Viewpoint 109

Making the case for funding care and extra care housing

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Written for the Housing Learning and Improvement Network by **John Payne**, Founder, Matters Grey

Introduction

> *"Insanity is doing the same thing over and over again but expecting different results"*
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> (Albert Einstein)

The purpose of this Viewpoint for the Housing LIN is to expand the thinking and try to seek innovative solutions to break through the funding impasse of the much-respected Dilnot Commission report so that we might actually help provide the care that the baby boomers need, now, with a focus on the role of extra care housing.

The Viewpoint is being written the context of the setting up of the Casey Commission. The Commission will examine the key issues facing the housing with care sector today before recommending changes designed to help achieve the government's ambition of creating a 'national care service'. Importantly the Commission remit was set… *"to get our adult social care system back on its feet and fit for the future",* with a view to ensuring *"everyone is able to live with the dignity, independence and quality of life that they deserve."* (Stephen Kinnock MP, Care Minister). The Commission's work now needs to be put in the context of new emerging pressures, not just financial, as witnessed by the recent announcement to abolish NHS England. Given the new challenging environment, this Housing LIN viewpoint argues that new ways to achieve the aspiration of Stephen Kinnock need to be found.

Where to go now for long term care funding?

Appearing before the Common's Health and Social Care Committee in January this year, Sir Andrew Dilnot urged ministers to speed up the reform process: *"I think it's perfectly, perfectly feasible for the government to expect… by the end of 2025, to say: 'Actually, we know what needs to be done, this is what we're going to do'."* Sir Andrew Dilnot, The Guardian 8th February 2025.

Liam Byrne, upon his departure as Chief Secretary to the Treasury in May 2010 and a former health minister, notoriously left a note for his successor which read "I'm afraid there is no money". Sadly, this has only become more challenging with the current Government declaring in Autumn 2024 a £22 billion black hole. What chance then of finding a long-term care funding solution which Dilnot first outlined in 2010. In more recent years other examples abound. *"There isn't a magic money tree that can provide everything that everyone wants,"* Theresa May, Question Time, 2nd June 2017.

A very recent example is - Edward Troup, as tax advisor to the Government made clear the direction of travel… *"I am part of an under-taxed generation, so I'm afraid we are going to have to look at the more senior members of society."* The clear focus, as made clear in the run up to the 2024 election, is 'working people'. This has been clearly illustrated by a somewhat pre-emptive decision to means test winter fuel payments for retired people, though the early direction of travel is that the predicted savings are unlikely to be achieved given the high take up rates of pension credit. Hopefully there is a growing appreciation that the vast majority of retirees are asset rich but revenue poor.

The quotes illustrate the barriers ahead with low per capita growth and an ageing population. Yet, there are opportunities. Housing assets are owned by circa 80% of retirees, however, the residual equity is less significant than often assumed. Average house prices in the 12 months up to June 2024 increased in England to £305,000. This figure overstates the position for future retirees. Fewer than half (48 per cent) aged 55-64 own their property outright[1] and, importantly for the older retired, they often live in unmodernised less valuable properties.

The impact of poor revenue and lower than average house prices trap older people who have seriously limited options to purchase both improved housing with care and uniquely vulnerable to potential nursing care costs easily in excess of £100,000 per annum. Simply put, the housing assets of older people are the much needed opportunity if used innovatively. See All-Party Parliamentary Group (APPG) on Housing and Care for Older People, there are eight million people in the UK interested in downsizing. This, according to the APPG, could free up 3.5 million homes, including two million three or four-bedroom homes.

The impact of baby boomers is now upon us and therefore time is of the essence. The peak need is likely to occur through to 2036< 2054 and then decline.

What to do when there is no money – some thoughts to solve the challenge

Funding Care and Specialist Housing for older people

Immediate needs care annuity

In my view, the potential to de-risk care costs can come through this route. As an example, an 85-year-old with annual care costs of £70,000 and income of £30,000 could buy an annuity for £176,000 – funded through house sale. This increases to £220,000 with income of £20,000. This caps the costs in perpetuity. More should be done to illustrate and promote the value of funding care costs through equity released from the sale of the family home.

More importantly, this approach could go beyond an individual approach. A public private approach may provide a way forward. Insurance companies have been nervous of unlimited liability in this area but there could be an opportunity where the state could cap liability where individuals have sought to de-risk the costs in partnership with insurance companies.

Extra Care Housing solution

It seems odd that in spite of an extra care housing model being in existence since the early 80s, with various reports extolling the approach, adoption and funding has been slow to deliver the necessary critical mass to meet the challenge. The approach has now suffered with revenue funding too tightly focused on limited care inputs (15-minute slots) rather than broadening the approach, such as the ability of these developments to be preventative, including the value to reach out into the community to provide an enabling service.

But not all extra care housing is the same. There are several critical areas, some of which are examined in more detail. See also ARCO definition for further information:-

A Guide to Integrated Retirement Communities for older people

- Importance of sustainable night cover
- Maximization of an integrated care team approach
- An inbuilt reluctance to provide affordable models through shared ownership which drive improved subsidy for rental units
- Clear approach to managing dementia
- Poor marketing strategies for sale, particularly re-sales where consumers can get low re-sales values, with some units being sold at least 10< 15% below purchase price and on occasions at very low prices, due to the impact of accumulating service charge debt.

Shared ownership

It is already clear that the vast majority of retirees with average property values sub. £340,000 typically cannot afford specialist new build properties where new build costs can be circa 30+% above typical flat values given the substantial communal areas. The shared ownership approach enables older people with modest means to buy into affordably supportive accommodation. Subsequent rent for the unsold portion can potentially be met through state benefits. This route presents a clear picture of retirees using their resources to help solve the challenge, rather than the perception that they are the problem. Whilst this makes greater demands on the developer, it needs to happen.

The ExtraCare Charitable Trust pioneered the no equity growth model (the initial purchase price is refunded upon leaving, less modest management costs). Initial consumer caution on this approach has changed over time and is now welcomed given the poor experience of competitors. The model drives cross subsidy not only to support development of affordable rented stock, but also meet shortfalls in revenues elsewhere. The income derived helps drive the long term sustainability of the approach.

The bricks and mortar approach to subsidy by Homes England needs to be reviewed. Higher levels of subsidy should be linked to improved service delivery and a review of performance outcome such as:

- Improved morbidity and longevity
- Resales values to ensure a fair deal for the consumer
- Consumer mapping of wellbeing
- Take up of benefits

Innovative funding models

So, looking forward, how can we fund care?

The elephant in the room is the unpredictable care costs that are likely to impact typically 1 in 4 older people. The Joseph Rowntree Foundation has led the way in risk sharing the costs of care as seen at retirement villages such as Hartrigg Oaks. The ExtraCare Charitable Trust undertook what was in effect a pilot project – Care for Life - where risk sharing long term care costs came up with a capital cost of £50,000 @ 2012 price base.

Great encouragement needs to be given to help develop these models and, again, potentially the insurance industry could offer a risk pooling approach, though not easy to secure. In the ExtraCare Charitable Trust model consideration was given to affordability. In essence, given the affordability issues outlined earlier, very few people can afford the additional capital outlay of what then was £50,000, above purchase costs.

This inevitably means that ways have to be found, such as in the JRF's Hartrigg model to wrap care costs by risk pooling into the initial property acquisition costs. As an example, if the risk pooling costs are £50,000 then this needs to be incorporated into the initial purchase price and upon resales using the no equity lease model this element would be deducted. (Buying an apartment at £350,000 including £50,000 care costs would lead to a subsequent refund upon death of £300,000 less other costs).[(2)]

With the Casey Commission agreed I believe the challenge now is how we can best stimulate the market to develop this and similar models at pace. In developing these models one challenge presented itself – deprivation of capital rules when claiming state benefits. It should be argued that if older people are using their capital to reduce care costs, then a minor change to disregard this expenditure is appropriate.

Lastly, there is another more challenging opportunity that could be used to fund the Dilnot approach.

Inheritance tax income in 20/23 was £7.1 billion and is projected to grow to 9.7 billion by 28/29. This reflects the percentage of estates paying IHT growing from 3.7% to 6%. This will continue to grow exponentially as more baby boomer estates become available. Earmarking this growing funding has the potential to help solve the challenge and show that the… "never had it so good"[(3)] boomers can help provide the solution without directly impacting services for working people.

In conclusion, there are no shortage of ideas – it is lacking the will to takes risks and innovate at scale that is the problem!

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(1) https://ilcuk.org.uk/wp-content/uploads/2018/10/The-Myth-of-the-Baby-Boomer.pdf

(2) https://www.eldercaregroup.co.uk/care-fees-annuity-calculator

(3) McMillian 1957

Note

The views expressed in this paper are those of the author and not necessarily those of the Housing Learning and Improvement Network.

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About the Housing LIN

The Housing LIN is a sophisticated network bringing together over 20,000 housing, health and social care professionals in England, Wales and Scotland to exemplify innovative housing solutions for an ageing population.

Recognised by government and industry as a leading 'ideas lab' on specialist/supported housing, our online and regional networked activities, and consultancy services:

- connect people, ideas and resources to inform and improve the range of housing that enables older and disabled people to live independently
- provide access to intelligence on the latest funding, research, policy and practice developments
- raise the profile of specialist and supported housing with developers, commissioners and operators, and
- attract business to help and support clients plan, design and operate aspirational housing and services for people of all ages.

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