

Response to DCLG and DWP consultation on funding for supported housing

We would like to thank the government departments involved in the work they have done on the funding of supported housing. It is clear that they have listened to the concerns of the housing sector. It is particularly pleasing that the current consultation has initiated a genuine dialogue on finding the best way forward.

We feel the government is now actively embarked on developing an approach which has potential, (with some important amendments) to deliver the certainty necessary to provide the confidence for providers to invest in sheltered housing. A significant caveat is however necessary in that the detail of the proposed approach is missing – namely the level of any cap, how it will move over time and the possible bandings. How these are set will be critical in determining how workable any new approach will be. Our response focusses exclusively on sheltered housing, our key points being:

- Definitions of sheltered housing and extra care housing should be based on **a range of indicators** and outcomes
- The suggested 'sheltered rent' formula needs to be amended. The gross regulated rent should be the product of the **formula rent plus a capped service charge** (there being a clear separation between the two).
- The calculation of the formula rent element remains unaltered and moves in line with the rest of sector, namely by CPI + 1% from 2020.
- The capped service charge reflects the true cost of providing services and alters by analysing a basket of the appropriate costs.
- **Existing schemes** transfer into the new regulated regime at their current charges.
- There are **two bands by type of housing** one for sheltered and one for extra care. A data collection exercise should be undertaken to determine if there needs to be other variables – such as **regional bandings** or **bandings for size of scheme**.
- The regulator should expect from providers an **explanation of charges above the cap** – there should either be a justification of the costs on schemes or a plan to bring them back within the cap.
- We need an early **indication of the level of the sheltered housing rent** to encourage providers to commit to new development.

Question 1: We would welcome your views on the following:

- 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?**
- 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?**

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?

In previous submissions on the funding of supported housing we have set out the many benefits provided by sheltered accommodation both for individual tenants and the public exchequer. Benefits quoted included a reduction in hospital stays, a reduction in falls and a limiting of loneliness and social isolation – these latter helping prevent use of GP and hospital services. Any definition developed around sheltered housing must recognise these outcomes and seek to protect the accommodation which delivers on them.

Within Anchor we use the terms category 1, 2 and extra care to distinguish our sheltered accommodation. The differences being based on the level of support and accommodation related facilities provided to our customers. Regardless of its classification each of our sheltered housing schemes exists to help tenants stay independent and to limit or offset their call upon other health and social care services.

Any proposed definition needs to recognise that this form of accommodation is now several decades old and variations in what it looks like will have evolved across the sector. We feel sheltered housing needs to be allowed to continue to develop in response to external pressures and opportunities. As such we are averse to the introduction of a prescriptive definition. Though this may deliver consistency it could limit the potential of sheltered housing and lead to an unnecessary remodelling of some accommodation and services.

As an alternative we feel that the definition should recognise the current variety of sheltered accommodation and have flexibility in its application so as to allow innovation and effective organisational responses to any challenges within the external environment.

Following consultation with our two closest peers we therefore feel that the most apt way to approach this is to identify a number of key indicators which supported housing providers use to designate schemes as sheltered and extra care housing. Boards should have an awareness of how this classification process happens within their organisation and if schemes are inappropriately classified it should reflect on the regulator's view and judgement of the effectiveness of their governance arrangements. A small change to the Social Housing Regulator's Governance and Financial Viability or Rent Standard could reinforce this expectation.

Our recommended definition of sheltered accommodation is a group of properties situated within a common boundary which are let to older people and which have a number of the following elements;

- Linked to an emergency alarm system
- Visiting or on-site manager part of the week
- A minimum age criteria of 55 unless exceptional circumstances exist

- Some communal facilities – such as gardens, lounges & laundries, door entry/ reception areas, scooter stores etc.
- Physically designed to offer good accessibility standards.
- Fostering, through the facilitation of social activities and active resident engagement in the life of the scheme, of a mutually supportive community of older people – increasing their sense of security and wellbeing
- Support services aimed at initiating timely interventions helping to maintain an individuals' independence within their home and reducing their need for health and social care.

In relation to extra care the indicators would include some or all of the following;

- Care services available 24 hours a day
- Aimed at frailer older people who have or anticipate a care need
- A greater amount of communal space and facilities – sometimes incorporating an assisted bathroom, facilities for on-site or visiting care staff, a restaurant or a café
- Lettings normally completed through a process that involves the provider, adult social care and the housing authority
- The aim to maintain individuals' independence with the support of the care team

We feel there is merit in referring to sheltered/ extra care housing as designated older persons' housing - the regulator already requiring a similar approach through its annual statistical data return which expects providers to classify its relevant stock as housing for older people.

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?'

We note that the current proposed formula is given as follows; *Sheltered Rent = ((Formula rent +/- 10% flexibility for supported housing) + (£X for eligible service charge) up to a level of £Y).*

In order to help provide the certainty for future development and investment we feel the above should be amended to read as follows; *Formula rent +/- 10% plus regulated maximum eligible service charge for that banding.*

Under this proposal there is a clear separation between the net rent and the service charge. There is no overall sheltered rent cap but a retention of existing controls on rents and the introduction of a cap specifically on the maximum level of service charge. Our rationale for proposing this change is;

- a) Formula rent +/- 10% for supported housing** – net rents have been effectively regulated and controlled for many years. If net rents were now to be combined with service charges to deliver a gross capped amount then the local variances in regulated rents, (caused as a consequence of the formula picking up on property valuations and local earnings) could detrimentally impact on the amount of the eligible service charge that can be levied and yet stay within the gross cap. An additional complexity would be caused by property size – a key factor in calculating the underlying net rent but not one in our experience which typically impacts on the level of eligible service charge.

The retention of a clear separation between the rent and service charge allows the rent element to continue to be aligned to the rent settlement for the sector.

- b) Regulated maximum eligible service charge for that banding** – most service charges are variable and fluctuate from one year to the next based on the costs incurred for the services provided and the budget predictions for the year ahead. Rates of increase on a service charge are not always consistent – factors such as utility costs, (affected by seasonal weather) and accounting practices of some providers on the repair and replacement of major items, (such as lifts, emergency lighting, fire alarm equipment etc.) can result in some years seeing above or below average increases. The new formula must recognise this and not cap annual rates of increase but instead provide a cap on the maximum eligible service charge. In this way service charges will be permitted to increase to reflect the true cost of providing services whilst service charges at or above the cap will be subject to additional scrutiny and challenge.

We however are not proposing that the cap applied on the maximum eligible service charge should never be exceeded but instead should result in a process of oversight and scrutiny. This would entail;

- Individual providers assuring themselves that the service charge on schemes above the cap provides value for money, that there are legitimate reasons why the cap has been exceeded and looking at what might be possible to bring the service charge within the cap.
- An obligation to provide the regulator on request with an explanation why the cap was exceeded – in effect a ‘comply or explain’ approach. The regulator already collects data on average eligible service charge levels by local authority as part of the annual Data Return. A slight modification in how such reporting happens through this return will provide the regulator with the information necessary to challenge outliers and those above the cap.

The approach outlined above will also recognise and tolerate those schemes near the level of the cap which legitimately fluctuate above and below it over a number of years. Such schemes should however still be subject to the additional review and scrutiny mentioned.

We believe the adoption of this methodology will deliver a much heightened and targeted focus on those service charges which at first sight appear excessive or unreasonable.

The rate of increase on the maximum eligible cap on service charge should be more sophisticated than that adopted for net rents. We recommend the rate of increase should be cognoscente of what is happening with a 'basket of costs'. Within such a basket would be included movement on costs of technology, (for example emergency alarm systems), increasing regulatory or legal requirements, (for example fire prevention and safety in communal areas) and trends on energy costs. This analysis should be both forward and backward looking, (bearing in mind that a service charge as well as being a predicted budget of forthcoming costs is also a reconciliation on earlier costs resulting in a 'overspend' or 'underspend' being added to the service charge in a subsequent year).

The above or below average variances mentioned above which impact individual schemes' service charges would be dampened down at a sector level and therefore be considerably less relevant to how a maximum eligible cap moves. We feel the analysis on this 'basket of costs' could be undertaken by the regulator.

In respect of future new developments we recognise that these should be approved on the basis of being within the service charge cap but greater latitude should be extended to those schemes already committed to or in development. These should be considered as though they were an existing scheme.

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?

Within Anchor our eligible service charges will be a product of what Rent Officers traditionally allowed as part of granting a 'fair rent', what the legislation and housing benefit regulations permitted and what was contained within the schedule of services attached to our tenancy agreements. The eligible amounts of the service charge will focus on the maintenance and upkeep of communal areas within a scheme.

We are very aware that how well we manage service charges has a direct impact on what our customers pay. The key principles for us in setting a service charge are therefore;

- **Accuracy** – it is important we budget effectively and avoid unnecessary overspends or underspends which can create swings on what is charged in subsequent years. We monitor adherence to our service charge budgets on a monthly basis and have a process of escalation and review if variances above tolerance occur on schemes.

- **Consistency of charge** – where practical we enter into long term agreements as a way of getting the best deal from suppliers/ contractors but also to limit increases and to provide greater certainty on how costs will move over time within a service charge. Some factors act against this being achieved – utility costs and our practice of charging for the replacement of major items on their historic not replacement value being the two most relevant within Anchor.
- **Transparency** – providing timely information to customers so as they understand what they are being or are to be charged.
- **Choice** – where customers can have a direct influence on the level and cost of services provided we give this to them, for example gardening.
- **Accountability** – being accessible and available to our customers to talk about the reasons and rationale for the overall level of the charge as well as individual costs and variations that might have occurred. It is also about making sure customers know their rights and how they can lodge an external challenge or appeal.

Many of these principles are supported by legislation which entitles service charge payers to a summary of their rights, a summary of costs, (on request) as well an opportunity to inspect the accounts, receipts and other documents supporting the summary. Legally prescribed consultation procedures for long term services and works above certain amounts have to be followed and the First Tier Tribunal (Property Chamber) offers added protection as they can consider on application the amount payable.

We believe adherence to these principles combined with legislative protection ensures that what goes into a service charge is a true reflection of the actual costs incurred in providing services within a sheltered housing scheme.

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 have assumed that the intent behind banding is to generate a number of caps on service charges reflective of the different models and costs that can be seen to exist within sheltered accommodation.

Sheltered housing has evolved over the years such that a continuum of accommodation types and services can now be seen to exist. As such care needs to be taken in establishing an approach to banding based on scheme type – in effect it could mean establishing a number of definitions to determine within what banding a sheltered scheme sits. We feel this would cause additional complexity and ambiguity and should be avoided – especially as we feel a reference to a range of indicators as opposed to the adoption of a prescriptive definition should be employed to determine what is to be deemed sheltered accommodation.

We recognise three types of sheltered accommodation internally within Anchor, (cat 1, cat 2 and extra care) but are of a mind that what is relevant to Anchor should not be seen as a template for the sector where accommodation and service models might differ and not lend themselves to a similar categorisation using the criteria we do.

In consultation with our closest peers we therefore feel that a simple two band approach on property type would be best; band 1 being sheltered housing and band 2 extra care. Extra care is a more recognisably different service model usually identified by the availability of care services, a multi-agency approach to lettings and a higher level of communal facilities. An aspect of this more supportive model of sheltered accommodation is seen in the higher service charges it typically generates.

Before finalising an approach to bandings and the fixing of caps we would recommend that a further analysis occurs of eligible service charge data across the sector to understand the true cost of service charges and if geographical location and size of scheme can be seen as key factors determining heightened levels of service charge. From the analysis we have done on geographical location we see higher costs in some regions, (for example London) for some types of sheltered / extra care housing but are unaware if this would be a noticeable pattern across the sector.

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 Anchor the norm is to review all service charges annually following an established process of engagement with residents. Though we have the opportunity contained within our tenancy agreements to amend service charges within a year we will rarely do this unless the changes in services/ costs are significant.

Much of the service charge is a budget prediction based on what we anticipate the costs in running services and communal areas will be in the subsequent twelve months. In fixing the budget we will incorporate a lot of known and committed expenditure, (on items such as long term servicing agreements) but we also at other times have to predict and estimate likely expenditure – for example energy usage costs and the level of repairs that may be necessary to communal scheme equipment.

After year-end the budget is closed down and the actual costs incurred compared with what was in the budget are finalised. Overspends and underspends are then determined and these amounts are then carried

forward into a subsequent year's budget. These under and overspends are unavoidable but providers should work hard to minimise them.

Though we work to an annual budget setting process costs included within the service charge can operate and work to different timescales – for example we are likely to see constant annual variations in certain costs, (staff pay, alarm monitoring costs) whereas we may see more static or planned cost variations operating over 2 - 5 years, (long term gardening and cleaning contracts). In contrast contributions to support the replacement of major items, (such as lifts, alarm equipment) will be for periods from anywhere between 5 – 25 years.

A factor supporting reductions in service charges is adding additional units to existing schemes. We have embarked on a programme of converting many ex-scheme manager properties with the intent of producing additional properties. As well as increasing our stock and generating more rental income it reduces the service charge for customers through the inclusion of an additional household contributing to the service charge costs.

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**

We cannot be exact on how many of our tenants are in receipt of welfare benefits in respect of their rent and service charges, the key reason being that many have their benefit payments paid directly to themselves. We estimate it is in the region of 70 – 80% but this may vary based on the location. We do know that 41% of our tenants have housing benefit paid direct to us.

In relation to support costs – these are part of our service charge but are ineligible for housing benefit. We therefore identify a separate support charge as part of the list of charges we levy on tenants. As reported in our response to the previous consultation contributions from local authorities in meeting these support costs have fallen significantly, from £6.1m in 2009/10 to £1.5m in 2015/16. Making up any shortfalls in support grant payments usually falls onto tenants.

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

We welcome the focus the Government has placed on older persons' housing as represented both within the Housing White Paper, the Neighbourhood and Planning Act (regarding the inclusion of older and disabled people in local plans) and now in the proposed National Statement of Expectation. We feel the 5 overall expectations are helpful with their focus on ensuring demand is properly understood, that the right stakeholders are talking to each other, that local authorities take an interest in who is being rehoused and in how effectively the accommodation is being utilised.

In respect of the three specific expectations for sheltered and extra care we would make the following observations;

Plan and facilitate new supply – we agree that any future capital bid from a provider should be linked to the local authority's assessment of future need; however it is therefore of clear importance that there be a consistent, national approach to the assessment of needs so the same data sources and assumptions are used in determining what older persons housing is required.

Providing support which keeps people independent – the overall expectations include a requirement that local authorities work with local stakeholders (including health and wellbeing boards) to deliver a Supported Housing Strategic Plan. Ideally because older people are increasing in numbers so significantly and are so influential on what happens within the wider housing market there is a need to see them as a specific group and ideally have a separate older persons' strategy. As well as looking at new supply the strategy could pick up on related matters such as downsizing and the availability of advice and incentives available to older people wanting to move to smaller and / or more supportive accommodation.

In delivering on the strategy the consultation and local collaboration process should be targeted at the most relevant stakeholders and be done under the umbrella of an older people's housing board. Stakeholders should include local housing providers', the local housing authority, health and social care.

It is important in the development of an older persons' housing strategy that there are established clear and common expectations on the outcomes from sheltered and extra care accommodation and that this carries over to lettings and nominations. Sheltered housing operates effectively as a preventative form of accommodation dependent on a 'balance of needs' being established within the community of older people; this balance avoids placing too much demand on the support services available or detrimentally affecting the social and mutually supportive relationships amongst the residents. With an aging population there is a fear that too many residents with high support needs could be referred to sheltered accommodation thereby undermining its value to residents and health and social care services.

Transparency on delivery – we welcome any local focus on how effectively our sheltered and extra care accommodation is being utilised. Maximising its value to the local community through the more effective operation of nomination agreements and other referral routes should be under regular consideration. The older persons' board suggested above could have a role in assessing the effectiveness of lettings arrangements for their area.

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?

In answering this question we should point out that we operate in just under 200 local authorities. In 120 of those we have less than 100 units and in 160 less than 200. Only in 7 authorities does our stock exceed 500 units. Therefore though a large housing association we often have a small presence in an area. To seek to actively engage with so many authorities would be a poor use of our resources on behalf of our existing tenants. As such we work with local authorities at certain times;

- During the lettings process for extra care – choosing the applicant who will most benefit from the services and accommodation arises usually out of a panel involving ourselves, and representatives from local authorities (i.e. social services and housing)
- When we have issues around lettable or occupancy levels
- When moving forward plans to develop within their localities

We feel the Statement of Expectations is useful for local authorities as it will encourage a review of their arrangements for maximising the value of the sheltered accommodation available from providers in their area. At a general level we do feel more can be achieved in this area on behalf of local populations and we are willing to up our own level of engagement particularly in areas where our stock count is significant.

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?

The consultation has been useful in setting out a direction of travel and in prompting constructive dialogue with government departments and between providers. However we have yet to be provided with the final methodology and more importantly the level of any financial cap(s) that will be applied over time. We are appreciative of the statement that existing supply will come into the system at its existing level but require additional clarity on the government's plans on the funding for these schemes; clearly once all these factors are clarified work will need to be undertaken to understand the impact on our business, our customers and schemes.

We keep service charges under continual review and have done much to keep costs under control. The implementation of controls on the level of service charges will however prompt a review of how our service charge operates.

We would hope the proposed adoption of a National Statement of Expectations will lead to more dialogue with local authorities over how sheltered housing functions within their area – either in terms of additional demand, lettings or maximising use of the existing stock.

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

We don't think there is a need for a pilot rather what is needed is the formula and the caps by banding that will be applied. Once the building blocks are known a desk top exercise can be undertaken looking at historic and pending charges and assessing the implications. It would be useful when announcing the final proposal that the way the sheltered rent will move over time should also be given. If our recommendation is adopted then what we would want is;

- Confirmation that the net rent element will align to the wider sector and be allowed to increase by CPI plus 1% from 2020
- Information on how the annual movement on a service charge 'basket of costs' would operate and what the first year basket looks like. This will allow providers to understand the financial drivers that will impact on any annual review on the cap.

Understanding how charges will change in subsequent years will give providers the confidence to maintain investment in existing and planned new development.

The timeline for implementation also should be considered by government and be cognoscente of the work required amending existing approaches to service charge management.

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**

Following the reclassification of support services as an ineligible service charge cost local authorities undertook the commissioning of these services as part of the supporting people programme though grant payments made did not always match the costs incurred. With the removal of the ring fence we saw a steady and significant deterioration in how much support on sheltered schemes was commissioned by local authorities; with the removal of this source of funding tenants themselves in many areas have picked up the cost. Where commissioning still happens there will be a contract in place and varying levels of engagement with the relevant local authorities over the support provided.

Our exploration of opportunities for using our sheltered / extra care accommodation to support other agencies has resulted in our participation in a couple of 'step down' schemes. These schemes are designed to help combat 'bed blocking' and/or where practical to provide a more cost effective alternative to an intermediate care setting. It can be particularly relevant when a discharge is frustrated because of an otherwise unsuitable home environment.

One of the schemes was funded initially through a Clinical Commissioning Group, (property lease) with a City Council funding the care. Subsequently our property lease costs have been picked up through a transition fund and as part of the partnership arrangements between the Council and the NHS. We would like to see more incidences of this collaborative working and commissioning activities as the savings associated with moving people out of hospital/ intermediate care setting are significant.

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 best challenge on us in delivering value for money is from our own tenants and leaseholders and this is particularly evident on service charges where there is a direct correlation between what they pay and what is spent on site. Over many years we have made ourselves accessible and accountable to customers over their service charge payments. The constant challenge from this combined with the regulatory focus on VFM and our own business imperative to provide quality services at the best possible price have done much to deliver efficient services through the service charge.

We do agree there should be more benchmarking within the sector on charges. Compiling and publishing information for the benefit of boards and residents on average service charge costs (possibly broken down into some key headings – people, utilities, buildings and renewals) should prompt challenge where applicable and lead to pressure on organisations to better understand their costs in relation to other providers. Such work would be in keeping with the VFM expectations of the regulator.