt once in operation, and the investors are paid a share of the future cash profits from the resale of flats within the development over an agreed period of time, 15 to 20 years say.

While largely untested at the time of writing in 2010, the Subordinated Development Capital Tranche option allows for private sale tenure while the other two options apply to a rental model based on the long term cash flow. However, given where we are in the current economic cycle, open market values and residual land values remain static and do not guarantee the growth required to provide the returns sought. This is compounded by what little churn there is in the housing market, particularly for first time buyers, which has a knock-on effect throughout the entire housing market.

There is clearly a range of private finance available to enable the development of extra care housing. The realisation made by Institutional Investors towards affordable housing is predicated on long term low-risk investment.

While the model is still in its infancy, it would appear that Institutional Investors are able to overcome the development risks highlighted in Viewpoint 16, accepting that there are sufficient safeguards in place within current Partnering Build Contracts to address the perceived risks in development. These would ordinarily include Performance Bonds paid by a contractor at 10% of the build contract value, and Liquidated Ascertained Damages, a formula calculated and then accepted by the contractor for losses incurred by the client for late completion.

Institutional Investor view

Institutional Investors are attracted to providing finance for extra care development if their requirements are met and agreed legally, notwithstanding the process of compromise in reaching an agreement that all parties agree to, while protecting their interests and allowing the development to progress.

The institutional perspective is ultimately focussed on the long-term low risk investment, underwritten by fixed rental income streams that are index-linked to the price of inflation to guarantee return on their investment. Clauses and conditions in the Lease endeavour to protect that principle.

The Institutional Investor will enter into a legal agreement only with the Local Authority who has a legal duty of care to the defined client groups. If the rental income stream is not underwritten within a Full Repairing Lease, there will be no investment brought forward to finance the development. There will be a Nomination Agreement between the Local Authority and Managing Housing Association. Clauses in the Nominations Agreement relating to voids, and break clauses at the bequest of the Local Authority, would only be acceptable to the Investor if the Local Authority and Housing Association had in place strategies and mechanisms to manage the risks.

For example, voids would only be agreed to if there were an insurance indemnity in place which would increase the rent levels, or -as with the break clause - the primary Local Authority agreed to accept out of borough nominations to neighbouring local authorities in need for extra care housing to guarantee the fixed rental income. The Housing Association may well insists on the default position of reverting back to general needs affordable housing.

The second point is the Full Repairing Lease which can be assignable insofar as the management and maintenance responsibilities can be passed on to the Registered Provider via the Housing Management Agreement between the local authority and the RP.

Public sector/ Local Authority view

Commissioners of extra care housing are more often than not culturally embedded in the State Funded Model, through no fault of their own, simply an inherent characteristic of the political structures of local government and democracy.

The conditions imposed by the capital markets are not significantly different from those imposed by the SFM and the Lease and Nominations Agreement between the Local Authority and RP, and do not vary under an institutional investment approach. Furthermore, conditions of grant relating to affordable general needs housing and extra care housing are far more specific and onerous than those required for finance from institutional investors. There are no conditions on the type of use to limit or control the amount of flexibility a Local Authority may need to exercise in order to mitigate a break clause or voids scenario from the outset.

In a general sense of the meaning, the Investors “simply” require a long-term commitment that is enshrined within the Lease, whereby the Local Authority agrees to populate the building with tenants whom it has registered on waiting lists as needing accommodation that is fit for purpose. It is the same commitment as the one under the State Funded Model. It is not a financial requirement or commitment.

The “value of commitment” Institutional Investors are looking for will enable Local Authorities to have in place their exit strategy (break clause) that does not compromise the investment of the required capital to finance the development. The value of commitment is a willingness to seek out solutions and implement mechanisms that protect all parties’ interests.

Specifically, the break clause would only be acceptable with an agreed strategy and mechanism to find an alternative means to tenant the building.

The developments are financially modelled on an affordable rent model starting with local housing allowance thresholds, so that the development remains inclusive and eligible for residents in receipt of housing benefit for the term of the lease.

The Institutional Investment Model (IIM)

A model approach is being developed in collaboration with a number of public, private and institutional investor partners for new extra care housing (and applicable to general needs housing). The IIM is outlined below highlighting some of the key relationships and requirements.

Local Authority

Local Authorities with surplus assets - land and buildings, such as residential care homes due for closure for example - can utilise these in ways akin to a Local Asset Backed Vehicle type arrangement. Redundant land, buildings or other sites brought forward for the specific use of extra care housing development do not require site acquisition at open market value, and the Local Authority can ensure that rent levels are set within local housing allowance thresholds, subject to build costs and fees.

At planning consent, the Local Authority will enter an Agreement to Lease with the Institutional Investor. The Agreement to Lease will include a copy of the agreed Lease. Upon entering the Agreement to Lease, the Investor will, if required, purchase the site freehold. Notwithstanding the freehold title, there will be a Lease between the Local Authority and the Institutional Investor that relates to the extra care development.

At the end of the lease, parties can renew the lease, find an alternative use, proceed with an independent open market valuation of both the building and land, and agree to split the sale proceeds accordingly.

Local Authorities lease properties from private landlords to release pressures on the lack of supply of affordable housing. The IIM varies from the State Funded Model (SFM) insofar as the traditional role of the local authority as commissioner no longer applies. There is no commissioning from the public sector in relation to the provision of the development because there is no public sector capital used. Any procurement issues for the Local Authority beyond the provision of the development itself would need to be advised upon.

Developer

The role of a specialist developer has arisen from a chronic shortage of Registered Providers and private developers interested in developing extra care housing. It asks the question ‘why are there so few developing housing associations interested in extra care housing development?

A specialist housing developer initiates the design feasibility in response to the Strategic Needs Assessments commissioned by the Local Authority, preceded by pre planning, contract procurement, detailed design and development. The build contract will be let once the freehold title is acquired by the Investor.

Institutional Investor

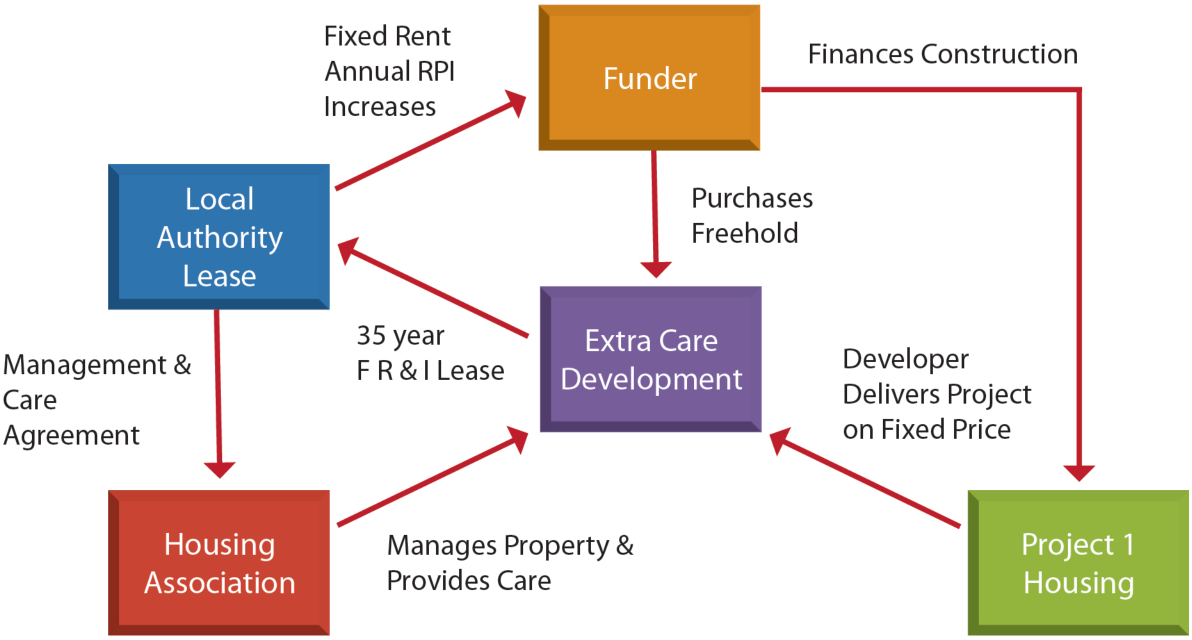
The specialist housing developer is the interface between the Institutional Investor and the Local Authority. At planning consent the Agreement to Lease will be entered in to with the Local Authority. The freehold title is acquired and a design and build contract let. The contract is financed by stage payments for the duration of the build administered by the specialist developer. At practical completion, the Lease is engrossed and the building becomes operational. The institutional investor only has a relationship with the Local Authority via the Lease. There is no relationship between the investors and the Housing Association. The Housing association collects the gross rent, deducts it’s management and maintenance costs and pays the net rent to the Local Authority to pay the investor.

Housing Association

At practical completion the Housing Association will enter in to a housing management agreement with the Local Authority for the defined period agreed in the lease.

Some RPs will offer care, but it is more usually provided by a 3rd party commissioned via the Local Authority, or personally by the tenant using their personalised care budget.

Extra Care Private Financed Delivery Model



Spot the difference

In the 'Context' section at the beginning of this paper, some of the issues commissioners and providers are presented with under the State Funded Model were outlined. Some distinctions can be drawn between the current model (SFM) and the Institutional Investment Model (IMM).

Funding is clearly from a private source. No public sector capital is required. There are fewer restrictions on the conditions of funding, if any at all, other than fixed rental income streams, so the specific types of use while in occupation (unless a condition of planning consent) will not apply. Therefore, extra care can include other forms of affordable housing and vice a versa offering greater flexibility in use and design, but needs to be determined pre planning. Once the rent levels are agreed from the outset, they can stay fixed for the duration of the lease. There is no need for a rent increase and no additional subsidy generated to cross subsidise further development. Each scheme is financed on a scheme by scheme basis.

Principles of the SFM also apply to the IIM. A tender procurement process is undertaken by the specialist housing developer to demonstrate value for money, and a Housing Association Development Appraisal to identify an appropriate residual site value based on affordable rents is required for the same reasons as they are under the State Funded Model. Institutional Investors are accountable to their shareholders and need to demonstrate that the capital is invested appropriately.

Land availability remains the same as under the SFM. No public sector capital is required using the IMM - although where a Local Authority has land available to stimulate development, and land is brought forward at nil value, it will reduce total scheme costs and generate lower rents than schemes that require site acquisition at open market value.

Lack of confidence impacts on all developments, less so on affordable housing as it is less exposed to open market values although rent levels are affected to some extent, but not to the point where it restricts affordable rent development as it would a private sale development.

Confidence starts with development and becomes a self-fulfilling prophesy as more development activity follows. From where we are in the economic cycle at the time of writing, it is difficult to see where development will come from without the capital stimulus to supply the demand.

Planning is subject to Local Authority decision making and the same policies and processes apply to Institutional Investment funded developments. While the same time-frames will operate, the State Funded conditions for completion do not apply to the IIM.

The clear difference is “choice”. Local Authorities and Registered Providers have been able to provide a smorgasbord of choice on tenure under the State Funded Model. The central premise of the Institutional Investment Model is one based on affordable rent. There can be no ‘tenure blind apartments’ under this model. Different tenures determine the types of investment capital and types of lenders. A development can consist of separate blocks defined by tenure but would need to achieve a quantum of development to attract the investment.

Conclusion

Clearly there needs to be a national conversation about how we as a society seek to care for older people in a meaningful and open way. We accept the dogged mantra that these are ‘challenging times? Yes, up to a point. If we refocus our perspective through a different lens we can see that there are new opportunities, and with these new opportunities are new challenges which need to be overcome to move forward. Perhaps in moving forward we should consider different finance models that are economically viable at different stages within the economic cycle. I have made the point that where we are now in the economic cycle the Institutional Investment model can work, but it won’t remain a functioning viable model throughout the economic cycle as it is dependent upon the price of the bond market which fluctuates accordingly.

About Niall Henderson: Niall has experience of working in housing development for 15 years, in both public and private sectors. He has a keen interest in extra care housing and learning disabilities services, and has focused his expertise on developing alternative funding and finance models. Since the setting up of Project 1 Housing Ltd, Niall has brought his knowledge of the public sector to a private sector context to engage with Institutional Investors and Local Authorities to redevelop surplus sites and redundant public sector assets. He also wrote the Housing LIN Case Study no57, *Maximising value: A strategy to deliver Extra Care Housing in North Yorkshire*.

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About Project 1 Housing Ltd: Project1Housing is a limited company developing new Institutional Investment Models (IIM’s) to finance affordable general needs and extra care housing in a new economic era. Working in partnership with Local Authorities and Housing Associations, Project 1 Housing is able to unlock sites and opportunities that would otherwise remain undeveloped. It leads on the design development, planning and tender procurement process, and raising the capital finance required to deliver affordable housing, consistent with current affordable rent models and Local Authority strategic requirements.
www.project1housing.co.uk

Funding structures for extra care housing

by Coralie Foster, PKF

Introduction

The funding market for any extra care housing development has changed significantly since 2007. There does however, still seem to be an appetite to fund specialist housing such as that for older people, as it is perceived to be a lower risk investment for most lenders. Whilst general house building has suffered a significant downturn, the growth in the availability of extra care housing for the older age group has continued. This paper will explore further the options for funding delivery of new extra care housing developments in the current difficult funding market. We will look at traditional funding through to the newer options such as pension fund investors.

Development funding

There are a number of organisations who are building for sale, and are gaining high levels of interest off-plan for their developments. Such organisations use this model to generate the income to pay for the developments and often will create care villages alongside a housing association partner who will provide units for social rent within the same complex.

The primary market remains as bank funding, though primarily through development loans rather than project finance – (long-term financing based on revenue income). Longer-term operational loans are available for care homes, but are less available for extra care housing developments. The use of development loans averaging three to five years requires a model that relies on a strong element of for sale properties to fund the development and any social or shared ownership units. There are care charities and housing associations/ Registered Providers looking at developments that mix the provision of social for rent and private for sale extra care housing to fund the development. This can be a change in approach for some organisations, which requires careful consideration of the funding commitments and the risk analysis of the sales profile. Such schemes do seem to be outperforming the wider housing market in sales from plan, but that can be dependent on location and competition.

Homes and Communities Agency housing grant funding

There is the remaining social housing grant that can be used towards extra care developments, and was demonstrated in a reasonably healthy social housing build rate during 2011. The latest schemes enabled by the Homes and Communities Agency (HCA), structured on free land, are also enabling Registered Providers to build extra care developments with minimal grant funding. The land is often obtained by the HCA from Local Authorities or provided by Local Authorities directly. The rental streams for extra care housing is excluded from the rent regime and with service charges needing to cover the communal facilities that typical general needs apartment blocks don’t have, the income generated is generally higher than can be projected for an equivalent general needs apartment block. For example, extra care facilities typically include a restaurant, gym and communal activity rooms. This higher income helps balance reduce the level of grant funding required.

Public private partnerships

There are also public private partnerships that are progressing to deliver social rented extra care housing using a mixture of the Private Finance Initiative (PFI) approach and the Registered Providers funding on a long-term 60 year corporate approach. The PFI schemes still in procurement at Kent, Stoke-on-Trent and Hull will deliver through a more traditional project finance structure with funding provided by a bank or pension investor on a split repayment and bullet loan profile, with the repayment funded by the Local Authority through the receipt of revenue support grant over a 25 year period. In this approach, the Registered Provider entity will take the long-term ownership of the properties under a long lease on the land from the procuring authority. In return for the long-term ownership the Registered Provider underwrites a percentage of the debt by way of a residual value sum. This equates to a value paid by the Registered Provider at the end of the contracted period to repay that element of the debt borrowed for the initial development, which only attracts interest payments during the life of the contract.

As the project finance approach has fallen away, Local Authorities are still looking to procure their extra care housing through a combination of public sector borrowing and Registered Providers taking a long-term view and funding through corporate facilities. There are examples such as in a Midlands County Council where this approach is successfully taking forward a significant number of new units of social extra care housing through corporate funding.

New capital funding options

Further to the more traditional market choices, there are a number of new entrants to the market. They are largely raising their funds from pension schemes, including local government pension schemes, and wrapping them into a product for the housing market. These funds typically prefer the built market to the development market, as their investment base is typically looking at long-term return from the day of investment to match the pension investors' needs. As such these funds are useful for post-development schemes looking to refinance or release funds to go into further developments. They are typically funds linked to RPI, either uncapped or with a cap and collar, and would only look to rented schemes. Lending rates typically start around 4% on already developed schemes, and for the few that will look at development this starting lending rate may rise to 6%. Their interest in the sector is driven by the growth in rent being a good match to the growth in the return required for their pension investors. It is not high risk or high margin for the investors, but is a good match to the long-term return requirements. As such these investors are currently sitting on significant levels of funding that could be available to existing extra care sheltered housing schemes. Typically, a reasonable size of investment is required, with a need for at least £10m initially.

The dis-benefit of releasing funds in this way is the long-term nature of the agreement, typically in the order of 40 years, with the assets being the security for the lender for that period. Issues to consider when looking at the pension investments or "sale and leaseback" funding:

- The arrangement, if direct, is almost certainly a finance lease;
- As such, it is necessary to consider the conditions of existing borrowing, and the impact on the covenant tests;
- If it needs to be off-balance sheet then alternative structures will have to be considered – whereby the Registered Provider is not the borrower but a joint venture is set up to achieve that.

Private rented sector

A further option is the burgeoning market for the private rented sector that could equally apply to extra care housing supply. The nature of home ownership is changing within the UK by necessity due to the restriction in mortgage availability, and with that change the approach to extra care housing provision may also change. As outlined in the Housing LIN factsheet 32, *Private rented extra care: a new market?*, some schemes already operate a "try before you buy" option, or allow a rental period, to enable occupation prior to being able to sell the former home. Where private rental is an option, this raises the level of rental flow available for raising funds for development and operations. However, the guarantees and growth on private rented accommodation are not as strong a covenant for the lenders, as it is in the social rented sector, and is not governed by the same level of regulation. It is however, still sufficient covenant with the regulated Registered Provider sector itself. Recent examples have shown that mergers are arranged should an organisation get into financial trouble, and as such this provides the lenders with some comfort whilst there is no absolute written guarantee of how the regulator will respond to a situation.

Conclusion

In conclusion therefore, whilst the market for funding is difficult, there are still a number of options available and being used to develop extra care housing. The structures vary in complexity, and where developments rely on private sales further advice should be taken where this takes the expertise outside that of the existing experience.

There are further options to be considered such as Local Authorities taking on the development role under the changes to the Housing Revenue Account accounting rules, and innovative tax structures that may follow such successful schemes in the USA. There are many ways to look at funding new extra care developments and anyone looking at developing in this sector should consider carefully the options available and what will work best for them.

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About PKF: PKF is a leading firm of accountants and business advisers. It has one of the UK's leading social housing consultancy teams with extensive involvement in a large number of current and successfully completed PFI and PPP projects. The team is at the forefront of the development of new funding models and structures to continue to deliver the housing and care infrastructure required. www.pkf.co.uk

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Accountants & business advisers

Delivering extra care housing – the Local Authority route?

by Steve Partridge, Chartered Institute of Housing

Amidst the devastating impact of public expenditure reductions in Supporting People (SP) grant and sheltered housing, Local Authorities and their providers may be forgiven for not having focused on what might be the one piece of positive funding news that has come to housing finance recently.

At the end of March 2012, following a long campaign by the sector, the national housing subsidy system which redistributed rents on the basis of need was abolished and replaced by a new system of 'self-financing'. The system ended redistribution and took place in one large one-off settlement with councils either taking on debt or having theirs reduced by government. Local Authorities with stock will from now on have much more flexibility to run their financial affairs.

With more freedom comes more responsibility – for Local Authorities, this means that, with the exception of the remaining Decent Homes backlog funding, there is no going back to government to ask for more money to manage and maintain the stock beyond the rents and income they collect locally. But with the responsibility came a 'deal' from government: the first part of the deal is that the amount of money assumed to be required for long-term maintenance was increased significantly so that, almost uniquely in the current public sector financial landscape, council housing is significantly better off than it was last year. Conversely the second part of the deal is that borrowing is capped at the figure determined by government from the outset.

The Chartered Institute of Housing (CIH) has estimated that there is additional spending power worth £900m in the 160 housing revenue accounts building up over the next 4 years as rents converge with targets; some of this will come from increases in rents that will no longer be captured by government for redistribution, some from the very low interest rates in public borrowing at this time, but around half comes from authorities being enabled to properly maintain their stock over 30 years and beyond for the very first time. Coupled with that, for detailed technical reasons, many authorities have started the new system with headroom to borrow beneath their debt cap – some £2.8billion overall – though this is very unevenly distributed for primarily historical reasons.

So does this mean more investment? Well … yes, many councils are actively pursuing new build programmes, albeit initially on a relatively small scale. And what therefore could this mean for supported and sheltered housing? Does this mean that Authority providers, for example, could realistically consider the provision of extra care housing directly themselves? The financial implications of self-financing for supported housing can be seen in two main areas. There is the impact on SP grant reductions on *revenue* finance, and there is the potential opportunity to develop or redevelop the physical condition of homes and the schemes in which they sit – the *capital* investment potential.

On the revenue side, as many readers will know, the main impact on housing revenue accounts is the reduction in SP grant funding and looming welfare reform. In some cases, this is leading to a remodelling of service provision in order to deliver services at lower cost and increased value for money. In others, we are seeing the creeping reintroduction of rent pooling as grants reduce and funding is switched, often in an indirect way, to rents. And on the face of it, if the overall finances are improved, the de facto reintroduction of pooling is undoubtedly a decision which some local councillors have been taking, unwilling or unable to tackle the long-term need for service modernisation or restructuring, that many of their colleague authorities are getting to grips with. There are challenges under all scenarios – but at least self-financing gives authorities the opportunity to take their decisions in a transparent way so that all tenants can see where their rents are being spent.

There are also other spending pressures, and one of the major trends in council housing finance is the introduction of a large scale 'revenue-to-capital' funding stream, on a scale not really seen before. So rather than use up precious rent income in subsidising outmoded sheltered housing services, many are prioritising the use of rents to finance capital schemes for new build, regeneration and redevelopment directly. And given the debt cap and the reductions in Homes and Communities Agency (HCA) grant funding, in many cases, rent income is the only current source of finance for capital, along with maybe some Right to Buy (RTB) receipts if the recent reinvigoration is successful.

On the capital side, the main push within authorities is to develop a proper, well-financed and forward-looking Asset Management Strategy. With most having the resources in place to secure the on-going refurbishment of the existing stock, councils can plan with some degree of confidence over the long-term. The best asset management planning is focusing on asking some fundamental questions: is this stock fit for purpose? Will it last 30 years? Do we have stock in high value areas which we might sell and recycle the receipts for? What are the land and garage site opportunities to build? What are the likely future needs for disabled adaptations? And … do we have sheltered and supported housing schemes that are in need of remodelling?

The answer to the final question is of course: ‘yes’, and it is ‘yes’ in virtually every single Local Authority with stock. And with an increasingly frail and ageing population, the answer will go on being ‘yes’ until schemes are actually redeveloped. The physical conditions for supported housing tenants and residents, the schemes in which they live, must therefore be at the heart of an effective Asset Management Strategy. In turn this means all Local authorities reviewing the scope to deliver extra-care and other new and modern forms of physical provision in their stock. So how might it be done?

There might be more finance but all affordable housing still requires subsidy, and extra-care schemes are more subsidy-hungry than all other development. What are the possible sources? HCA grant funding might presumably still be available to support a number of schemes nationally. Internal council resources such as receipts from the disposal of other assets and RTB receipts might also be thrown into the pot, albeit that we might not expect this to be a large contribution. So is this the right time to turn to other forms of non-housing funding in a meaningful way? What are the prospects for health funding – provided on the basis of savings in healthcare now that the health system is having to make savings? There are already some very positive examples of extra-care schemes part-funded by HCA, Health and Local Authority internal borrowing. And there is always the potential to develop mixed-tenure schemes, with surpluses on sold units being used to subsidise rented homes in a traditional cross-subsidy way.

Also, Authorities have one specific advantage in the current climate: the cost of debt is cheap, much cheaper and much more certain over the long-term than housing associations at this time. It is constrained by the cap and the sector will continue to push the case for a relaxation of the cap – but many will note the considerable headroom capacity already in place.

The key for me is to look at the finances in the round. Taking revenue and capital together is essential under self-financing anyway and possible given the opportunities - most are capital-challenged in the medium term by the debt cap but new opportunities do exist. If these are brought together in the context of a combined service-restructure and scheme-remodelling programme, there might be new ways of looking at the numbers. If a tired and worn out sheltered housing scheme is going to be a net cost to the business plan over the long-term, can the council afford to keep it? And if the business plan is about to re-subsidise supported housing over the longer term, are there ways to focus that funding stream on financing physical improvements within schemes so that future revenue costs are reduced?

None of this is easy. Extra care schemes, for example, require a lot of finance. Before 2012, a direct Local Authority provided scheme was unlikely to be a reality without significant support from the HCA, Department of Health and/or a committed Local Authority looking to prioritise the provision – where schemes were developed, they were almost exclusively privately financed by housing associations. On one level, it is almost certainly the case that this model of finance will continue, but the new era of self-financing, with its combination of long-term asset planning and relative financial flexibility could see a lot more councils ‘entering the market’ directly. Yes, it would be the provision of much-needed suitable accommodation for those in greatest need; but what might prove crucial is the opportunity to answer some questions about existing provision that have been asked for years but have never been able to be answered before.

About Steve Partridge: Steve is CIH Director, focusing on financial consultancy to Local Authorities, ALMOs and housing associations. Steve is a national expert in housing finance and has led hundreds of conferences and seminars around investment and business planning, option appraisal and vfm in housing delivery. Recently, Steve has played a prominent national role in the design, planning and April 2012 implementation of self-financing for council housing, working with Government, all the main trade bodies, and helping 60+Local Authorities in their preparations.

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About the Chartered Institute of Housing: CIH is the professional body for people working in housing. With over 22,000 members, it delivers education and training services across the sector. CIH is a leading voice for policy-making for housing, working with government and leading agencies to promote the future success of a vibrant dynamic and growing affordable housing sector. CIH's consultancy supports the delivery of improved outcomes for housing support and is currently leading a government-funded project to help improve value for money in the delivery of housing support in the face of grant reductions; we also lead financial and investment modelling focused on effective asset management.
www.cih.org

Innovation in extra care housing – capital investment

by Charlotte Cook, Winckworth Sherwood

Introduction

The current fiscal state of the economy, coupled with the demographics of our ageing population, is having a significant impact upon the need and demand for extra care housing, and by dint of the same the requirement to fund further capital investment. This article does not look at revenue funding, which will have its own complexities and considerations: how to pay, who will pay and how much they will pay for example. Instead, this looks at the requirement caused by the ageing population for a longer-term health solution to extra care housing and follow-on support and care, and the need to continue to expand the extra care and associated care markets, on potentially a very long-term basis.

The requirements of an ageing population, coupled with the global economic downturn (which commentators fear will not be "on the way up" for a significant amount of time), means that those involved in the provision of extra care housing, and funding to it, need to re-think what were traditional funding routes. Those currently familiar to developers and providers are becoming more difficult to access, as funders tighten their requirements and seek to further protect and bolster their investment (i.e. the monies they advance). As the more usual bank loan route becomes too pricy to protect with "twitchy" lenders, a desire for innovation in funding is self-explanatory.

Furthermore, standard funding routes, particularly for Registered Social Landlords / Registered Providers (RPs) relating to grant levels have become increasingly tightened. Coupled with changes to the grant structure and threatened (in part) requirements for payments upon delivery, as opposed to payments on "start on site" (in advance), this has meant that providers need to re-think their cash flow. Where there is competition for grant, is extra care "sexy" enough to outbid other equally deserving areas of need?

There are, however, new entrants in the social housing funding market: both on the Local Authority side and with new products: Real Estate Investment Trusts, bonds and private placements for example. These may not be for the overly wary, but for the adventurous they can be a fresh option.

Below we set out areas for consideration for those looking to review or reinvest in the sector. These should not sit alone: whilst this article does not consider the same, any loans advanced (in whichever format) will need to be repaid, and as such RPs should be wise for proposals for those repayment routes: revenue streams are key.

The old way of doing things

The age-old mortgage (charge, secured charge, fixed lending or any of these other myriad names) was based on a straight forward form of secured funding: monies were advanced, and were repayable based upon the income stream, itself valued either on the basis of the rent roll (the "spare" monies coming into the provider, less their costs, charges, and suitable deductions of the cost of management, maintenance, repairs and sinking funds) and the Existing Use Value or a market value valuation, assessing the value for which a property could be exchanged between a willing buyer and a willing seller, in an arms-length transaction, and on various assumptions (for example the property would continue to be let by a body for the existing use; no fettering by the regulatory body in the disposal).

Problems have arisen as regards those forms of securitised lending as banks too have been caught up by the economic downturn. They have less "balance sheet" available to lend to organisations, and have therefore increased the price for lending monies, and make the terms upon which those monies are advanced much tighter. What is effectively happening within the private residential mortgage market is happening likewise to those seeking larger loan funds, such as RPs.

There have been recent forays into the funding arena with use of the Private Finance Initiative (PFI) and pseudo PFI funding, using sales or lease backs with management arrangements, whereby (usually) long-term leases are granted by the public sector body to the private sector one, in return for a capital payment. The premises are then managed by the original owner, which is paid a management charge for so doing, with provisions for an ultimate return of the asset to the original owner. This has proved costly, and a particularly mixed bag politically, many commentators viewing this as the disposal of the family silver. Forays into the creation of a public private partnership were originally seen as risk sharing provisions, whereby a desire for accountability and efficiency for public spending was tallied with a desire for the influx of private investment. Many saw the issue with PFI schemes going off balance sheet, thereby removing them from accountability, leading to (possibly unfounded) fears that private sector companies operating public facilities were somehow not to be trusted.

Issues have arisen with PFI because of the comments indicated above: the dwindling of sources of private capital, meaning that either individuals were less likely to have the capital finance to input into the schemes, or were unwilling to be sensible upon the other monies invested, and the concerns at the lack of transparency in the use of PFI, and the use of the same merely to keep liability off balance sheet. Questions of viability have been raised, as well as this being a less politically acceptable route.

Finally, other funding streams (social housing grant (SHG) for example) have become increasingly tightened, and the competition over the main areas in which RPs now operate has seen increased competition for what amount of grant there is available, that itself diminishing year on year. Many now view SHG as being dead in the water after 2015. This has been compounded by the change in requirements for funding, with RPs being only being entitled to drawdown of monies at completion of a development, as opposed to start on site as previously. This has meant that they too need to have funds to forward-fund a development, and cannot be guaranteed a return on their investment as they would usually.

New thinking

Whilst many RPs will have used and employed the routes above in many developments, increasing complexities in the funding market have meant that they do need to look further and wider at funding options. The pressure upon them to ensure a continuation of their role as suppliers of affordable homes, as major players in regeneration and estate renewal, and providers of many and significant services (including extra care provision) to those in all sectors of the community is increasing. The need for funding is therefore ever more pressing and whilst there is no one simple solution, there are plenty of options worth exploring.

Real Estate Investment Trust (REIT)

The REIT works on the basis of bringing equity into housing finance. Assets are sold or leased to the REITS by the Registered Provider, and then leased back or managed on the REIT's behalf by that Registered Provider. Shares in the REIT (which can be sold on the stock market) can be given in return for the asset. Whilst there is no set structure, the initial public offering of shares would be on the basis that any person could acquire the same. For many RPs there are vires considerations which arise upon the sale of any asset, and also ethical questions as to who would invest in the same. Disposals by the RP of residential dwellings usually require consent from the Homes and Communities Agency as regulator, notwithstanding that the immediate nature of the sale / lease back would mean that there would only be a short period of time in which the units are not owned by the Registered Provider.

Money from rents charged to individual residential occupiers will be used to service both management costs and the terms of the management agreement with the REIT. As a shareholding body, it and its shareholders are likely to require a return on their investment. One must consider the implications of default by the RP, ensuring that suitable legal structures are in place to minimise potential exposure to the RP.

A REIT may be viewed as similar to a housing association on the basis that the company structure provides for the owning and management of property on behalf of share holders, and can contain both commercial and / or residential property. It is seen as a way of providing investors with access to property assets without having to buy property directly, and indeed the UK REIT status exempts a company of all obligations to pay corporation tax.

The potential to avoid double taxation both at corporate and investor level is seen as attractive, and many commentators view the introduction of the UK REIT as giving investors wider opportunities to access alternate classes of investment. There are certain complexities in securing conversion to or being listed as a UK REIT, a REIT having to be a company which is listed on a recognised stock exchange (which will mean listing its ordinary shares), although one can effect an aggregate REIT seen as allowing the RP to take advantage without taking all the risks. The preparation of a prospectus, verification, pricing and distribution of shares to the public will, however, be amongst the hurdles which must be fulfilled to secure appropriate status. As shares must be fully transferable, this can have implications or can trigger questions for the ethical stance indicated above. Many RPs may be uncomfortable with sitting in the highly "high asset value" sphere of the REIT's structure.

Private Placements

Another alternate funding route, the private placement replaces funding from a banking institution with funding from pension trusts and other institutional investors. They are likely to become involved via an arranger intermediary bank, but again provide for long-term 15 – 25 years funding.

Long-term loans on fixed rate offers may be more attractive to those with a less developed sense of risk, and indications are that the pricing of these is likely to be competitive with the bonds market. New to the housing sphere (there have been only 4 or 5 completed to date), there is no reason why these US lead funding proposals cannot be and will not be attractive to the UK investors.

As opposed to the public issue of securities or shares, a private placement usually involves investors from a small and select group of individuals and companies: large banks, mutual funds, insurance companies and pension funds purchasing loan notes from the RP. Are private placements a likely source of finance? One does need to consider the attractiveness to potential investors of and to the RP market, particularly the structure to that which is very reliant upon third party revenue streams. With a diminution in Supporting People and other grant monies, even with individual passporting and access to monies, investors may be equally cautious.

Bonds

The raising of money on the bonds market is currently thriving as cheap monies become available because of the low price of government gilts. This can, however, be expensive in terms of upfront costs and management time. Both private placement and bond pricing can fluctuate and move quickly, and as such it is not possible to lock the price in until often a long way down the process.

In order to issue a public bond it is necessary to obtain a rating from one of the major rating agencies. This requirement to be rated can have down sides: it can be costly and time consuming to obtain and to maintain and where the rating is not maintained it can also have an adverse impact upon your "standing".

An opportunity to publicly source funds for investors looking for areas in which to expand their portfolio or diversify into new markets, a bond is in effect an i.o.u. whereby an investor agrees to lend monies in exchange for a pre-determined interest rate. It is usually long-term, typically 30 – 40 years and repayment is usually on a fixed date at the end of that term, of the original principal plus interest due upon maturity.

Interest is usually payable annually or semi-annually but because it is a long-term fixed rate, if the RP wishes to prepay or re-finance the loan, it would incur penalties for breaking that fixed interest rate, which could be very expensive. Accordingly, management of bonds must be taken seriously.

Many less risk averse companies will view a bond issue as allowing them more freedom and independence of the potentially restrictive and expensive bank borrowing previously open to them. RPs must, however, be aware that bonds can be very inflexible. Instead of having one lender they will have any number of loan holders with whom they will not have the same relationship or be able to negotiate a change in the terms.

Local Authority funding

Where a Local Authority seeks to develop their own support and extra care housing, or provide grant funding, it is noted that the Local Authority social services letter of December 2011 confirmed revenue and cash allocations for 2012 / 2013, and there has been continued capital investments to support adult social care services. Local government feedback has indicated that innovative alternatives to residential care are seen as most attractive funding types, and, as such, supported housing and living as well as extra care housing could be attractive to Local Authorities proposing to provide grant. Moreover, community-based services investment is seen as an attractive alternative to residential care, and whilst not effectively providing significant monies to support infrastructure or development monies, grants may potentially be used for services or add-ons to those supplies.

Many Local Authorities will view changes to the housing revenue account rules (allowing them control over their own assets) as allowing them to continue to expand their own development funding. One must question, however, whether Local Authorities have continued expertise and the desire to take on board this role. Furthermore, potential changes in funding and regulatory requirements may see buyers as not overly keen to even put a toe into the water.

There continues to be concern (also cited by RPs) as to significant reductions or withdrawal of public funding to subsidise any capital costs of housing development, coupled with the need to secure private funding or private disposals to balance out the costs of development. Local Authorities are, as such, facing the same issues as RPs when they seek to balance the books on a development, with a need for mixed tenures and mixed communities being paramount not just for the sustainability of a community but to ensure the funding of the same.

It is noted that the previous Department of Health capital grant programme ceased (although further details of up to £300m specialised housing capital grant programme, administered by the Homes and Communities Agency and Greater London Authority, have been announced in autumn 2012), but it is quite possible that either local housing or adult social services Authorities will be able to subsidise developments by making available land either free or cheaply, whether bare land or providing for reprovision of a redundant care home facility which can be "updated" in a refurbishment, redeveloping role.

As highlighted in the Housing LIN Viewpoint 31, Collaboration between Registered Providers and NHS Trusts: Building an Asset, Primary Care Trust and other health body funding should also be considered – for example, lease backs to GP surgeries. Developments which consider different types of tenure are also attractive: homes for life, fixed equity or shared ownership units restricting staircasing to a certain percentage or to a certain class of people should also be considered.

Special Purpose Vehicles

A further option to consider is the establishment of a special purpose vehicle (as an off-balance sheet proposal) to ensure tax efficiencies where mixed tenure development can impact adversely on charitable vires. For investors, however, shelf companies with no track record can be seen as inherently unattractive or risky ventures, and the lack of comfort from the regulatory authority (HCA) can mean that these can be as costly as the tax efficiencies they achieve.

Whilst not perhaps veering towards the often US led retirement village concept, many purchasers will view the acquisition of a property both as a financial investment for their later years and a health care investment: especially where there is nearby "move-on accommodation" which can be accessed should their health diminish or they need additional care and support.

Equity release

Equity release for funding care and support should also be considered, and it is not necessarily the dirty work as it can often be perceived. The release of wealth invested into property can be of significant benefit as well as downsizing into smaller properties, all of which are potential options.

Life time mortgages releasing part of the value of the property as a cash sum could also be considered or indeed offered by RPs wishing to take back larger properties which they can then "recycle" into the social housing sector.

Tax Increment Financing (TIF)

This public financing method is based on the use of future gains to subsidise current improvement. Again, a US led proposal, it is increasingly seen within the UK markets. This provides for a reallocation of risk between central - local government and the private markets, particularly in more austere economic climates. It allows more up-front money to be raised by committing incremental business rates: creating revenues which would not have arisen but for the project going forward to be used to repay that initial investment.

This form of funding has been fiercely resisted by the Treasury in the past, largely on the basis that the projected development income in the form of high business rates cannot be guaranteed, and should therefore be marked against government borrowing. Many Local Authorities, however, have perceived these as extra financial freedoms particularly where councils continue to face cuts in their central government grant. Whilst previously councils have only been able to borrow against future income that is guaranteed, this seeks to unlock growth proposals by using the borrowing to fund the infrastructure, to support additional economic development and business growth. The growth is seen as resulting in a higher business rate yield which is used to pay down debt. Whilst the merging of costs and risks of both will be key, and many Local Authorities will be keen to minimise risks, the proposals may also be potentially unattractive with the economic downturn. Unfortunately, TIF has become rather swallowed up in broader plans for local government financial reform, but it is understood that it will be introduced from April 2013.

This form of funding has already been approved by the Scottish Executive, and as such may be likely to proceed within the UK as a whole. Its application to concentrated regeneration, however, must be considered: one would anticipate this more likely to be more attractive in broader regeneration projects than those solely for extra care.

Local Asset Backed Vehicle (LABV)

LABVs are special purpose vehicles owned 50/50 by public and private sector partners with the specific purpose of carrying out comprehensive, area based regeneration and /or the renewal of operational assets. In essence, the public sector invests property assets into the vehicle, which are matched in cash by the private sector partner.

Accordingly, their attractiveness will comprise allocation of risk, and availability of property assets (perhaps land share). There is often perceived to be more incentive on the public side of the equation to invest and deliver, and the funding is usually based on 10 to 20 year terms.

Encouraging parties to pool resources, such as finance, planning powers, land and expertise, may deliver regeneration with a balance of risk and return. Local Authorities keen to meet regeneration aspirations (and those not blighted by previous public private sector partnering) view these as facilitating and bringing forward major regeneration schemes particularly in deprived areas, and maximising opportunities to unlock value from surpluses, redundant or operational aspects.

The perceived areas of expertise of the public sector (planning and compulsory purchase powers) combine with private sector asset management and development skills, as well as the more esoteric use of private sector capital and financial expertise for community benefit.

The asset transfer into the LABV can also reduce the burden of regulatory compliance, and as such may be attractive to those seeking to free themselves either of the risk or the obligations which this can impose. Returns are, however, potentially long-term, and subject to performance of the partnership over the term period in which the neighbourhood is uplifted.

As an alternative, the Local Incentive Backed Vehicle may be an option: these rely heavily on the use of property options, and protecting the public sector from selling the family silver. Property options enable a land owner to purchase a site or sites at a future time, and may be structured to be conditional upon that party meeting certain pre-agreed milestones. This is seen as an incentive for the private sector to take a much longer term perspective in instances up to 30 years, thereby creating a platform of a genuine partnership working between the public and the private sectors. The long-term nature is what is often viewed as being more attractive, but again does tie parties in to act in joint ventures over significant periods of time.

Pension Funds Limited Liability Partnerships

This is very much a new kid on the block, moving on from REITs as a method of direct funding from pension funds. Again, this gives the attractiveness of being shielded from public view, but requires an intimate working knowledge of those likely to want to invest in the limited liability partnership.

Funding from third party bodies

An often overlooked source, there do remain charitable bodies, philanthropists and the like who may be available to progress alternate funding opportunities. RPs should also consider funding from sales programme as possible sources of finance for revenue development stream.

Whilst health bodies (for example PCTs) may have a small amount of resources, they are often overlooked as potential funding bodies.

Joint Ventures, Development Agreements or Collaboration Agreements

The joint venture (whereby assets and risk are pooled between two parties on a limited liability partnership basis) has its own legal personality and accordingly can raise its own finance in the market. As such, risk is removed from the individual bodies, and transferred to the new entity. Where funds are not available, parties may transfer real estate as opposed to hard cash or borrowing capacity.

Sharing not solely assets and cash could also be balanced with financial acumen, administration and management skills and expertise. Parties must consider both the day to day decision making of the JV as well as proposals for its future direction by way of a collaborative approach to the development of assets.

RPs may also wish to consider phased funding and repayment of borrowings. This allows for shorter term borrowing, for example with monies being advanced in tranches carried out against development risk, and repaid, for example, on first tranche sales.

Collaboration Agreements should not be written off as old hat. Lots of small amounts of monies, whilst causing potential administrative burdens, can add together to allow for significant funding tranches.

Conclusion

The economic downturn currently faced does not mean that all development should be stymied, but merely that RPs need to be looking at alternative and innovative approaches to financing. This is not to mean that the old way of doing things should be completely ignored, but opening up markets to other offerings should be considered.

At its very heart, this is a question of balancing risk - there is always someone willing to invest if the price and the returns are right! In all instances, weighing up the options is of sincere merit, but leaving decision making too late can be treacherous - making certain that monies are available in good time for their spend will ensure that better decisions can be made.

About Charlotte Cook: Charlotte is a Partner in Winckworth Sherwood. She has worked with Registered Providers for over 10 years on all aspects of tenancy and housing policy and practice, as well as having specialist experience in advising care and supported housing bodies, local authorities, NHS bodies and charitable organisations. With a background in development, she has also advised in connection with funding (both capital and revenue streams) on projects ranging from portfolio acquisitions, care home development and estate regeneration.

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About Winckworth Sherwood: a dynamic law firm with a commitment to providing clients with more than just legal advice. Our main practice areas include Social Housing, Local Government, Charities, Real Estate and House Building. Our experience in the Social Housing sector spans decades and our clients range from the country's largest housing associations to small, independent registered social landlords. The blend of experience, together with legal know-how and commitment to the sector, has enabled us to anticipate trends and provide innovative solutions for our clients.
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Extra care housing: innovative funding approaches and support for development

by Tina Hothersall, Homes and Communities Agency

Introduction

The Homes and Communities Agency (HCA) is the national housing and regeneration body for England. With fewer resources, the Agency has had to develop new innovative ways of working using its investment, skills and land to go further and to try and get the best outcome.

Meeting the housing needs of vulnerable and older people is an important part of the Agency's work. HCA has invested £1 billion in supported housing and housing for older people through the National Affordable Housing Programme 2008-2011, providing around 18,500 homes. The HCA's new Affordable Homes Programme 2011-2015, will maintain 9.5% of its focus on the delivery of new affordable rent homes for supported housing and housing for older people. In addition, much of the housing supported by the Agency will meet Lifetime Homes and wheelchair accessible standards and it has recently launched a new Department of Health backed capital Programme targeted at specialised homes. This Programme will also encourage the development of accommodation built to HAPPI design principles.

Despite these positive strides taken, we are conscious that the scale of the challenge is continually increasing: the Housing Strategy suggests that 60% of growth will be in households aged over 65, whilst dementia (which already costs the UK economy £23 billion per annum) is projected to increase by 43% by 2025. This increased demand, coupled with reduced public sector funding does however mean an increased pressure to find alternative funding solutions if supply is to be both maintained and increased.

Housing associations/Registered Providers and Local Authorities have typically been the main provider of extra care accommodation, with a heavy reliance on grant funding, however to increase supply and choice, capacity in the private sector needs to be increased. This must be seen as both a challenge and an opportunity, with demand set to increase, the private sector has an obvious incentive to respond. Currently many individuals are forced to move into extra-care accommodation when they fall into crisis, however if we can stimulate a mind shift in attitudes and identify such a move as a more positive lifestyle choice meeting individuals aspirations we may go some way toward releasing some of the estimated £611 billion over 65's currently have in locked-in equity within their existing homes.

How do we increase development activity?– is contributing land; better design; targeted funding; use of investment vehicles / other forms of partnering and /or financial incentives? This paper considers the different ways that could encourage more activity in this sector and where the opportunities might be.

Land Supply

Land is the main ingredient for any development. The public sector landowner and Local Authorities in particular, are probably the biggest supplier of land to this market sector. Health bodies are also noted for enabling this type of development and actively promoting it within their land release strategies.

In June 2011, the Government made a commitment to release public land to the market with capacity for up to 100,000 homes over the Spending Review. This is land owned by Central Government Departments and arms-length bodies (including HCA) which is surplus to requirements or potentially surplus in the future.

Towards the end of last year, landowners were challenged to increase the pace of their surplus assets disposals and to publish details of their surplus sites to encourage greater transparency of information. A number of support measures have been put in place to encourage land release: use of ATLAS (Advisory Team for Large Applications – sits within the HCA) as a planning resource for larger more difficult sites; Build Now Pay Later model – an assessment tool has been developed by the HCA to help landowners assess the potential benefit of deferred receipts – an option that some landowners may consider to stimulate activity; and the re-procurement of HCA's Development Partner Panel enabling Central Government Departments and arms-length bodies including NHS Trusts to use the Panel from April 2013.

The Public Land Programme currently comprises over 400 sites. The Ministry of Defence is the largest landowner followed by the HCA and Health bodies. Current housing capacity for the Programme as a whole has been estimated at around 106,000 homes. NHS Trusts are currently being asked to update their land release strategies and more potential could possibly be identified.

The link between health and housing is recognised at the local level. Some Trusts are including provision within their marketing briefs for supported housing – many see this as a way to reduce costs to direct services over the longer-term. Research into the potential costs savings is an area that could be developed further and having the evidence to support the business case could present a real opportunity for Trusts to be more proactive. In identifying the most convincing evidence base, Trusts may want to focus on the most obvious examples first – such as how investment in specialist housing which enables dementia sufferers to live independently for longer can directly save Trusts' budgets.

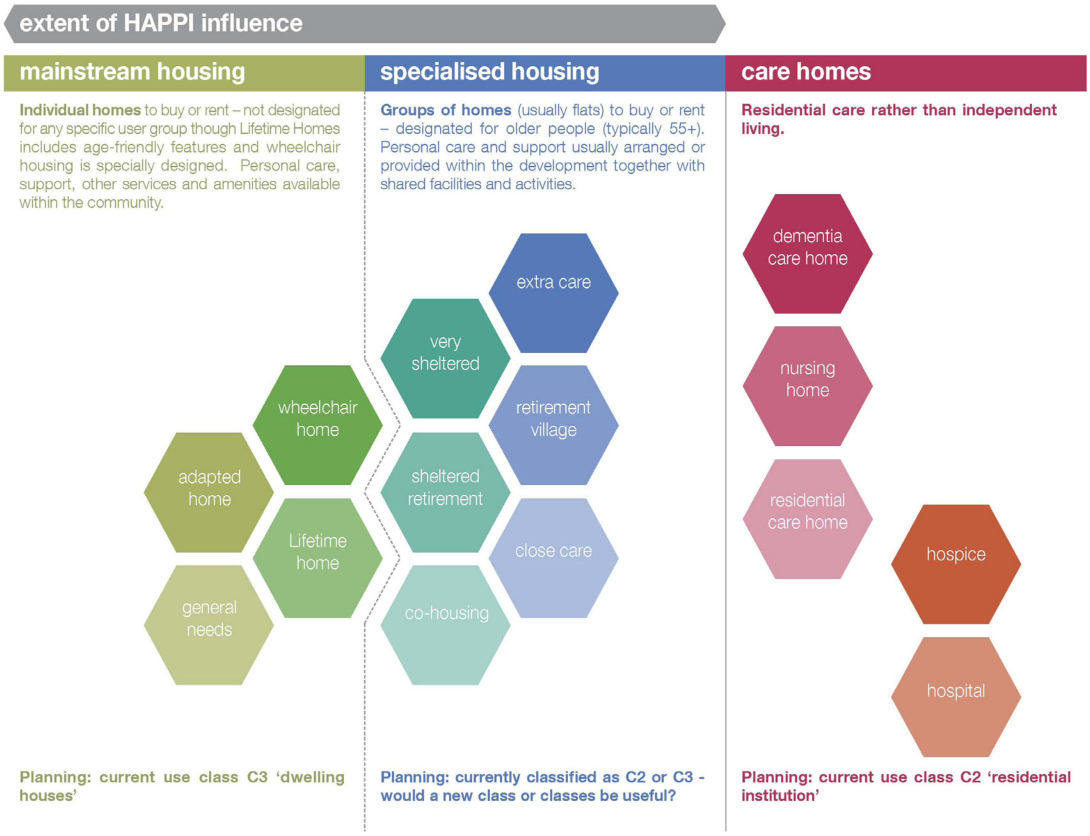
In order to meet their supported housing commitments some Local Authorities have released land at discounted values to developers if the project shows a funding gap. South Staffordshire is looking at a programme of potential sites that meet the criteria for older people's housing, brownfield sites that would suit this type of use and partnering with a developer – its land would be used to subsidise the development costs and help improve scheme viability. This scaling up of the land offer may provide the critical mass attractive to a developer. The landowner can be clear in its development brief what it wants and potentially enable the developer to use cross subsidy between sites to bridge any shortfall.

Other options being considered are refurbishment and/ or re-provision of supported housing on existing supported housing sites. South Staffordshire Council using a former care home and ancillary buildings to meet the funding shortfall has selected Housing Plus to deliver an extra care scheme. It is a £13 million project receiving £1.14 million of funding from the HCA and £1.1 million from the Council along with the land to provide 82 purpose built apartments for people aged over 55. This flexibility has enabled two positive outcomes - the re-provision of a new type of care option on the same site with increased occupation; and meeting the growing demand for older people's housing.

The product – design

If we want to encourage a fundamental increase in private sector demand for specialised housing options, then we have to make it consumer friendly, attractive and marketable. The range of specialised and/ or supported housing is confusing and is not currently considered by the majority of older people. The HAPPI report (Housing our Ageing Population: Panel for Innovation) set out to challenge perceptions of older persons living. Their 2009 report showcased good practice from around the UK and Europe and challenged the Government and both the public and private sectors to galvanise a national effort to plan positively for older people. The report set out a number of simple design principles which they believed would open up the market to a greater range of homeowners at a minimal cost. The HAPPI design principles have been adopted by many of the main players in the industry including Hanover and McCarthy and Stone, and have helped raise additional interest in the sector from new players such as Berkeley Homes.

The recently published *Housing our Ageing Population: Plan for Implementation* or HAPPI2 report by the All Party Parliamentary Group on Housing and Care for Older People uses simple graphics to make the range of housing options more accessible to more people by placing them into three main categories: mainstream housing; specialised for over 55's and residential care/ care home. The HAPPI diagram on the next page highlights extra care as being within the middle category – specialised housing.



However, the majority of older people will remain in their own homes, and therefore it is essential that mainstream housing meets most of their current and future needs. The Lifetime Homes Standard, published by the Joseph Rowntree Foundation in 1997, and promoted and managed by Habinteg Housing Association applies the twin principles of accessibility and adaptability to ordinary housing with the aim of accommodating a range of physical needs, particularly in later life. This standard is referenced in the HCA's Design and Quality Standards and guidance for non-mainstream housing and promoted in the London Housing Design Guide.

The principles of Lifetime Neighbourhoods are also relevant, particularly when assessing the needs of an extra care scheme. Access to amenities, public transport in other words, well-connected places, which help maintain social connections and opportunities to share services could potentially remove the need to include on-site facilities, which can affect cost. Location was the cross-cutting theme of both the HAPPI and HAPPI2 reports – older people must be seen as an economic driver and placed central to new and existing places.

A supported housing scheme developed in partnership between Derbyshire County Council, South Derbyshire District Council and Trident Housing Association with funding from the HCA, has been built on the site of a former care home, close to the centre of Swadlincote. It is the first combined community care centre (32 beds) and extra care housing (88 apartments) in Derbyshire.

Artist's impression of Oakland Village, Swadlincote, Derbyshire; Architects Glancy Nicholls

Completed this year, it has been designed to a high specification including renewable technologies – solar water collectors; gas fired combined heat and power (CHP) and passive measures to minimise energy usage. Site challenges such level changes of around 11 metres, led to value engineering all aspects of the development in order to achieve cost savings.

Oakland Village, Swadlincote, as built

Considering the broader needs of the community in its design and planning has created the potential for the development to be an important hub for the local community, offering access to shared facilities such as the café and internet. The community care centre provides a 16 bed residential care unit for those suffering with dementia and complex needs as well as intermediate care beds for respite purposes and short term rehabilitation as well as offering outpatient services.

Planning

The National Planning Policy Framework (NPPF), sets out the Government's planning policies for England and how these are expected to be applied. Local Authorities are asked to deliver a wide choice of high quality homes, widen opportunities for home ownership and create sustainable, inclusive and mixed communities. In particular, it states that local planning authorities should *'plan for a mix of housing based on current and future demographic trends, market trends and the needs of different groups in the community (such as but not limited to families with children, older people, people with disabilities, service families and people wishing to build their own homes)'*.

Local Planning Authorities (LPA) will look at the affordable needs of an area when setting affordable housing policy requirements on new development sites. The NPPF does provide flexibility for LPAs to consider the optimum affordable housing requirement on viability grounds and / or require a contribution to off-site affordable homes – this could enable a higher proportion of shared or market sales within a scheme. Similarly, recent Government announcements (6th September 2012) regarding S.106 re-negotiations to improve project viability could lead to alternative development options being considered – some extra care provision that would both meet the Local Authorities objectives and increase overall market sales. The implications of these changes are currently being considered.

The Community Infrastructure Levy (CIL) is a new planning charge which came into force in April 2010. Levy rates will be set in consultation with local communities and developers and intend to provide greater certainty to developers of upfront costs. The levy will be used to fund infrastructure provision which could be interpreted as new roads, schools, and health centres, but at present it is not intended to fund affordable housing. There is an element of flexibility in CIL, however, as charging authorities set their own levy rate. Ideally, councils should not set this too high so as to prevent new development coming forward. Relief from charging the levy is given for social housing and discretionary relief for a charitable landowner.

Funding Models / Investment

Whilst we appreciate that the scale of supply needed to meet future need will only be achieved through a combined and creative use of land, limited resources, and positive planning, HCA with the Department of Health has recently launched a new fund to use a limited amount of seed money to help support and encourage this creative thinking. The Care & Support Specialised Housing Fund was announced in the White Paper *Caring for our future: reforming care and support*, published in July 2012. Its primary aim is to support and stimulate the development of the specialised housing market for both affordable and private homes. Up to £300 million (20% of this fund will be available for developments in London and managed by the GLA) will be made available by the Department of Health and delivered through the HCA via a bidding process.

The Fund will be split into two phases, the first will focus on affordable housing which requires applications by January 2013 and the second phase will be for the private market which will be developed in the coming months and launched in the summer of 2013. At the same time as the first phase bids are sought, the HCA will be seeking expressions of interest for phase two funding from developers on how best to utilise the funding available to stimulate further delivery.

This fund is very much focused on delivering specialist accommodation and encourages schemes that demonstrate a commitment to work with public bodies to use their land holding in a mutually beneficial way. Of particular interest are proposals where bidders are engaged with NHS and PCT partners and where the delivery of new specialised accommodation will help reduce the burden on stretched health and care budgets. New ideas and concepts are being encouraged both in terms of design, delivery, management and tenure.

In order to attract private finance into extra care housing, it will be necessary to demonstrate that there is a secure future income stream and/ or capital receipts available to service any finance raised to fund the cost of construction / acquisition of the extra care housing. Investors/ financial markets are often nervous about new investment models and it can be challenging to secure significant investment into what is seen as a new market. However, as shown by the large number of Registered Providers who have issued bonds recently at attractive rates, the financial markets are willing to invest in social housing.

Real Estate Investment Trusts (REITs) were introduced to the UK from the US in 2007. Changes to encourage greater participation have already been made to the REITs structure but now Government is looking at developing REITS further (tax efficient investment structures), encouraging private sector participation through social housing REITS and providing additional private finance for social housing.

The 2012 Finance Bill outlines a number of measures designed to improve the prospects of a successful REIT. It is recognised that there needs to be more diversity in funding models and to introduce other options around equity finance rather than debt finance which could impact on financial capacity over the long term.

Past performance of residential markets have been shown to outperform commercial and other sectors, however over recent years this has changed. Dedicated private rental models could be valued on an investment basis and this may be attractive to both developers in terms of raising finance and occupiers who may not wish to tie up capital. However, the lack of available performance indicators in the supported specialist housing sector creates uncertainty which impacts on the ability to make informed decisions.

Political Landscape

As part of their local strategic housing policy, Local Authorities are expected to undertake assessment of the local housing market, including current and future trends for demand. Many Local Authorities undertake this in the form of Strategic Housing Market Assessment (SHMA), which should specifically take account of the demand for older people. Some Authorities are undertaking a market position statement (MPS) which will incorporate an assessment of the local housing market.

By April 2013, Health and Wellbeing Boards will have been established in every upper-tier Local Authority in England. They will be the place where local health and social care commissioners, including the local NHS, will develop joint leadership across health and care services, including influencing services which act upon health, such as housing. Health and Wellbeing Boards have a statutory duty to undertake Joint Strategic Needs Assessments (JSNAs), which assess the current and future health and social care needs and assets of the local community. Based on this, they must develop Joint Health and Wellbeing Strategies (JHWSs), to address those identified needs and these must underpin local commissioning plans across health and care services and possibly beyond.

Greater co-ordination with Local Authorities of the needs in their area should enable longer-term investment strategies to be developed. If this could be matched with land opportunities and public funding streams, for example general needs with dementia care, it may provide greater flexibility. From 1st April 2012, the Government has introduced Self-Financing for council housing. This is seen as a significant change to housing finance and gives Local Authorities the scope to use their assets as potential investment opportunities over the long term. Key influences are: rents are no longer pooled; allowances towards management and maintenance costs are more generous; and Councils now have strategic responsibility for their stock, enabling greater efficiencies to be made and potential to raise debt finance and possibly equity investment.

New bodies to co-ordinate economic growth in certain areas such as Local Enterprise Partnerships (LEPs) could be a forum to increase the debate on housing provision which in turn supports the growth agenda. Local Investment Plans (LIPs) are opportunities for Local Authorities to highlight the need for supported specialised housing as a specific local objective.

The Government's Housing Strategy published last November (2011) set out a number of measures to address the housing shortage. HCA has been involved in a number of these strands - in particular Get Britain Building; First Buy; Private Rent etc.

In summary

The reduced funding levels and reliance on debt borrowing will, over time, alter social housing providers' ability to fund new schemes. Thinking around alternative models now is important.
The potential of the capital markets and equity investment needs to be explored further and greater freedoms given to Local Authorities in terms of housing finance may provide further opportunity.
Lack of supply affects our ability to make suitable choices. Lack of awareness of housing models and funding potential could combine to keep supply down. The HCA and Department of Health's new funding Programme will hopefully capture new innovative thinking and encourage greater activity in this sector.

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About Tina Hothersall: Tina is a senior manager at the Homes and Communities Agency. She is a qualified chartered surveyor, having more than 20 years' experience in land and property regeneration in both the public and private sectors; Tina is currently working at national level, supporting the Government's Public Land Programme and working with public sector landowners to bring sites forward to the market with housing potential.

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About the Homes and Communities Agency: the HCA is the single, national housing and regeneration delivery agency for England, and the Regulator of Social Housing Providers. Our vision is to:

- Create opportunity for people to live in homes they can afford in places they want to live, by enabling local authorities and communities to deliver the ambition they have for their own areas; and
- Focus on governance, financial viability and value for money as the basis for robust economic regulation that maintains lender confidence and protects the taxpayer.

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Jeremy Porteus

Brian has recently established himself as an independent adviser, and works as an associate with several organisations. He advised a substantial number of major infrastructure projects whilst working at 4ps/ Local Partnerships (part of the Local Government Association) for 5 years until 2011. Brian has significant senior local government experience, working across social care, housing and health sectors, responsible for leading and delivering major housing and accommodation infrastructure projects using varied public private partnerships; managing operational services; and commissioning and procuring commercially provided services to the public sector.

Brian has worked extensively with councils procuring and delivering complex housing projects, ranging from major estate regeneration schemes in inner London to smaller specialist housing schemes. He has expertise in commercial business case and service specification development, public sector procurement including competitive dialogue, and negotiation skills, and in contract management. Brian led the 4ps/ LP social care PFI programme advice to councils. On both housing and social care programmes, he has worked closely with central government to initiate, develop and deliver the range of complex projects through the competitive dialogue procurement process. This also included previously working with the Housing LIN on the development of good practice guidance and model documentation. He has advised on the utilisation of LIFT as a delivery vehicle to non Health agencies. Brian has evaluated and published sector reviews of operational PFI projects identifying key issues and benefits.

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Note

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. 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

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.

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