Funding Supported Housing

Consultation on housing costs for sheltered and extra care accommodation

Executive Summary

Riverside is one of the largest charitable housing association groups in the country, owning and managing over 53,000 homes across England and Scotland. We are a significant provider of supported housing, delivering homes and services to over 10,000 customers across 872 schemes. Of these 223 schemes are sheltered housing and 15 are extra care.

We welcome the Government's consultation on the Funding of Supported Housing and acknowledge that in bringing forward the current proposals, it has listened to sector concerns about the arbitrary capping of benefits to meet housing costs. We support the principles of the proposals on housing costs for sheltered and extra care accommodation, however their ability to meet the Government's objectives will depend upon the detailed design of the Sheltered Rent scheme. We urge the Government to work with providers, sector representatives and the Regulator of Social Housing to complete the scheme design at pace.

We propose that Government:

- **Establishes definitions of sheltered (or supported housing for older people) and extra care housing which are broad and outcome based**, acknowledging the complexity of the existing spectrum of specialist housing for older people and the fact that innovation will continue to drive change. We believe that this approach is appropriate given that the oversight of the new regime will be the responsibility of the Regulator of Social Housing, whose overall framework is founded on 'co-regulation'.
- **Establishes two benchmarks – one for sheltered housing and a higher one for extra care housing.** As suggested in para 43 of the consultation document, these benchmarks should be applied to eligible service charges only (the £X figure in the formula), given that core rents are already controlled through the formula rent regime.
- **Sets the initial level of the two benchmarks at levels above the vast majority of existing service charges,** identified through research on the distribution of current eligible service charges across the sector. For example this could be at the 95th percentile of the current distribution. This would ensure that the regulatory focus is on tackling 'outliers'.
- **Clarifies that existing provision will sit outside the Sheltered Rent regime even where service charges are higher than benchmarks.** This is important to provide confidence for providers to bring forward investment in new and existing provision, including pipeline schemes which are currently 'on hold'.

- **Requires the regulator to review Sheltered Rents annually, with benchmarks pegged to wider maximum permitted increases for social and affordable rents** set by the Regulator of Social Housing. From 2020 this would mean that the benchmarks would increase by CPI + 1% for five years.
- **Ensures that the Regulator of Social Housing takes a 'comply or explain' approach to their oversight of the regime.** This means that providers would be required to disclose service charges which are above the benchmark(s), explaining the reasons on a scheme by scheme basis. The regulator would then have a range of powers to deal with these schemes.
- **Issues a new direction to the Regulator of Social Housing setting out the detail of this new framework (following consultation), with the regulator reflecting changes in a new rent standard supported by appropriate amendments to 'Regulating the Standards'.**

We believe that building these proposals into the detailed design of the regime will help Government achieve its objectives by:

- Enabling a **people-focused** approach, with providers well placed to respond to growing demand for greater supply and better services.
- Providing **funding certainty** to providers as they invest in new and existing supply to meet the needs of an ageing population, by giving assurance over long-term income streams.
- Creating a simple, **flexible and deliverable** model which encourages innovation, recognising that demand for provision and services changes over time.
- Securing **value for money**, by requiring providers to identify and justify high-cost outliers, whilst continuing to operate within the highly accountable variable service charge regime.

We very much welcome the Government's proposal to include sheltered and extra care housing within the scope of the National Statement of Expectation, which will shape the way in which local authorities and their partners assess need, and then plan and monitor provision. Local authorities must be resourced through central government grant funding to undertake these new duties, and should deploy consistent methodologies in assessing need. In establishing partnership arrangements, local authorities should be required to include providers and their representatives as key stakeholders.

<u>Question 1: We would welcome your views on the following:</u>
<u>a) Sheltered Housing definition: what are the features and characteristics of sheltered housing and what would be the practical implications of defining it in those terms?</u>
<u>b) Extra Care definition: what are the features and characteristics of extra care housing and what would be the practical implications of defining it in those terms?</u>
<u>c) Is there an alternative approach to defining this stock, for instance, housing that is usually designated for older people? What would be the practical implications of defining sheltered and extra care supported housing in those terms?</u>

We believe that the definitions of sheltered and extra care housing adopted through regulation should be relatively broad and outcome based, acknowledging that in reality there is a spectrum of different types of provision, which changes as providers and care organisations innovate. This spectrum of provision has been described in a number of reports, such as the typology of specialist housing set out in figure 3 of the Housing for Older People Innovation Panel (HAPPI) Report (2009). This outcome based approach to definitions is appropriate, given that oversight of the proposed regime will be through the Regulator of Social Housing which operates on the principle of 'co-regulation', whereby the onus is on the provider to satisfy itself that it is meeting regulatory standards and definitions, and then be accountable about the way in which they are met.

Within this overall context we suggest that a wide definition of **supported housing for older people** is established (replacing the term sheltered housing), along the lines of "*housing designed or designated for older people with support needs, which helps them stay independent for longer*".

We then suggest that a definition of **extra care housing** is 'carved out' of this wider definition, on the basis of it being supported housing for older people (as above) *"which incorporates additional facilities for the provision of on-site care, having been designed and built to meet needs identified in local strategies".*

This is not suggesting that the costs of this on-site care should be met through rents and service charges, but rather that additional facilities such as enhanced security and more extensive communal areas, drive higher facilities management costs which can be recovered through service charges.

We do not believe that the definition of supported housing set out in The Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations 2016 provides an adequate basis for developing a new definition, in that it refers to 'sheltered accommodation' and 'extra care' housing, the very terms we are now seeking to define.

We suggest that these definitions should apply on a scheme-wide basis, reflecting the characteristics of the majority of occupiers. So where sheltered schemes house a limited number of tenants under pension credit age, or extra care schemes provide accommodation for some working age tenants, the definition would be met, provided that the majority of tenants are above pension credit age. Applying different rent regimes and regulatory rules within the same building would be disproportionately onerous.

Using these definitions, it would be for the provider to categorise individual schemes, and report this to the regulator through the annual Statistical Data Return, along with rent and service charge data. Appropriate regulatory sanctions would be applied where the provider is found to have miscategorised or misreported data, as is the case now.

Question 2: Housing costs for sheltered and extra care housing will continue to be funded through the welfare system. To meet the Government's objectives of ensuring greater oversight and value for money, we are introducing a 'Sheltered Rent' to cover rent inclusive of eligible service charges. How should the detailed elements of this approach be designed to maximise your ability to commit to future supply?

Riverside is broadly supportive of this approach and welcomes the Government's position that sheltered and extra care accommodation should continue to be funded through the welfare system. However the ability of this new approach to meet the Government's objectives will depend upon the detailed design of the scheme and we propose the following.

- **Any benchmarks (a term preferred to caps) for the amount that providers can charge on each unit of extra care or sheltered provision should only be applied to the service charge element of the gross eligible rent.** We think this is the clear implication of para 43 of the consultation document (i.e. that the focus will be on the value of £X), however the document also refers to the capping of 'gross eligible rents'. Given that core rents are already determined by the existing formula rent method (which takes into account property values, local earnings and a bedroom factor) any attempt to cap the gross eligible rent at a single level would create a 'squeeze' for providers working in areas where rents are naturally higher.
- **Benchmarks should be created using a 'top down' approach, set at levels which only exclude the significant outliers – the vast majority of provision should be within the proposed benchmarks.** A rigorous and objective approach should be taken to determine the levels of the benchmarks, following research examining the distribution of eligible service charges for current provision. This work should be commissioned without delay, so that proposed benchmark levels can be published early in 2018/19. Our response to question 4 provides some indicative analysis to illustrate our proposed approach.
- **The Regulator of Social Housing should review Sheltered Rents annually, with benchmarks pegged to wider maximum permitted increases for social and affordable rents (the 'Guideline Limit' in the Rent Standard Guidance).** From April 2020 this would mean that the benchmarks would increase by CPI + 1% for five years.
- **Any outliers that sit above the benchmark(s) should be subject to a 'Comply or Explain' approach, rather providers being subject to automatic sanctions.** This means that providers would be required to disclose any service

charges which are above the benchmark(s) to the Regulator of Social Housing through the annual SDR return, explaining the circumstances on a scheme by scheme basis. The regulator would then have a range of powers to deal with these schemes, for example agreeing a plan to manage down service charges over time through imposing lower permitted increases, or indeed taking no action where service charge levels can be entirely justified. This would ensure disruption or delay to legitimate services can be kept at a minimum while at the same time giving Government oversight of those services and the ability to drive value for money.

We welcome the Government's commitment to bringing existing supply into the system at existing rent and service charge levels. However, we seek assurance that where existing provision sits above the proposed benchmarks, they will continue to be exempt from the new regime indefinitely, albeit subject to current rent regulation and service charge setting frameworks. This would give providers additional assurance about the long-term viability of existing provision, and the confidence to reinstate new schemes which are currently 'stalled'.

The Government should issue a new direction to the Regulator of Social Housing setting out the detail of this new framework (following consultation), with the regulator reflecting changes in a new rent standard supported by appropriate amendments to 'Regulating the Standards'.

Question 3: We are keen to make appropriate allowance for eligible service charges within Sheltered Rent that fairly reflects the costs of this provision, whilst protecting the taxpayer. What are the key principles and factors that drive the setting of service charges (both eligible and ineligible)? What drives variations?

There are multiple and complex factors that contribute towards setting a fair service charge which adequately reflects the varying costs of provision. This includes the nature and size of the sheltered scheme, the age and location of the property, specific regulatory requirements which often result in depreciation costs relating to the provision of communal equipment (for example following fire risk assessments), the size, scope and requirements of the internal and external communal areas and the specific needs of customers. This understandably creates a complex system from which it can be difficult to accurately extract the defining features which drive costs on anything other than a scheme by scheme basis.

Our initial analysis suggests that the unique features of individual schemes tends to be a stronger determinant of service charge levels rather than general rules relating to scheme characteristics. This supports the view that any approach which seeks to build up bespoke benchmarks on the basis of tariffs for individual service elements would be a complex task which would create an intricate, inaccurate and hard to administer system.

We have analysed data on around 4,500 of our sheltered units in an attempt to determine significant drivers of costs. Having tested variables such as the size of the scheme, the age of the property and location of the scheme we have concluded that clear and significant patterns which could reliably underpin a new system are difficult to determine – while there may be some indication that these variables contribute towards the overall cost to some degree, none could be deemed to be an accurate predictor.

For example, it would be logical to assume that larger schemes are able to offer economy of scale savings and will therefore have lower charges per unit than smaller schemes. However, our analysis suggests this is not the case – smaller schemes (1 to 20 units) show lower average service charges than medium (21 to 35 units) and large (36+ units) schemes *(Figure 1)*.

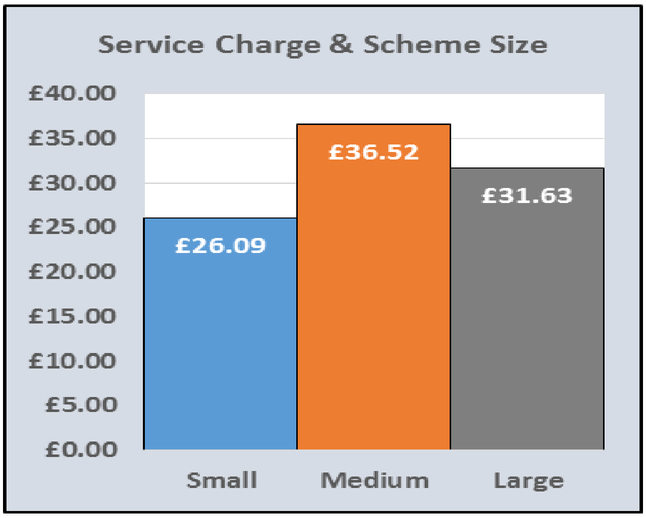

Figure 1.

We have had some limited success in analysing service charges by the age of properties – older schemes tend to have slightly higher average accommodation based service charges, particularly around maintenance, utilities and depreciation *(Figure 2).*

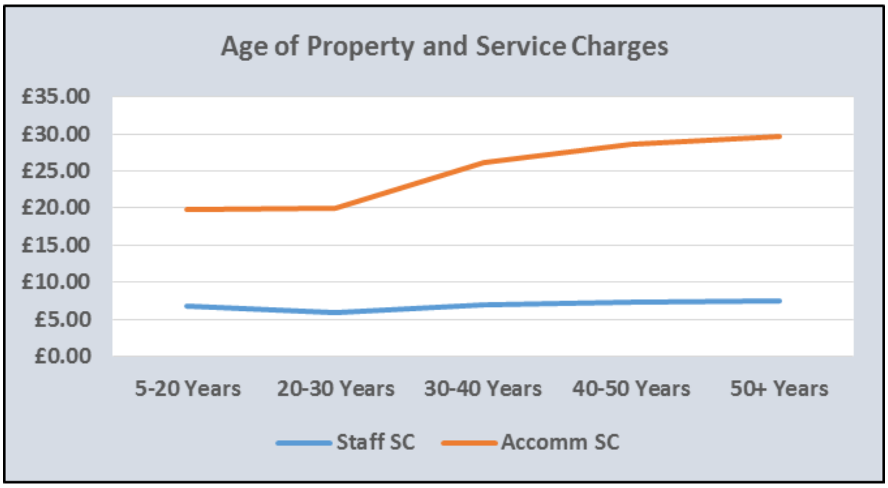

Figure 2.

However, while this pattern looks significant when looking at average charges, the reality is that when we look at individual schemes there is still significant variation – an older scheme will not always have a higher service charge than a newer one.

There is also some limited evidence from Riverside's data that there is some regional variation around service charge levels – average charges seem to be higher in the South West and London *(Figure 3)* - although again this pattern is not always seen at the individual scheme level.

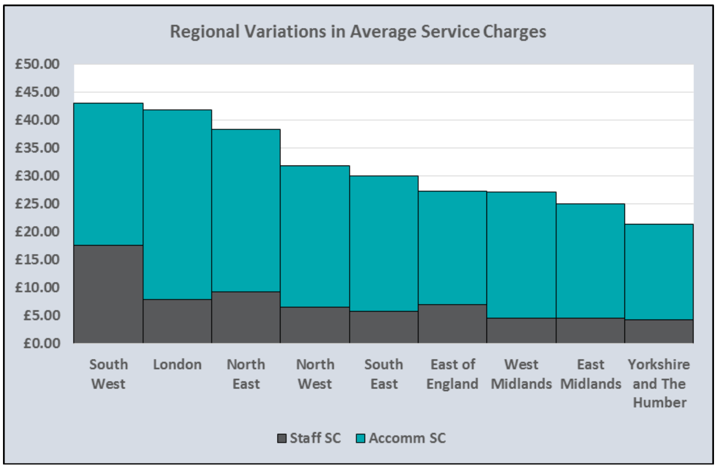

Figure 3.

Clearly the relationship between service charges and scheme characteristics is complicated, and considering the impact of single variables on the overall level of charge without controlling for other factors, could mask relationships that might exist. To address this we have undertaken a simple multiple regression exercise looking at the relationship between service charge levels and a number of possible cost drivers. The results were inconclusive, with no significant explanatory relationships detected. This supports the view that service charge setting is complex, and reflects the characteristics of individual schemes. It is our view that determining the key drivers of service charge levels would require an exhaustive exercise in data collection across multiple providers, with no guarantee that the findings could be used to adequately determine a sensible mechanism for determining benchmarks. That is why we are recommending a simple 'top-down' approach to establishing benchmark levels, based on the distribution of service charges for current provision.

Question 4: The Select Committee and a number of other sector representatives have suggested that we use a banded approach to reflect variety of provision across the sector. We are interested in understanding more about this. How do you think this might work for sheltered and extra care housing?

We propose a two band system for establishing benchmarks – one band for 'standard' sheltered accommodation (or supported housing for older people) and another for extra care. These services are very different and a 'one size fits all' approach to setting Sheltered Rents would not be enough to deliver a robust funding model - the differences in service provision, buildings, and the needs of customers needs to be taken into account when developing the overall approach.

Our evidence suggests there is a clear gap between the average eligible service charges between these two categories, however there will likely be some overlap for individual services and schemes. This can be seen in Figure 4 below which shows eligible service distributions for ‘standard sheltered’ and ‘extra care’ accommodation based on service charge data collected for 28,000 homes owned by four large providers: Riverside, Home Group, Housing and Care 21 and Hanover.

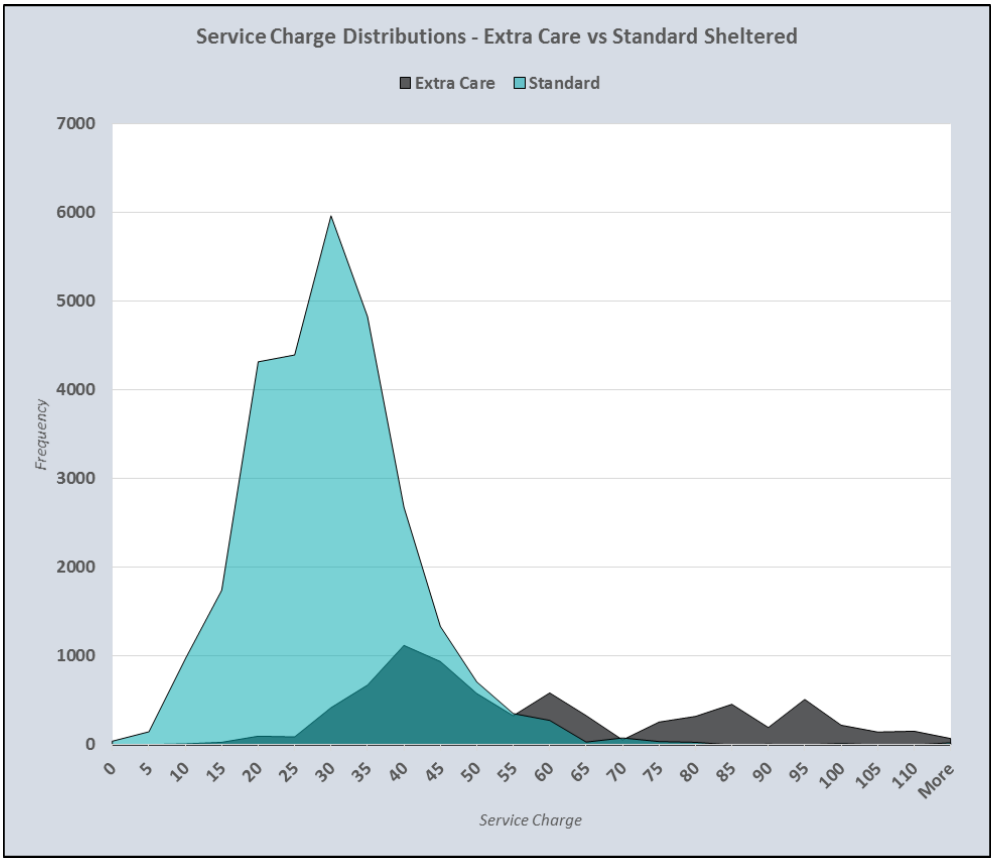

Figure 4.

However while it is clear that service charges in extra care tend to be more expensive (an average of £56 per week compared to £27 per week in ‘Standard’), there is also clearly overlap between the two categories. Using a method which seeks to set benchmarks in such a way as to capture the majority of provision (as outlined in Question 2), this overlap becomes less troublesome. For example, by setting benchmarks at the 95th percentile of the distribution of eligible service charges in each category, the data we’ve collected would suggest a ‘standard’ sheltered benchmark of around £46 per week and a benchmark for extra care of around £99 per week. The outliers that sit above these levels could then be subject to closer scrutiny by the regulator with providers required to explain the higher costs or manage them down (as per suggestion in Question 2).

Of course our analysis is limited, and we are not proposing that benchmarks are set at precisely these levels. As proposed in our answer to question 2, a wider piece of ‘top-down’ analysis of service charge distributions would be required.

Question 5: For providers, on what basis do you review eligible service charges? What drives changes?
- More than once a year
- Annually

- Every two years
- Every 3-5 years
- Every 5 years or more
- When a new tenant moves out of the property
- Other (please state).

At Riverside, our **variable service charges** for sheltered and extra care housing are always reviewed and varied annually, in accordance with the tenancy agreement and the law. The only exception to this is where there is a proposal to introduce new services part way through a financial year. Variations are subject to a statutory process which requires the landlord to provide tenants with a detailed breakdown of their charges (and associated costs) as well as requiring consultation on proposed variations and the specification and tendering of works above a cost threshold.

Changes in service charges from year to year are driven by variations in actual costs, based on estimates for the forthcoming year, and the refund of surpluses or recovery of losses from the previous year. Important factors in service charge variations include inflation (wages and goods and services), works undertaken to meet regulatory requirements (for example relating to works following fire risk assessments), and cyclical stock investment. Any under or over charging is recouped from, or repaid to, the tenant respectively so that the service charge reflects the actual cost of services provided. Tenants have the ability to not only scrutinise but also challenge these charges as part of our complaints procedure and the right to refer their complaint to the Leasehold Valuation Tribunal.

It is this existing built-in accountability which suggests that the regulatory approach to setting service charge benchmarks within the Sheltered Rent regime should be simple, with levels established that include the vast majority of service charges in current provision.

Question 6: Of your service charges, what percentage is paid by:
- Welfare payments - through eligible service charge
- Local authorities - for example, through supporting people
- The tenant
- Any other reflections

All Riverside’s sheltered/extra care service charges are paid by the tenant. If the tenant is eligible to receive support through housing benefit (and the service charges themselves are eligible in accordance with regulations), then housing benefit will contribute to some or all of eligible costs, depending on the claimant’s circumstances. This is the case for around three quarters of our tenants living in sheltered and supported housing.

Around 83% of Riverside’s service charges (in sheltered and extra care housing) are eligible to be met by housing benefit, and around 17% are not eligible. These non-eligible charges are generally for services such as alarm monitoring or charges to cover utility costs within a tenant’s own home, for instance where there is a communal heating system.

Putting together tenant and service charge eligibility data, we estimate that around 60% of our current service charge income is met through housing benefit payments.

Question 7: Attached to the policy statement is a draft National Statement of Expectation (see Section 4). We would welcome your views on the Statement and suggestions for detailed guidance.

Question 8*:* The National Statement of Expectation encourages greater partnership working at local level regarding supported housing, including sheltered and extra care housing. What partnership arrangements do you have for sheltered and extra care housing at the local level?

We very much welcome the inclusion of sheltered and extra care housing within the draft National Statement of Expectation. Given demographic change, it is essential that local authorities undertake long-term comprehensive assessments of need for this type of accommodation, plan strategically for its provision through the planning system and through influencing capital investment (for example through the investment programmes of Homes England), and monitor its effective use.

In our experience many local authorities have a weaker grasp on the provision of specialist housing for older people, particularly given that the majority have withdrawn from providing revenue funding for sheltered housing through Supporting People or adult social care budgets. Current partnership arrangements vary from local authority to local authority, and are generally weak or even non-existent, except where there is significant ongoing investment in new provision.

If the expectations set out in the statement are to be met, we believe two things need to happen:

- Local authorities require adequate resourcing. In our experience local authority strategic research and planning capacity for supported housing has become very limited, and has declined sharply since the ring-fence on Supporting People funding was lifted in 2009. The National Statement of Expectation puts significant new burdens on local authorities with regards all forms of supported housing (not least short-term), and this is unlikely to be resourced without additional funding being provided for this purpose by central Government. This should not simply be top-sliced from any local grant funding to meet housing costs.
- There needs to be a very clear requirement for local authority partnership working with providers and their representatives. Whilst providers are mentioned as part of the list of partners who should collaborate in the production of Supported Housing Strategic Plans (p48), they come towards the end of a very long list. The involvement of providers, who will bring a strong customer and delivery perspective, is essential and should be a very clear requirement, backed by more detailed guidance. In many areas it will be providers who offer the greatest degree of expertise.

Question 9: Government has moved the implementation of the reform on sheltered and extra care accommodation to April 2020. How will you prepare for implementation in 2020, and what can the Government do to facilitate this?

We welcome the deferral of the implementation of this reform, and believe this should provide sufficient time for landlords to prepare, provided that the details of the new approach (including the proposed benchmarks for Sheltered Rents) are developed quickly, and in collaboration with the sector and Regulator of Social Housing. The target date for the publication of detailed proposals should be early 2018/19, given the preparation needs of providers and the requirement for consultation on a new rent standard and possibly Government direction.

As part of this we believe there is a case for the Ministry of Housing, Communities and Local Government (MHCLG) to commission research, which will consider the distribution of current levels of rents and service charges in the sector (for sheltered and extra care housing), in order to identify appropriate benchmark levels which capture the majority of rents in the sector. Different options should then be tested to understand the impact across the sector. We have undertaken similar analysis with a number of other providers (see answers to Question 4), and believe that this exercise could be completed relatively quickly, if commissioned soon. We would urge MHCLG to do this without delay.

Question 10: Deferred implementation will allow for additional preparatory measures. What suggestions do you have for testing Sheltered Rent?

In that housing costs will continue to be met through the benefit system, we do not believe that Sheltered Rent needs to be formally piloted. However the impact of different levels of benchmarks do need to be assessed, and we have proposed how this could be done through a short research project (see question 9).

Question 11: How do support services predominantly in sheltered and extra care accommodation get commissioned in your organisation or local area?
- By local authority (upper tier)
- By local authority (lower tier)
- Through the local NHS
- Other (e.g. nationally). Please name.

Local authority funding for the commissioning of support services has sharply declined as funding for Supporting People has reduced over the past eight years. Over the past six years Riverside's income from local authority commissioned services for sheltered housing has fallen by 69%, as local authorities have focused what Supporting People funding remains on services which require more intensive support and are thus more expensive. This means that providers such as Riverside have had to drive significant efficiencies already, and many people-based support services have been reduced – for example it is now rare for a sheltered housing scheme to have its own dedicated scheme manager. Services have been redesigned, so that the cost of on-site support is shared between tenancies over a number of schemes.

Other than in extra care housing, the remaining costs relating to sheltered housing are housing costs, paid for by the tenant through their rent and service charge, and in three quarters of cases, backed by housing benefit. A small portion of this meets staffing costs related to the management of the building and its communal facilities, rather than housing support.

In extra care schemes there tends to be a more complex mix of funding, with costs being met through a mix of Supporting People, adult social care, and health authority cash. We have recently built 316 new extra care homes in Hull, using PFI funding to meet housing costs. Whilst PFI credits predominantly meet housing costs, there is limited revenue funding for housing support costs.

Question 12: We believe the sector can play an important role in driving forward improvements in outcomes and value for money, for instance through joint commissioning and sharing of best practice. What role can the sector play in driving these improvements forward?

The proposal to introduce Sheltered Rent will help improve value for money as it applies to housing costs. Whilst there are already significant efficiency drivers in the system because of existing rent regulation and statutory service charge oversight (see Question 5), the additional service charge benchmarks set through the new regime will no doubt create a renewed focus on cost control in schemes with higher service charges. This will be welcome for tenants.

In that the level of housing support being commissioned in sheltered housing is very low anyway, and is beyond the scope of the changes set out in the Sheltered Rent proposal, it is difficult to see how further improvements to this will arise. However as collaboration and strategic thinking develop under the new National Statement of Expectation, this is bound to encourage both the sharing of best practice and innovation. Indirectly this could have a positive impact on improvements to outcomes and value.