



## Illustrative Cost Models in Learning Disabilities Social Care Provision

commissoned by



May 2011

*healthcare market intelligence*

# ILLUSTRATIVE COST MODELS IN LEARNING DISABILITIES SOCIAL CARE PROVISION

<b>Contents</b>	<b>Page</b>
<b>Introduction</b>	
Aims and areas of focus	4
Costs, quality and cost-effectiveness	4
Links to other projects and reports	5
Areas not covered and acknowledgements	5
<b>Market shift in types of provision – an introduction</b>	6
<b>Residential Care</b>	6
<b>Supported Living</b>	
Overview	7
Housing benefits	7
Capital grants	8
Provider arrangements	8
CQC guidance on separation	9
Size of accommodation and economies of scale	9
Housing shortages	10
Financing	10
Deregistration	11
<b>Staffing costs and efficiencies</b>	
Support needs assessment	11
Dedicated one-to-one support	12
Resource Allocation System (RAS)	13
Efficiency considerations relating to dedicated one-to-one staffing	13
Rota management efficiency and shared staffing	14
Efficiency linked to housing configuration	14
Experience and rates of pay	15
Optimising cost-effective solutions	15
<b>A mix of support, including unpaid community support</b>	16
<b>Use and impact of assistive technologies</b>	17
<b>Extra Care</b>	19
<b>Shared Lives</b>	20
<b>Shared Ownership</b>	21
<b>Conclusions and acknowledgements</b>	22

# ILLUSTRATIVE COST MODELS IN LEARNING DISABILITIES SOCIAL CARE PROVISION

## Contents (continued)

	Page
<b><u>Appendices</u></b>	
1. Residential Care illustrative cost models	23
2. Supported Living illustrative support cost models	31
3. Housing benefits	33
4. Social Housing Provision through a Registered Social Landlord	39
5. Assistive technology examples	44
6. Deregistration case study	46
7. Shared Lives	52
8. Extra Care	59
9. References	61

---

*David Roe*  
*May 2011*

**LAING & BUISSON**

29 ANGEL GATE CITY ROAD LONDON EC1V 2PT  
TEL: 0207 923 5347 FAX: 020 7833 9129  
[info@laingbuisson.co.uk](mailto:info@laingbuisson.co.uk). [www.laingbuisson.co.uk](http://www.laingbuisson.co.uk)

# ILLUSTRATIVE COST MODELS IN LEARNING DISABILITIES SOCIAL CARE PROVISION

## Introduction

### **Aims**

The Department of Health is committed to improving the cost-effectiveness of learning disability (LD) support provision, and to supporting local authorities, as well as providers, respectively, in commissioning and delivering cost-effective, high quality services, which promote good outcomes for individuals.

As part of this process, and particularly in the context of the current economic situation, it has been recognised that there is a need to better understand the relative costs of different types of service and accommodation/ support configuration, with a view to informing thinking about which approaches are more likely to be cost-effective.

Laing and Buisson was therefore commissioned by Anne Williams, National Director for Learning Disabilities at the Department of Health, in her role leading the (then) Valuing People Now Team, working with the National Provider's Forum, to undertake a short piece of work, to compile and describe a range of illustrative cost models, depicting relative unit costs of different approaches, based on input from providers. This report focuses on the description of different types of provision, with additional comments on economies of scale, efficiencies and other cost considerations and issues, in the main body of the report. Accompanying illustrative cost models, with further explanation, are set out in the appendices.

It must be emphasised that the illustrative cost models are 'illustrative', as stated, to demonstrate the principles, rather than necessarily 'typical' or in any way representing an 'average' level of costs or returns, so should not be used in a wider context, to draw general conclusions on the level or adequacy of costs or returns across the market.

The principal areas addressed in this report are:

- Different types of provision, including, individual and shared supported living, residential care, extra care, shared lives, shared ownership
- Accommodation types and configurations, housing costs, related economies of scale, benefits and rents
- Staffing models, costs and related efficiencies
- The nature and implications of overheads, including economies of scale

### **Costs, quality and cost-effectiveness**

A better understanding of the relative unit costs of different types of service and approach should be beneficial in aiding better choices by individuals with learning disabilities, and their advisors (as the new commissioners, under personal budgets), existing local authority commissioners and providers alike. Better balancing of costs

with effectiveness and quality considerations, should enable better choices to be made to obtain value for money.

This includes an understanding of factors influencing cost levels, and the impact of changes in key variables on costs, margins/ returns and fees required to sustain a financially viable support operation. Basic considerations relating to which costs are fixed and which variable (with changes in numbers of residents supported), what level of occupancy therefore represents breakeven, whether and where economies of scale exist, and how they might be procured without sacrificing the quality of support for service users, all also need to be understood. This report addresses some of these questions relating to relative costs and unit costs, and comments on specific cost-effectiveness considerations, wherever relevant. However, it does not aim to address the much broader considerations relating to cost-effectiveness and quality.

### **Links to other projects and reports**

This study aims to complement other more detailed studies and reports, which have dealt with housing options, supported living and other related topics, by adding specific insights into the cost-related issues. Reference should be made to these other reports for much more explanation of different housing and service options, which are not described in detail here. References are included in Appendix 9, but the most significant and relevant of these are:

‘Housing Commissioning Toolkit for Local Authorities’  
by Housing Options, for Valuing People Now, Department of Health 2010

‘Personalisation - What’s housing got to do with it’ ADASS Housing Network 2010

‘Feeling Settled’ by NDTi, for Valuing People Now, Department of Health February 2011. (Guidance for those involved in changing a service from a residential care home to supported living).

Unit costs of Health and Social Care 2010 PSSRU

Extra Care Housing Projects: CSIP report, ‘A Measure of Success’ 2008.

### **Areas not covered**

In this relatively short project, the depth and breadth of coverage has been dependent on providers’ submissions. It needs to be recognised that provider input has been limited in many areas, and that there may be benefits for commissioners and providers in extending the study of unit costs beyond this report. In particular, it has not therefore been possible to address in any detail home-based care, individual benefits and allowances (other than housing benefit), healthcare costs (budgets and any cost issues relating to integration between healthcare and social care), respite care services, brokerage costs and financial management in relation to personal budgets. The core area of needs assessments for supported living and related cost implications, particularly under personal budgets, would also merit further study.

## **Market shift in types of provision- an introduction**

The development of supported living and other approaches to housing and support provision, (including own tenancies or ownership), which provide for greater independence and choice for service users than under residential care, has come a long way over the last ten years. As the move towards further personalisation, self-directed support and personal budgets gathers pace, against a background of ever increasing financial constraints, this has also led to further innovation and a range of new initiatives to improve the cost-effectiveness of service provision.

Supported living arrangements have usually meant a considerably lower call on social services budgets than residential care, as housing costs have been covered by housing benefit or local housing allowance (LHA), and living costs have been paid by service users themselves, out of their additional benefits and allowances received. The move to use of supported living has accelerated in the last four years or so, driven by the personalisation policy, government performance indicators and the efforts by local authorities to make their increasingly tight adult social care budgets go further.

There has also been considerable innovation in the housing options available, and in the ways in which those with learning disabilities can be supported more cost-effectively, which offer financially viable and more affordable support options for the future. These include shared lives and extra care housing options, together with more flexible and imaginative ways to include unpaid as well as paid personal support, under self-directed support, and greater use of assistive technology.

## **Residential care**

The major growth in use of residential care provision came when most of the long-term hospitals for people with learning disabilities were closed. Commercial, as well as 'not for profit' providers responded to the opportunity to develop a spectrum of residential care options, ranging from three or four bedroom houses to six bedroom and even larger converted houses.

The six bedroom house became a popular, standard configuration allowing for good economies of scale and efficient shared staffing arrangements, and frequently affording a good level of return for providers. Outcomes for residents were probably generally a lot better than in the long-term hospitals, but arguably, with hindsight, still offering limited choice, independence and outcomes.

Weekly fees are negotiated on an inclusive basis, covering housing costs, staff support and living costs for residents. Typically, providers have supplied a costing, which splits out the different elements of weekly unit costs, but there has normally been no corresponding split of fees agreed between these different elements.

The lack of separation of housing and staffing support has meant, in practice, that there has been some flexibility for providers to subsidise a lower than required housing cost component with any surplus on the staffing cost side, or vice versa. More recently, with the introduction of the use of the care funding calculator to calculate an appropriate level of fees, housing costs have been allowed for within an allowed return on capital employed, rather than based on actual financing costs.

Illustrative cost models for residential care are included and described in Appendix 1. These demonstrate economies of scale associated with larger homes, the impact of vacancies on margins, through analysis of fixed and variable costs, as well as the calculation of return on capital requirements, and use of EBITDA (earnings before interest, tax, dividends and amortisation).

## **Supported living**

### **Overview**

A whole range of supported living housing has been developed progressively over the last twenty years or more, to meet diverse individual requirements, taking account of different types, sources and amounts of funding available. The move towards supported living has been predicated on the basis that many people with learning disabilities would prefer to choose who, if anyone, they wished to live with, and would generally prefer to live either in an individual flat or house, or to share, but only with a small number of other people, personally selected.

Supported living enables individuals to have their own tenancies, with the flexibility to move house, or remain in the same house, but change their support provider if they wish to. Supported living care provision does not need to meet the space requirements for housing introduced for residential care under the National Minimum Care Standards in 2002. This has allowed some shared accommodation to be offered relatively cheaply, with smaller bedrooms, without ensembles, and in some cases with limited communal space.

Local authorities have specified requirements for new supported living as requiring individual front doors, own keys, and self-contained flats, with bathroom and kitchen. This has been under the broad assumption that housing benefit would pay for the accommodation costs.

However, it has proved expensive and difficult to finance for quite a number of those wishing to convert existing buildings for supported living use. Illustrative cost models for supported living support are included and further described in Appendix 2, whilst housing benefits and costs are addressed in Appendices 3 and 4.

### **Housing benefits**

Under supported living, housing costs, in terms of rents, are paid for by individual service users out of housing benefits to which they are entitled, if the housing is either provided through a registered social landlord (RSL) or unregistered social landlord with exempt accommodation status. Since March 2008, where housing is being provided through a private landlord, these arrangements do not qualify for exempt status and a (lower) local housing allowance (LHA) only is claimable. However, it is possible for those with severe learning disabilities to claim LHA at the enhanced rate for single occupancy (even if they are sharing).

Exempt accommodation arrangements are currently under review by the Department of Work and Pensions, with a report due to be published imminently. There have also been a number of changes to housing benefits and LHAs recently, the most important of which are an additional room allowance for non-resident carers and the

reference point in comparison with local rent levels for LHAs set being reduced from the average rent (50 percentile level) to the 30 percentile.

The main issue facing providers arises in situations in which LHAs are insufficient to cover a market rent for private landlords, particularly where adaptations have needed to be made to a property to cater for the special needs of people with learning disabilities. The operation of housing benefits and LHAs is further described in Appendix 3, together with an illustration of how housing benefits are calculated, as well as how housing benefits and LHAs compare.

### **Capital grants**

The availability of capital housing grants (as distinct from social housing grants through the Homes and Communities Agency (HCA) has also benefited social housing and influenced the types of housing provision affordable. As explained in Appendix 4 'Social Housing Provision through a Registered Social Landlord', these are contributions to the capital cost of acquiring appropriate housing, sometimes through Primary Care Trusts (PCTs), in cases where they are responsible for funding, for those individuals with high needs, including those who need continuing healthcare. Local authorities have also sometimes provided capital grants to help support a minority of individuals with very high needs.

In particular, these grants have enabled RSLs to provide individual flats for people who would benefit from separate accommodation, which would have otherwise been unaffordable. Individual flats do have an advantage, in terms of giving rise to fewer problems managing vacancies, which can be more of a feature of shared housing.

### **Provider arrangements**

Both commercial and not for profit providers of support have to some extent historically provided their own housing, but as the market has evolved and the importance of the requirement for separation of housing and support has been emphasised, they have progressively worked with separate housing associations (both registered and unregistered social landlords), as well as private landlords.

A number of independent, typically smaller, and sometimes family owned providers, already had separate arrangements for owning the housing provided, as individual private landlords, and running the support operations, either as limited companies or as sole traders. These were frequently originally established for residential care provision and have been extended to expand into supported living, with the landlord simply charging rent, which is paid via the local housing allowances.

In addition, some support providers have established their own housing associations, or other not for profit companies to hold the properties, and some specialist housing associations have evolved, to whom (typically) smaller, independent, providers owning property privately have leased their properties, and thereby in some cases managed to obtain exempt level housing benefits. Some large commercial groups have sold off their properties to specialist commercial property companies and then leased them back.

## **CQC guidance on separation**

Further guidance has recently been issued by CQC, to clarify what level of separation of support and housing is necessary for it to be possible to register a supported living service under the 'personal care' regulated activity. This is as opposed to 'accommodation for persons who require nursing or personal care' which requires regulation of the accommodation, as well as the support (as has always been the case for residential care). This guidance is helpful in discussing the criteria to be met, which mainly address the way in which support and housing need to be organised, with no mutual reliance, or provision together of the two components. The principal aim is to ensure that the rights and choices of service users are protected.

The requirement for there to be 'no significant connection between the two entities providing support and housing' and 'for the two functions to run separately, without reliance on the other', are two key criteria to be satisfied, which may impact on financing arrangements in particular. The rights of tenants to be adhered to are further clarified in a new report from NDTi for the Department of Health, entitled 'The Real Tenancy Test – tenancy rights in supported living' 2010.

If services designed to be supported living do contravene the separation criteria, and still have to be registered as accommodation with personal care, then this will mean that they need to satisfy Outcome 10 of the new registration standards. This deals with the suitability and safety of premises, including the need for suitable design and layout of premises. Providers will need to ensure that they are applying for the appropriate registration and that they are able to evidence they meet the criteria required.

## **Size of accommodation and economies of scale**

In practice, much good progress has been made, and it has proved possible for many people with learning disabilities to obtain their own (mainly rented) flats or to procure housing to share, typically with just one or two others, and with more choice as to who they share with. The use of housing benefits has allowed for provision of housing with different levels of rent, in line with the size, facilities provided and numbers of residents sharing the accommodation. For many people moving into supported living housing, as well as to some providers, the question of housing economies of scale has not, therefore, often been such a significant consideration, in the past. Economies of scale nevertheless exist, as illustrated in Appendix 4.

Local authorities have frequently been able to commission individual flats or shared accommodation for no more than four people sharing, and this practice has been reinforced for social landlords, at least, in so far as they have avoided houses with more than four bedrooms, because they would then need to be classified as housing for multiple occupancy (HMOs) which need to be registered and are subject to more onerous restrictions.

However, where housing benefits and (more likely) LHAs do not fully cover an appropriate rent, given the characteristics of the property, then the economics of housing provision and consideration of economies of scale (or lack of them) become more important to providers, as well as to commissioning local authorities, trying to procure viable housing opportunities.

As the availability of new social housing has diminished and greater reliance has had to be placed on use of private rented properties with the lower LHAs available, greater use is having to be made of shared housing with the economies of scale accruing from two, three or possibly four people sharing. Where people with high support needs require provision for sleep-in support within their individual flat, this can mean that the cost of this individual accommodation can be prohibitively expensive.

For example, a (stand-alone) one bedroom flat in many areas of the country could cost as much as around £150,000 to £160,000, requiring a rent of between £300 - £350 a week, but the maximum LHA available, could be between £200 to £230 per week (see Appendix 4).

Clusters of flats in close proximity, within a block of flats (whether dedicated to people with disabilities or shared with others), could, on the other hand, if developed new or purchasable as an overall project, affording acquisition cost savings per unit, be more affordable. Where sleep-in support can be shared effectively (perhaps with the added support of assistive technology), this can further enhance the viability of these types of housing solutions. This approach is proving to be increasingly popular. In similar vein, there have been a growing, though still limited number of 'extra care' developments for people with learning disabilities, affording independence and access to shared support only when necessary.

As well as purpose built, dedicated new provision of small groups of flats, a number of providers have converted larger, no longer needed care homes for older people. These have been transformed into smaller numbers of flats with dedicated ensuite facilities, establishing separate flats for three or four people sharing on each floor, for example. These approaches utilise economies of scale whilst ensuring that numbers sharing remain relatively small.

## **Housing shortages**

It must be recognised that major constraints currently exist in relation to the increasing shortage of suitable housing, for people with learning disabilities and particularly social housing, in many areas of the country. Government capital for social housing has been cut back, and many private landlords are reluctant to lend to the sector, particularly to support people with higher needs and challenging behaviour.

## **Financing**

Banks are currently very reluctant to lend to independent providers wishing to raise money to finance supported living housing, at a level sufficient to fund the new property acquisition and adaptation, for several reasons. Firstly, this is as a result of the separation of housing and support, as discussed above, which often means that the lender cannot rely on the additional income from the support provider to support repayment of the amount borrowed.

Secondly, there is reduced longevity and security in income streams, to secure longer term financing, particularly where for private landlords these are only based on short-term assured tenancies for service users, allowing service user freedom to

move elsewhere at relatively short notice, or change support provider. Thirdly, there is the frequent problem of the shortfall in LHAs to fully cover the rent required, to provide the income required to support a high level of borrowing. These financing constraints are exacerbating the shortfall in housing.

## **Deregistration**

Deregistration of suitable existing residential care provision, as an additional route to extra supported living housing provision, is also still proving very problematic, for many providers. Bank support for this is restricted by the financing considerations highlighted above, with lower resultant valuations of supported living housing jeopardising the continuance of sufficient bank funding in many cases, and this is typically more problematic for independent/ commercial providers, with lower housing benefits to support them.

Quite a number of 'not for profit' providers have been successful in deregistering homes, but examples of this happening successfully in the private sector are few and far between. Ordinary residence constraints still adversely affect both 'not for profit' and private providers wishing to deregister, although there are some signs of progress through the issuance of directions by the Secretary of State – 'Ordinary Residence Disputes Directions 2010, as well as Department of Health guidance 'Ordinary Residence – Guidance on the identification of the ordinary residence of people in need of community care services' and a compulsory arbitration scheme. ADASS has also developed a protocol for local authorities to work more effectively to support this and transfer budget responsibility over a transitional period.

Guidance on pathways for individuals wishing to pursue deregistration of the service in which they are living have recently been developed by NDTi, in their report 'Feeling Settled', for the Valuing People Now team, which should be consulted. An illustrative cost model example of a recent deregistration has been included as Appendix 6.

## **Staffing costs and efficiencies**

### **Support needs assessment**

Historically, under residential care, an overall weekly fee used to be agreed, covering support, living expenses and housing costs, which varied depending on the level of support needs of the individual, but often did not specify an actual number of hours support per week expected to be provided within the contract. Support tended to be provided on a shared basis, so that the average number of hours support amounted to the ratio of staff to service users (e.g. 2 staff supporting 4 service users giving rise to a 50% support level). This was except in so far as staff needed to spend a disproportionate amount of time with individual residents, which would vary the individual ratios.

Fee levels varied widely, sometimes influenced by the relative negotiating strength of the commissioner or provider. Levels of need were not always regularly reviewed, and changes in needs and associated staffing support arrangements in place, might not therefore always be fully reflected in fees. Progressively, over recent years, these

anomalies have been addressed through more rigorous reviews, more latterly with the aid of costing models, incorporating staffing needs matrices.

The South East Centre of Excellence local authority needs matrix model, in use for the last five years or more, provided a much more rigorous approach to assessing needs and paved the way for the Care Funding Calculator (CFC), on which it is based, which has now been in use for around three years, particularly within residential care. These models initially assumed a core level of shared staffing for each home, to which was added any additional one to one support requirements, for dedicated assistance. The models have now been refined and improved, and can utilise any combination of shared or dedicated staffing arrangements.

For supported living there has generally been a specific number of hours support per week agreed in contracts from the early days. This has been essential in view of the way in which support has typically been provided, with an emphasis on dedicated, though often lower levels of one to one support, given the greater level of independence on average of those people moving into supported living.

This staff support model operates in the same way as traditional domiciliary care, where service users are supported in their own homes by staff coming in to support them individually, normally only for a few hours, one-to-one. The basic model is predicated on the basis that no additional, shared support is required at any other times of the day, and is therefore only appropriate in this form where individuals are sufficiently independent for this to be the case (although it can be varied to add some shared component – see below).

Staff move from support of one individual to the next, within their shift, whether these be within the same flat or house, between co-located flats or across geographically dispersed locations. Where staff move between locations, this is commonly referred to as the 'floating' staff model and where they are based in the same location it is referred to as 'accommodation-based'.

An independent living version of the CFC has been developed which reflects the calculation of needs and costs on this basis, which commissioners have started to use, although this use is not yet very widespread.

### **Dedicated one-to-one support**

Dedicated one to one support has often been strongly advocated by commissioners, and within industry best practice, largely on the basis that it can provide more 'personalised' support. It is believed that this is likely to provide better quality, more effective support for the individual, to take account of their specific needs and to help them to pursue their individual interests separately from others around them. However, this doesn't mean that service users will always want to do things on their own, as many are sociable and can usefully combine one to one with some shared arrangements with others and joint activities they enjoy, for part of the time.

Coupled with this model, has been the premise that staff providing dedicated support should be relatively self-sufficient and only need to be provided with minimal supervision. No allowance is therefore made within supported living housing for any on-site manager's office, and indeed this has tended to be specifically prohibited, on the additional grounds that this would be an intrusion into service users' privacy, within their own homes.

It has increasingly been recognised that the dedicated staffing model often needs augmenting or altering, to meet different service user requirements and within different housing models. Most simply, where several service users are supported in the same location (or adjacent locations) but cannot be left entirely alone 'background staffing' can be used to provide low level shared support for all.

However, in some cases higher levels of shared support are provided, as in residential care, with smaller amounts of one to one support over and above this, for activities where the individual needs it. These models can also be utilised in the independent living CFC.

### **Resource Allocation System (RAS)**

These approaches contrast with the approach followed under the resource allocation system (RAS), first introduced by In-Control for self-directed support and personal budgets, which has now been adopted with local variations by many local authorities, for this increasingly widespread type of placement. RAS uses a questionnaire to classify individual needs within an entitlement framework, which results in a number of points of entitlement being awarded.

Under RAS there is no specific calculation of the actual numbers of hours support required, whether one to one or shared, for each category of support (e.g. personal care, domestic support, activities support, keeping safe etc.). Nor is there any explicit estimation of the hourly support rate appropriate to cover support, inclusive of on-costs, supervision, overheads etc. This is replaced by a comparison with the level of existing budgets allocated to individuals who score similar points. The budget per point is based on the individual local authority's own analysis of average costs/ fees being paid for similar levels of entitlement, adjusted as they consider appropriate, bearing in mind funding constraints.

However, once an initial budget has been calculated, any requirements to amend the budget to reflect costs which need to be incurred to meet key needs are discussed and changes are negotiated.

### **Efficiency considerations relating to dedicated one-to-one staffing**

Providers have indicated that there are pros and cons of this (dedicated one to one) model relative to shared staffing, from a staff cost efficiency perspective. If service users can be totally independent for a number of hours per day, then clearly there should be a saving, relative to shared staffing, in that their share of this shared cost is simply not required.

If otherwise required shared support can be replaced by assistive technology and service users can be supported in their development to use it effectively without undue risks, then clearly there is much greater potential to save staff support costs in this way, as discussed further below.

However, the 'flip-side' of this argument also applies. The 'all or nothing' support requirement of one to one staffing could mean in practice that service users are provided with full one to one staffing at some times when shared support would suffice, resulting in inefficiencies e.g. if two service users could readily and effectively be supported to cook their separate evening meals at the same time, in a shared or co-located setting, or if two individuals could be taken (transported) to an activity

and location in common and effectively supported then this would obviously be cheaper (as prevalent in residential care).

The key word here is 'effectively', which will depend on the individuals and particular circumstances, so cost and effectiveness should always be considered together, to determine the most cost-effective approach. The applicability and cost-effectiveness of one to one staffing will also depend on the level and nature of needs to be supported.

### **Rota management efficiency and shared staffing**

A further complication in looking at supported living staffing arises as a result of the need for staff to move between supporting one service user to supporting the next. Any 'waiting time' not specifically supporting an individual will not be paid for by social services, but may need to be paid for by the provider, if this occurs within a shift. This necessitates very careful shift and rota planning, if extra costs are to be avoided. Coupled and inter-linked with this is the time required to move between support appointments (as well as the transport costs for this, where this is also between locations).

Where providers are supporting quite a large number of individual service users in their own homes, or family homes, on normal domiciliary care lines, across disparate locations, one to one staffing is the norm. Efficiencies relate mainly to the logistics of how staff can best be organised to meet service user needs at different times of the day, whilst minimising travel, waiting time and related staff and transport costs.

However, where staffing is being organised either within one accommodation setting or across co-located housing (e.g. clusters of flats), then there is more scope for optimising the staffing arrangements. This can include some shared staffing, plus dedicated one-to-one support, so as to balance the requirements and benefits of support from an individual member of staff with the associated greater efficiencies of having staff more accommodation/ location based, with less need to move between locations, less down-time and travel time and more shared support arrangements.

### **Efficiency linked to housing configuration**

Staffing efficiency is closely linked with housing size and configuration, and in practice there are staffing cost economies of scale, which also need to be considered, alongside economies of scale relating to accommodation costs. This is important in planning investment in new or converted housing and in coordinating plans between housing associations and support providers. One housing association representative commented that he thought that opportunities to optimise new housing plans from a cost-effectiveness perspective were sometimes being missed by local authorities, holding separate conversations with housing and support providers, as opposed to using a more integrated planning approach.

It is generally easier to share additional support (over and above one to one support needs), in terms of efficiency and effectiveness, where service users are in the same flat/ house and/ or on the same floor, rather than between flats/ floors. Keeping an eye out for service users, managing risks and offering limited or ad hoc support is more practicable if service users are co-located, and may not be practicable at all (i.e. ineffective) between flats or floors, depending on level of need, risks and specific requirements. It is more efficient in terms of use of staff time, if staff do not

need to keep moving between flats, floors etc., and can provide some support for shared interaction and joint activities where these are desired by and beneficial to individuals.

Of course, these advantages always need to be balanced against any lack of privacy or choice for the individual and any negative consequences of individuals sharing housing more closely. So, in an environment where support cost budgets are increasingly limited it makes sense to see how staffing can be organised to allow the budget to go further, without sacrificing quality.

A larger number of residents and staff in one location can also be helpful when it comes to flexibility and the logistics of supporting individuals to go out into the community, particularly if they have very high needs, necessitating two staff to accompany an individual. Increased scale can, in certain situations, allow greater flexibility in staff allocation, and therefore less costly solutions.

For example, in a specific situation, in a home for five, supported by three staff, it had been possible for an individual who needed to be accompanied by two staff (to cover behavioural risks) to go out at limited times with two dedicated staff, or more often for two residents to go out with two staff. However, when two residents moved out, similar proportionate staff budgets only allowed for two staff to support the three remaining residents, and it was not possible to provide two staff for trips out, as there would have been no staff left to continue to provide cover at the house. With no or very little prospect of obtaining additional service user placements, the (residential care) home could not afford to provide the additional staffing which would have been required. The home was making an unsustainable loss with only three residents and could not fully meet their needs either, and so had to close.

This is an example of economies of scale (or, in this case, dis-economies of lack of scale). Arguably, under more recent support approaches, it might have been possible for additional staffing to be commissioned specifically at those times when the particular resident needed to go out, but this would have added to costs, and the home may well still have been financially unviable.

### **Experience and rates of pay**

It is also important to consider the different cost implications of different supported living staffing models from the perspective of experience and rates of pay required. Typically, staff operating across different locations under a 'floating' model will need to be more experienced and self-sufficient to operate without access to on-site supervision. They will therefore normally need to be higher paid staff. However, where housing is more concentrated, perhaps in a 'cluster' of flats arrangement, there will be more scope for some less experienced, lower cost staff to be accommodated within the staff team and supervised on-site.

### **Optimising cost-effective solutions**

In practice a wide variety of different models are in operation. In some cases staffing can be efficiently organised with suitable rotas, if this combines sharing staff across an accommodation based setting and supporting additional service users in their individual homes, in the same vicinity. The key point is that there is now, more than ever before, a need to balance cost and efficiency considerations with the

effectiveness of support, both in considering the most suitable housing and support arrangements together, wherever possible.

Optimum solutions will and should always very much depend on the specific needs and preferences of the service users for whom the support is being configured, bearing in mind the need for arrangements also to be cost-effective from both the provider and commissioner perspectives.

### **A mix of support, including unpaid community support**

Providers, as well as other advisors, are now increasingly proactive in helping individuals with personal budgets (as well as those in supported living more widely) to develop more cost-effective support arrangements. It has gradually been realised that different levels of capability and experience might be used to support service users with different tasks, to try to address the significant budget constraints.

So, for example, personal care support requirements might be quite basic, whilst assistance to reduce anxiety, manage challenging behaviour and cope with some of the social challenges of autism, whilst out in the community, require much higher levels of knowledge and skill from the support worker. Equally, helping an individual to develop their communication skills, or to increase their domestic independent living skills may require different approaches and skills.

It might therefore be more cost-effective to provide those elements of support which only need a lower level of skills through the use of less experienced, lower paid staff. There is the opportunity for individuals to appoint their own personal assistants, who may have some, though not all of the expertise required, at a lower hourly rate, bringing in or accessing externally more specialist and therefore more expensive support on a more selective, limited basis.

In addition, there will be social and other external activities which individuals wish to participate in where they do not want support workers to accompany them, but would perhaps prefer someone of their own age, with similar interests, as more of a friend or 'buddy'. Procuring regular support from people out in the community who are willing to help, but for free, or at very limited cost of expenses only, will not only improve the suitability of the person providing the support, in line with individual preferences, but could reduce the cost significantly.

However, there may still be a trade off or constraint here, if individuals are supported individually and separately, perhaps remotely in their own flats, for example. In such cases it may not be practicable or cost-effective to have different support workers 'popping in and out' to support the individual with different aspects of their care and support needs, with additional costs of travel and greater difficulties in coordination. There is also the consistency of support to consider, and the benefits of one or more staff being assigned to an individual and having the time to really understand their specific needs and to develop a good relationship of trust with them.

So, inevitably, the cost and effectiveness considerations will, as always, need careful balancing and will vary according to individual preferences, possible support options available and situations faced. Nonetheless, there are an increasing number of examples of where these 'unbundled' support arrangements are starting to work

well, in relation to which shared learning might operate and best practice can evolve. A number of study groups are sharing ideas and various papers have recently been published. These include the recent 'Altogether Now' from Paradigm.

In addition, there have been developments in terms of community support networks specifically relating to mutual self-help groups. Keyring is an organisation which specialises in this type of support. Typically up to 10 disabled people live in close proximity to each other, but have their own property. Some may share, if they wish. In the centre of the network is a worker or volunteer whose role is to:

- Provide very limited support to each member, such as getting to appointments, paying bills
- Help establish and maintain a social network amongst members. This may be by bringing members together for meetings, organising activities and pairing up members, building on their abilities.

The use of free community support, in line with 'Big Society' thinking, may now be seen by some to be a panacea in the effective support of people with learning disabilities, allowing increasingly limited public budgets to go a lot further. This is unlikely to be the case, as there are obviously also limits to the contribution people are prepared to make to providing socially minded support, and for how long they are prepared to commit to this. Professionally trained support will still be needed in many areas.

Nevertheless, the opportunity to engage much more community support, to complement ongoing and experienced support provide by social care providers should be increasingly grasped, in developing individual support plans and providing more cost-effective support provision.

### **Use and impact of assistive technology**

The use of assistive technology (AT), or what is also frequently now referred to as personalised technology, in learning disabilities provision, has been slow to catch on, compared with the much higher and earlier take up in the care of older people. However, this is now changing, as the benefits to service users and financial payback are being increasingly demonstrated in practice and the best practice approaches to adoption are evolving and being communicated.

ATs include an increasingly wide range of technology devices and techniques, often combined, to increase service user abilities to live independently, as well as to be able to monitor their actions and risks in the home remotely, so that they are able to live safely, whilst not needing so much on-site support, and thereby reduce both unnecessary staff intrusion and staff support costs. Applications have enabled people to have more confidence that they can operate unsupported at times and reassure them that help will be alerted if problems arise, increasing 'home alone' time where desired, reducing hours of support needed during the day, and also, significantly, at night, both in relation to 'waking nights' and 'sleep-in' support.

Applications are frequently low cost and include activity monitoring systems, using sensors, which can provide evidence, for example, of service user activity at night and help draw conclusions regarding whether a sleep-in staff resource is really needed on-site, or whether the home can be linked to remote support, so that

assistance is only provided on an ad hoc 'as needed' basis, shared between more service users, thereby saving costs.

Telecare, the wider range of ATs of which activity monitoring forms a part, commonly consists of a set of monitoring devices, linked to a dispersed alarm unit that can call for help if needed, either from nearby staff (or relatives), or via a Central Control monitoring service. Monitoring devices will typically be of two types:

1) Environmental monitors, like intruder, smoke, fire, temperature extremes

Sensors can provide information on a variety of predetermined situations, to send alerts to pre-determined telephone numbers as pre-set protocols – for example, to send warnings about safety issues, such as in relation to fires, residents moving about, leaving the premises etc.).

2) Devices to monitor or assist a person, including in relation to fall detection, enuresis alarms and epilepsy alarms.

These are referred to as Telehealth (using remote vital signs monitoring equipment to determine someone's state of health, to allow earlier intervention than otherwise – for example, to check whether medication has been taken at appropriate times, coupled with a prompt system, to remind the individual when to take their medication.

In addition, very simple to operate mobile phones and land-line handsets can be used for more able service users, to enable them to more readily get in touch with support staff if they need to, particularly when they are out in the community.

AT needs to be focused first on addressing the particular support needs of each individual, and identifying opportunities to help support them, where practicable, with specific assistive technology solutions, to improve their safety, independence and well-being.

In all cases it is important that a thorough risk analysis is conducted and risk management strategies put in place before any major reductions to support staffing are decided upon and AT introduced.

Whilst some applications may be capable of providing early, immediate benefits, the learning curve for individuals to learn to use other AT equipment effectively may be much longer, for those with low capability and high support needs, requiring coaching and support over a considerable period of time. For those who are more able, with limited or no additional financial support from social services, (who need to survive on their allowances, plus unpaid support), the benefits are just as important and may be attainable more quickly.

Deployment of AT where individuals may still be living with parents at home can also help defer or avoid the need for a move into residential care, and can more widely provide benefits to carers, in reducing their support workload and helping them to better manage risks.

The capital costs of investing in AT equipment also need to be considered, in any cost-benefit analysis, although these generally tend to be very small relative to the savings in staff costs. Local authorities generally seem to be enthusiastic about the

greater deployment of AT and the potential savings to be achieved. Some are involved in conducting their own pilot projects, working closely with providers (e.g. Warrington, who are looking at extending the use of activity monitoring with sensors from elderly care to learning disability, to provide evidence as to where sleep-in support is no longer needed). In some cases local authorities have been prepared to pay for or contribute to the cost of AT equipment.

HFT (Home Farm Trust) has been particularly innovative and active as a provider in the introduction of AT (along with a range of other leading providers), and a number of examples of results achieved, including cost savings realised, have been summarised in Appendix 5. They have also developed a demonstration of the array of AT devices, illustrating how these might be deployed and harnessed around a typical service user home, called Smart House (see appendix for reference details).

As a summary of what can be achieved in reducing care packages, the experience of Cheshire County Council (as illustrated in the Housing Toolkit for local authorities, page 32) is worth reproducing here, from a cost saving perspective. In 2008/9, of 100 people who were supported with telecare, a sample of 18 (with some falling into more than one category) showed:

- 1 had an increased care package
- 12 had reduced packages due to telecare
- 2 had reduced care packages, partly due to telecare
- 3 moved from group supported living to living on their own, supported by telecare
- 4 moved from family home supported living to living on their own, including telecare
- 2 waking nights provisions (140 hours in total) and 1 sleep-in provision were reduced.

### **Extra Care**

Extra Care started off as a form of provision for older people, but has increasingly evolved, first to include older people with learning disabilities, and subsequently to include a proportion of younger people with learning disabilities. Individuals typically have their own flats, normally within a purpose built development, with additional communal space and quite a wide range of additional facilities, including meals, if required. Extra care therefore provides independence and choice, and typically also provides special facilities for those who also have physical disabilities.

Individual care packages can be agreed, care and support is available twenty four hours a day and there is the ability and flexibility to provide high levels of care when needed. Economies of scale are afforded through this being developed as an integrated housing development, with shared facilities and staffing support. Extra care is also typically characterised by a high investment in assistive technologies. The economies can often extend to shared community care teams and nursing/health support. The model also lends itself to having mixed tenures, so that people have the option to rent, as tenants, part buy or buy outright.

In the early days much of the extra care development benefited from being state funded, through social housing grants, but funding has also been through social services capital funding, recycling capital receipts from disposal of surplus sites,

charitable funding and mortgages/ family funds. There are also a number of examples where development has been achieved without access to public funds. Private developers have, more recently, also now become involved in development projects. Quite often a housing association will take on the leasehold, with the developer retaining the freehold.

People with learning disabilities tend to make up only a relatively small proportion of the total numbers in any single development, as there is the practicality to consider of ensuring that having people with a learning disability within the community is an appropriate mix, alongside older people. Normally the proportion of people with learning disabilities is therefore kept to around 20 - 25% and five or six in any one development. The idea of housing too many people with learning disabilities together is also said to risk 'institutionalisation' and stigma in the eyes of the general public. Developments to include people with learning disabilities are often therefore somewhat smaller, at 20 – 30 beds, as opposed to those exclusively for older people, which could be for 40-50 beds.

People with learning disabilities can often also be somewhat younger than the older people with whom they share (in their 40s, 50s or 60s, as compared to older people in their 70s and 80s). In terms of suitability, the key question for individuals to consider will be whether they will fit in with and wish to live with the (quite often large number of) other people in the development. In many cases, someone with learning disabilities who has been living in the family home will move with an ageing parent to a two bedroom unit in extra care.

Care packages are funded in the normal way, through a combination of social services and health budgets, supporting people funding and ILF, if available, and housing benefits to pay the rent, where residents are tenants. Leasing of the developments to RSLs where private landlords are involved in the building or adaptation, and own the freehold, overcomes the landlord's concerns over the benefits status of the resident, as well as the limitations to residents of only an assured shorthold tenancy. This also provides for higher housing benefits to be obtained.

A range of specific learning disability case study examples, all arising from a Department of Health extra care project initiated in 2004, which provided development funding of £2.3m for ten individual projects, have been included in a CSIP report, 'A Measure of Success' 2008. An Extra Care Housing toolkit prepared by CSIP has also recently been made available through the Housing Learning and Improvement Network (LIN).

An illustrative example of an extra care provision, highlighting the component costs is included as Appendix 8.

### **Shared Lives**

Shared Lives is an arrangement whereby people with assessed community care needs are accommodated in the homes of families, couples or single people who are approved Shared Lives carers. Shared Lives schemes which are mainly run by local authorities and increasingly by independent sector providers recruit, approve, train and support Shared Lives carers and arrange and monitor placements. It used to be known as adult placement, and is now an increasingly thriving though still small

alternative to residential care and more conventional supported living, typically offering significant cost savings relative to both.

CQC's figures for 2009/10 from councils' Self Assessment Questionnaire returns show Shared Lives increasing. A total of 4463 people were supported by councils as permanent residents in homes registered with a Shared Lives scheme; 6325 people were receiving non-resident Shared Lives support (respite, day support). CQC also highlighted the ratings in their State of Social Care Report releases in April 2011. They said "Shared Lives performed best in relation to national minimum standards, meeting 93% of them on average. They also improved the fastest, meeting almost a fifth (18%) more standards in 2010 than in 2006.

It has also achieved higher CQC quality ratings than any other type of social care service, over the last three years, with 38% of Shared Lives Schemes rated as excellent and 59% as good, and none as poor. The operational characteristics and a typical cost model relating to this approach are set out in Appendix 7. In addition, this includes a detailed set of responses to key cost-effectiveness questions posed in the study, by NAAPs (formerly National Association for Adult Placements, who represent and support shared lives schemes and carers). The costing models used and a business case evaluation of shared lives (conducted in 2009) are included in a further, separate document, available on request.

In conclusion, although Shared Lives will not suit everyone's individual needs and preferences (living effectively more as part of a family, as opposed to in their own accommodation), this would seem to offer a cost-effective solution, with high quality and good outcomes, to be explored for many more people, for the future.

However, the growth potential depends upon the critical importance of finding the right match between individual and carer for this relationship to work well. It also depends on the availability of people willing and able to be carers, particularly for those with high needs and behavioural challenges, as well as the limits to the numbers of these would-be carers who can provide the spare rooms and other suitable facilities required. Nevertheless, some areas have waiting lists of potential carers. For growth, the model does require up-front investment in recruitment, training and matching. It also needs to be recognised that there is effectively no security of tenure under Shared Lives, as it is possible for the carer to terminate the placement if circumstances no longer suit. Many of these support relationships work well for extended periods of time, in practice and provide social inclusion, a sense of belonging and ordinary living.

### **Shared ownership**

The opportunity for individuals with learning disabilities to own their own properties, through an arrangement whereby they share the cost of this ownership 50:50 with a housing association (partly buying and paying mortgage interest only, on one half, whilst renting the other half from the housing association), has become popular for a small but growing number of people over recent years (now around 1,000, since starting in 1999). Subsidised rents keep the rent within the housing allowance limits, whilst the mortgage interest is payable through income support, via support for mortgage interest (SMI). However, the SMI rate has recently been reduced to 3.63% and most specialist mortgages in this area have a much higher interest rate. Shared

ownership remains an option where a substantial deposit and/ or alternative income streams such as family investment or trust funds can be accessed.

## **Conclusion**

There are a wide range of issues which need to be addressed, if people with learning disabilities are to be supported well and cost-effectively in future. These encompass strategic assessment of the economics of the marketplace, and investment challenges, consideration of changes in specific benefits, overcoming barriers to restructuring services and market transformation more effectively, revisions to entitlement and cost modelling systems and, not least, funding arrangements. The complexities should not be under-estimated, yet simpler solutions are called for, wherever possible.

The need to better understand costs, and the effect of changes in key variables on unit costs, fees, margins and viability, is ongoing and key to making good decisions for the future. Much work still needs to be done. The cost model spreadsheets developed for the project can usefully be built on to support these initiatives.

## **Acknowledgements**

We would like to thank the following for their support in producing this report: the Valuing People Now team, the National Provider Forum and a wide range of providers, a small number of local authorities, IESE (re the care funding calculator), OLM, NDTi, the Learning Disabilities Coalition, ECCA, the National Care Forum, VODG, ARC, the National Care Association, the Home Care Association, NAAPS, the National Housing Federation, Mysafehome, Care Management Matters, Lester Aldridge, the Tizard Centre (University of Kent), David Felce (University of Cardiff), Support Solutions and Just Checking.

Individual providers have made the greatest contribution, but have not been listed, respecting confidentiality with regard to specific case studies and examples.

It should be emphasised that, whilst the report was commissioned by the National Director of Learning Disabilities, at the Department of Health, it does not necessarily represent their views. Responsibility for the report rests with Laing and Buisson, as the researchers.

**Residential Care – illustrative cost models****4 bed residential care home**

This example is of a high specification adaptation in South East England, to provide a four bedroom house for individuals with 24 hour support needs, being well equipped, including ensuites with shower and good communal space. The capital cost of £700,000 covers a purchase price of approx. £500,000 and major adaptations of £200,000, with £490,000 financed by a bank mortgage and £210,000 from capital investment. Average support needs are for 64 hours a week support, per service user, with an average fee paid of £1,600 per week. The table below also highlights the impact of having one less occupant on unit costs (per person per week).

<b>Fee/ Cost Element £</b>	<b>4 res. pppw.</b>	<b>4 res. total pa.</b>	<b>3 res. pppw.</b>	<b>3 res. total pa.</b>	<b>Fixed/ variable comment</b>
<b>FEES</b>	1,600	332,800	1,600	249,600	Varies with no. service users
<b>STAFF COSTS</b>					
<b>Direct staff costs</b>	1002	208,463	1,123	175,174	Manager & night costs fixed
<b>Rect. Training etc.</b>	30	6,240	32	5,018	Semi variable with no.s
<b>Staff overheads</b>	34	7,176	45	7,134	Semi variable with no.s
<b>Sub-total</b>	1066	221,879	1,200	187,326	
<b>LIVING EXPENSES</b>					
<b>Living</b>	105	21,840	105	16,380	Varies with no.
<b>Utilities</b>	30	6,240	32	4,992	Semi-variable with no.s
<b>Sub-total</b>	135	28,080	137	21,372	
<b>HOUSING</b>					
<b>Mortgage interest/Rent</b>	141	29,400	188	29,400	Fixed with no.s
<b>Maintenance / services</b>	117	24,336	148	23,015	Semi-variable with no.s
<b>Sub-total</b>	258	53,736	336	52,415	
<b>Total home related costs</b>	1,459	303,695	1,673	261,113	
<b>Home margin</b>	141	29,105	(73)	(11,513)	
<b>Head Office costs</b>	88	18,200	117	18,200	Fixed
<b>NET MARGIN</b>	53	10,905	(190)	(29,713)	

***Analysis***

1. Approx. 7.5 FTE (full time equivalent) staff provide 257 hours of support per week plus 1 waking night staff member (2 additional FTEs to cover the full week) and an additional sleep-in support staff member. There is a full-time manager.
2. Support staff are paid £7.00 an hour and senior support staff £8.50 an hour, with the manager earning £28,000 p.a.

3. Living expenses per person per week cover £40 food, £40 travel, £20 service user activities and £5 for holidays.
4. The mortgage rate is 6% on the mortgage loan of £490,000 = £29,400 pa. This loan needs to be repaid over 15 years, requiring a capital repayment each year of £32,667 out of net margin (profits) after tax (ie. £10,905 less tax); there is therefore a shortfall in this case, even if full.
5. Head Office costs are charged at £88 per person per week, on the basis of full occupancy.

### ***Explanation of fixed/ variable cost adjustments***

The table estimates the impact on costs and margins of occupancy reduced by one, to three residents.

1. For staff costs, it is expected that the full waking nights and sleep-in cover will still be required, and that the manager will still be need to be paid for full-time, even if he or she has some spare capacity with only three residents. There will probably be a need for the manager to spend some of this time in enquiry generation and proposals to fill the vacancy.
2. Recruitment and training savings are estimated at 15 and 20%, less than the full reduction of 25% represented by one less resident, as some element will be fixed. Other staff overheads are considered to be largely fixed, with only a minor reduction made for lower costs of CRBs for lower staff no.s.
3. Similarly only some elements of house maintenance and service costs have been reduced, and then only partially as they will contain some fixed proportion i.e. boiler and other equipment maintenance reduced by 10%, cleaning material costs reduced by 10%, maintenance man costs reduced by 15%, while only the cost of damages/ breakages has been reduced by 25%.
4. Utility costs have been reduced by only 20% as there is some element of communal usage, for which costs will not be much lower.
5. Head Office costs are assumed to be fixed in relation to resident numbers, for simplicity, and therefore the allocation per resident needs to be increased. In practice, these include some elements which might fall and some which could rise e.g. the cost of the centrally located behavioural support activities might fall with fewer residents to support, although this could, alternatively be fixed, as representing (say) one or two specialist staff members, who will only be working to marginally less than full capacity, with no actual cost saving, to support the staff team in each home. These should in any case often be viewed more properly as direct staff costs, as opposed to central charges. On the other hand, central marketing costs may need to increase with an additional vacancy to fill.

## ***Return on Capital and EBITDAR***

The additional table below highlights overall financial ratios for the home:

	<b>4 res. total pa.</b>	<b>3 res. total pa.</b>	<b>Comment</b>
Home Margin (from table above)	29,105	(11,513)	Before Head Office costs
Add back:			
Mortgage interest /rent	29,400	29,400	
Other bank interest	416	416	
Depreciation	3,328	3,328	
Sub-total	33,144	33,144	
EBITDARM	62,249	21,631	See definition (1)
Capital deployed	700,000	700,000	
Return on Capital (2)	8.89%	3.09%	EBITDARM/ Capital
Head office costs	18,200	18,200	
EBITDAR	44,049	3,431	EBITDARM - Head Office costs
Return on Capital net of Head Office costs (3)	6.29%	0.49%	EBITDAR/ Capital = ROCE

### ***Explanation***

(1) EBITDARM = Earnings before interest, tax, dividends, amortisation, rent and head office (M = management) costs.

EBITDARM is often used within care businesses as the measure of performance for which each home is directly responsible, being the contribution to central overheads which each home makes before financing (which Head Office tends to manage).

(2) A return on capital can also be calculated using EBITDARM. However, a proportion of head office costs are likely be incurred in support of the operation of each home (e.g. behaviour management support, accounting and human resources), so these should really be apportioned to each home, leaving only the care business 'portfolio management' costs as central costs.

(3) It may therefore be more appropriate to calculate return on capital after head office costs are deducted from returns i.e. based on EBITDAR. This tends to be the more common measure used in the marketplace to compare operating performance, and in valuing businesses, particularly when looking at the business as a whole, when management costs clearly also need to be taken into account.

### **8 bed residential care home**

This example is of a high specification adaptation in South East England, to provide an eight bedroom house for individuals with 24 hour support needs, well equipped, including ensuites with bath or shower and good communal space. The capital cost of £1,100,000 covers a purchase price of approx. £700,000 and major adaptations of £400,000, with £770,000 financed through a bank mortgage and £330,000 from

capital investment. Average support needs are for 53 hours a week support, with an average fee paid of £1,450 per week.

<b>Fee/ Cost Element £</b>	<b>8 res. p.p.p.w</b>	<b>8 res. total p.a.</b>	<b>7 res. p.p.p.w</b>	<b>7 res. total p.a.</b>	<b>Fixed/ variable comment</b>
<b>FEES</b>	1450	603,200	1450	527,800	Varies with no. service users
<b>STAFF COSTS</b>					
<b>Direct staff costs</b>	726	301,914	757	275,384	Manager & night costs fixed
<b>Rect. Training etc.</b>	16	6,760	17	6,219	Semi variable with no.s
<b>Staff overheads</b>	51	21,216	58	21,174	Semi variable with no.s
<b>Sub-total</b>	793	329,890	832	302,777	
<b>LIVING EXPENSES</b>					
<b>Living</b>	95	39,520	95	34,580	Varies with no.
<b>Utilities</b>	30	12,480	31	11,284	Semi-variable with no.s
<b>Sub-total</b>	125	52,000	126	45,864	
<b>HOUSING</b>					
<b>Mortgage /Rent</b>	111	46,200	127	46,200	Fixed with no.s
<b>Maintenance / services</b>	97	40,352	107	38,987	Semi-variable with no.s
<b>Sub-total</b>	208	86,552	234	85,187	
<b>Total home related costs</b>	1,126	468,442	1,192	433,828	
<b>Home margin</b>	324	134,758	258	93,972	
<b>Head Office costs</b>	88	36,400	100	36,400	Fixed
<b>NET MARGIN</b>	236	98,358	158	57,572	

### **Analysis**

1. Approx. 12.4 FTE (full time equivalent) staff provide 427 hours of support per week plus 1 waking night staff member (2 additional FTEs to cover the full week), though no additional sleep-in support staff member is needed, due to lower night time support needs. There is a full-time manager, plus one additional deputy manager day per week.
2. Support staff are paid £7.50 an hour and senior support staff £8.50 an hour, with the manager earning £35,000 p.a.
3. Living expenses per person per week cover £40 food, £40 travel, £20 service user activities and £5 for holidays.
4. The mortgage rate is 6% on the mortgage loan of £770,000 = £46,200 pa. This loan needs to be repaid over 15 years, requiring a capital repayment each year of £51,333 out of net margin (profits) after tax (ie. £98,358 less tax); assuming tax is approx. 20% = £19,672, so profit after tax is £78,686, which is sufficient to repay the mortgage capital; however, if there is one vacancy this reduces net margin to £57,572 less tax of 20% = £11,514, so net of tax to £46,058, which is insufficient to repay the mortgage in full.

5. Head Office costs are charged at £88 pppw, on the basis of full occupancy.

***Explanation of fixed/ variable cost adjustments***

The table estimates the impact on costs and margins of occupancy reduced by one, from eight to seven residents. This is on the same basis as used for the 4 bed home, with only fully variable costs (direct support staff support and living expenses) being reduced by the full 12.5% (1 resident out of 8), whilst semi-variable costs have been reduced by between 8 and 10%.

***Return on Capital and EBITDAR***

The supplementary table below highlights overall financial ratios:

	<b>8 res. total pa.</b>	<b>7 res. total pa.</b>	<b>Comment</b>
Home Margin	134,758	93,972	Before HO. costs
Add back:			
Mortgage interest /rent	46,200	46,200	
Other bank interest	832	832	
Depreciation	6,656	6,656	
Sub-total	53,688	53,688	
EBITDARM	188,446	147,660	
Capital deployed	1,100,000	1,100,000	
Return on Capital	17.13%	13.42%	EBITDARM/ Capital
Head office costs	36,400	36,400	
EBITDAR	152,046	111,260	EBITDARM – HO.
Return on Capital (net of Head Office costs)	13.82%	10.11%	EBITDAR/ Capital =ROCE

***Return on Capital Requirements***

Typically, care businesses are financed through a combination of bank finance (borrowing) and other capital. This may be commercial capital invested, capital grants or possibly charitable grants. The focus in this example is on commercial capital, which needs to earn a return sufficient to attract investors to the sector, given other possible investment opportunities.

Commercial returns on capital required can nevertheless vary by organisation, and will also depend on the level of financial risk associated with the income flows; the higher the risk, the higher the return required to compensate for this risk. Risks and returns required may vary over time and depending on the state of the market.

As banks have recently been taking a more cautious approach to risk and lending, they have tended to restrict the proportion of overall finance required which they are prepared to fund, this having fallen over the last three years from 75 up to 80 or even higher (for some high quality, well established businesses), to between 60 and 75%. Funds available to start-ups are normally less than for established and successful businesses, reflecting the difference in risk. Normally the banks are looking for lending to be secured on the property to be acquired and converted.

In this example, the proportion of bank financing is assumed to be 70%, for both the 4 bed and 8 bed homes. In addition, it has been assumed that the rate of return required (sometimes referred to as ROCE – rate of return on capital employed) on the commercial capital is 25%, reflecting the much greater risk which the commercial investors have than the banks, who will be able to fall back on the security in the property if the business runs into trouble.

25% is a frequently quoted rate, but in practice this will vary between providers, given their alternative investment opportunities, returns and risk assessment; if, for example it is possible to earn over 20% on other types of property investment, then one would expect a somewhat higher return than that to be required, to reflect the greater operational risks in learning disabilities housing provision.

It is therefore possible to calculate an average cost of capital required, based on the mix of funding, known as the weighted average cost of capital or WACC, as follows, for this example:

#### **4 bed home**

<b>Type of financing</b>	<b>Rate of interest/ return</b>	<b>% of funds</b>	<b>Funds</b>	<b>Interest/ Return £</b>
Mortgage	6.0%	70%	£490,000	£29,400
Capital invested	25%	30%	£210,000	£52,500
Totals		100%	£700,000	£81,900
WACC	$\frac{81,900}{700,000} =$ <b>11.7%</b>			

#### **8 bed home**

<b>Type of financing</b>	<b>Rate of interest/ return</b>	<b>% of funds</b>	<b>Funds</b>	<b>Interest/ Return £</b>
Mortgage	6.0%	70%	£770,000	£46,200
Capital invested	25%	30%	£330,000	£82,500
Totals		100%	£1,100,000	£128,700
WACC	$\frac{128,700}{1,100,000} =$ <b>11.7%</b>			

The overall (mixed or WACC) rate of return required by the company establishing or responsible for the ongoing management of the home is the same for both homes, given that both the rates of interest/ return and proportions of funding these represent are the same, in this example.

## **Overall Comments**

### **4 bed home**

1. At an average fee level of £1,600 per week, this high spec. 4 bed home is only earning a net margin, after head office costs, of £11,905 (before tax) and a return on capital of 6.29% (as compared with the 11.7% required), even when full.
2. If the home was to have one vacancy this would result in a negative home margin of £11,513 even before central overheads, and a negative net margin of £29,713, after allocating a proportion of these costs.
3. A break-even fee level (to enable a positive net margin to be earned) has been calculated as £1,547, so just below the existing fee level of £1,600 per week.
4. It has also been calculated that to achieve a return on capital of 11.7% would require a fee level of £1,782 per week. This is unlikely to be justifiable, particularly in the current financial climate.
5. Given these expected return levels, even if full, and the inability to generate sufficient margin to repay bank borrowing amounting to £32,667 per annum, this proposition would not be capable of obtaining the bank finance required to support the establishment of the home 'up front'. In fact, the provider supplying this cost data is, in practice, unable to proceed with prospective care home projects with this and similar profiles. All the operating costs are nevertheless typical of the standard costs experienced by this particular large commercial provider, in that area of the country, and so are valid as illustrative. The example can readily be amended, to use other figures to calculate the financial implications of different scenarios, in the same or less expensive areas of the country.
6. Given the costs of operating such a home and supporting individuals with this level of needs, the alternatives, as a basis for obtaining an acceptable rate of return, would potentially include:
  - i) Focusing on placements for those with even higher needs, so as to obtain a higher overall margin (although it is always necessary to ensure the compatibility of individuals, and it could well be that this will become more difficult as levels of need increase, with behavioural challenges sometimes becoming greater)
  - ii) For the future only developing 4 bed properties which can be acquired and suitably converted at a lower overall cost
  - iii) Trying to obtain a greater proportion of bank financing than 70%, which will bring the overall mixed rate required down
  - iii) Accepting a return on commercial capital lower than the norm (i.e. lower than 25% in this example)
7. However, in practice none of these options might be possible. The most usual way in which residential care businesses have avoided unacceptably low rates of return has been to develop larger homes, with more bedrooms, which afford greater economies of scale. Six bedroom homes have typically been the most popular model, affording greater economies whilst avoiding the greater challenges which might, but would not necessarily arise as a result of supporting even more service users in a single location.

### **8 bed home**

1. In contrast the 8 bed home achieves a net margin before tax of £98,358 when full and return on capital of 13.82%, in excess of the level required, of 11.7%.
2. With one vacancy the net margin is reduced to £57,572 and the rate of return to 10.11%, which is still reasonably high and not far below the requirement of 11.7%. The reduction in margin for the loss of one service user (£40,786) is almost identical

to the reduction in margin through loss of one service user within the 4 bed home (£40,618).

3. The larger home clearly attracts economies of scale, despite lower average support levels and fees, and is much more able to withstand the impact of a temporary loss of one or more service users, without this threatening its basic viability so significantly.

4. The breakeven fee level for this 8 bed home has been calculated as £1,214 per week, while the fee level necessary to obtain a target rate of return of 11.7% is £1,394 per week.

### ***Spreadsheet model***

The financial impact of changes in all these variables, including flexing the number of occupants to assess the impact on margins, and calculating breakeven levels, has been calculated using the spreadsheet excel model supplied to providers as part of this study.

### ***Care Funding Calculator (CFC)***

The CFC currently uses a 13% return on capital ratio as the benchmark for WACC. However, in practice a downward adjustment is normally made which effectively reduces this, by altering the capital value on which this is calculated.

A weighting has been applied to Land Registry benchmark property cost data on which the ROCE is calculated, of 55% of the average for cost group 1 (relating to the highest cost areas of the country), whilst 60% is applied to cost groups 2, 3 and 4. This is based on research with providers, which indicated that median costs for mortgage or rent plus profit were usually lower than figures calculated using the CFC; in addition, an expectation that providers would seek cost-efficient properties in each area in which they operate, with below average value.

## Appendix 2

### Supported Living – illustrative support cost models

#### 2 bed supported living home

This example illustrates a two bedded supported living home in the North West of England, using budgeted costs.

Fee/ Cost Element £	Average hours support per week	Rate £ per hour	Unit Fee/ Cost £ pppw. including on-costs	2 residents Total £ pa.
<b>INCOME</b>				
<b>Fees</b>	<b>56.5</b>	<b>16.0</b>	<b>910</b>	<b>94,647</b>
<b>COSTS</b>				
Direct staff costs:				
<i>Senior support staff</i>	19	9.00	212	22,121
<i>Support staff</i>	37.5	7.80	363	37,839
<i>Sub-total</i>	56.5		575	59,960
<i>Waking nights</i>				
<i>Sleep-in</i>	35	3	110	10,950
<i>Manager</i>	2.5	13.85	39	3,972
<b>Sub-total</b>	<b>94</b>	<b>12.71</b> Note1	<b>724</b>	<b>74,882</b>
<i>Recruitment</i>			5	501
<i>Training</i>			12	1,300
<i>Other staff overheads</i>			16	1,667
<b>Total staff support costs</b>			<b>757</b>	<b>78,350</b>
<b>Gross Support Margin</b>			<b>153</b>	<b>16,297</b>
% margin				17.2%
<b>Management costs -area, division, central</b>			<b>124</b>	<b>12,915</b>
<b>Net margin</b>			<b>29</b>	<b>3,382</b>
% net margin				3.6%

Note 1. This cost is the direct staff cost per hour, calculated within the spreadsheet excel model supplied with this study, as the total weekly staff cost, including management supervision costs, per hour of direct support provided to each resident.

### 3 bed supported living home

This example illustrates a three bedded supported living home in the North West of England, using budgeted costs, for the same provider.

Fee/ Cost Element £	Average hours support per week	Rate £ per hour	Unit Fee/ Cost £ pppw. including on-costs	2 residents Total £ pa.
<b>INCOME</b>				
<b>Fees</b>	<b>56.5</b>	<b>16.0</b>	<b>910</b>	<b>141,971</b>
<b>COSTS</b>				
Direct staff costs:				
<i>Senior support staff</i>	25	8.60	267	41,720
<i>Support staff</i>	31.5	7.50	295	46,086
<i>Sub-total</i>	56.5		562	87,806
<i>Waking nights</i>				
<i>Sleep-in</i>	23	3	70	10,950
<i>Manager</i>	6.2	13.33	90	14,145
<b>Sub-total</b>	<b>85.7</b>	<b>12.74</b> Note1	<b>722</b>	<b>112,901</b>
<i>Recruitment</i>			5	726
<i>Training</i>			12	2,000
<i>Other staff overheads</i>			19	2,931
<b>Total staff support costs</b>			<b>758</b>	<b>118,558</b>
<b>Gross Support Margin</b>				
			<b>152</b>	<b>23,413</b>
% margin				16.5%
<b>Management costs -area, division, central</b>			<b>125</b>	<b>19,555</b>
<b>Net margin</b>				
			<b>27</b>	<b>3,858</b>
% net margin				2.7%

### Comments

1. The weekly unit costs per service user for both homes in these examples seem remarkably similar (with both homes supporting service users with, on average, the same level of needs in hours), although there are some offsetting differences; in particular, staff rates are higher at the two bed home whilst the level of manager supervision is very low, at only 5 hours a week between staff supporting two service users (ie. 2.5 hours per service user).

2. It may be that this is because staff at the two bed home are more experienced, and therefore paid slightly more, leaving the manager not needing to provide as much support. However, a detailed comparison of reasons for different levels of support and different costs at the two homes has not been made, and so firm conclusions should not be drawn.
3. On-cost allowances of 28 days holiday, 2% of time for training and other non client time, as well as a 10% allowance on staff costs for employers national insurance (average) have been built into the staff costs.
4. It would seem that recruitment, training and head office costs are apportioned to homes in this budget based on numbers of service users, so it is unsurprising that resultant unit costs are very similar.
5. Head office costs amount to approximately 81% of the gross margin, which seems high, and yet there is no analysis readily to hand or any clear idea as to how they support the supported living operation and contribute to the well-being of the service users. This seems quite typical of many costing analyses produced in the sector.
6. Generally, it would be expected that there might be some (possibly relatively small, or marginal) economies of scale within both the staff costs and related staff overheads, comparing the two and three bedroom homes. These could arise in sharing management supervision more efficiently between larger numbers of staff and residents together, or in relation to overheads which do not all increase with greater numbers of residents and supporting staff.
7. These may not be apparent here because of the way the budgets have been allocated and might be more obvious when looking at actual cost comparisons. Actual staff costs at the two bed home are known to be slightly higher than shown here, reducing the two bed home margin, whilst it is also understood that fees in both homes were subsequently reduced slightly as a result of negotiations with the local authority concerned.
8. Living expenses and housing costs/ benefits have not been reviewed as part of these examples.

### **Housing Benefits**

This Appendix explains how housing benefits and local housing allowances operate, including comments on recent changes. This is followed by an illustration of how, housing benefits are calculated, as well as how these can compare with lower local housing allowances.

Under supported living, housing costs, in terms of rents, are paid for by individual service users out of housing benefits to which they are entitled (or, since March 2008, local housing allowance, for people renting from a private landlord). Much of the initial supply of housing was provided as social housing by registered social landlords (RSLs), with the twin advantages that much of this has been public funded by social housing grants and that this provides entitlement to (full) housing benefit.

However, more recently, as social housing grants have been less readily available, most financing has had to be via the banks, unless a specific capital grant from a PCT, local authority or elsewhere is available – see section below). A cost model example of the costs associated with RSL provision is included as Appendix 4.

Over time this has widened to include a range of unregistered social landlords, some of whom have also been able to obtain 'exempt' status, entitling individuals to the full housing benefit. Exempt providers include other housing associations, non metropolitan councils, registered charities, and other voluntary bodies.

In addition, supported living housing has been provided by private landlords, although, since 2008, they have only been able to claim local housing allowance for their residents. This is less generous than housing benefits, particularly in so far as some allowance can typically be claimed under housing benefits for the cost of refurbishing or adapting the property for the specific use of individuals with learning disabilities.

It is also possible to claim for some proportion of 'housing related' support costs under housing benefit. These costs claimable are sometimes referred to as 'intensive housing management' costs. They can include costs associated with repetitive housing functions, such as letting and tenancy agreements assistance, housing and other welfare benefits claims assistance, visits of contractors and other visitors/professionals, arranging aids and equipment adaptations, health and safety and other risk assessments relating to the property, management, administration, delivery and facilitation of housing services.

RSLs (only) charging such items to the housing benefit budget, whose rents as a consequence go above the local reference rent level, can also trigger a subsidy for local government. For non RSLs, the difference between what is claimed and local reference rent is met by the local authority instead. More details of these arrangements can be obtained from Support Solutions (see references, Appendix 9).

The lack of provision for adaptation, in particular, has meant that the financial viability of some private landlord housing has been much more marginal, and in many cases it has proved unviable. It is difficult to generalise, as the costs of some housing propositions can still be covered, whilst others are not (based on the specific

characteristics of the property and purchase price obtained). The amount of adaptation required and how costs and rent required compare with average local rents and LHA levels set vary.

In practice there can often be a shortfall in LHAs, in which case it may or may not be possible for tenants to pay a top-up (provided that their other allowances give them enough extra money to do so). However, often local authorities, on behalf of their clients, are very reluctant to enter into any arrangement with landlords where a top-up is charged. Shortfalls have long been an area of concern and one which is likely to increase in the light of recent changes in housing benefits discussed below.

If only the basic level of LHA is available, then this can mean that individuals are unable to afford properties which meet their needs, especially if they require a rural property or a property with greater internal or external space.

However, it is possible to obtain the higher rate of LHA for single occupancy, where individuals are living in shared accommodation. The rate of LHA available for single occupancy is considerably higher than that for a room in a shared house or flat (for example, this is approximately £150 per week in a specific area within the south east of the country compared to £85, for one room in a shared flat or house (the rates vary around the country, dependent on local rent levels). An additional bedroom for non resident carer can also be claimed.

To be entitled to this higher rate, individuals with learning disabilities need to be entitled to the medium or higher level of disability living allowance, and as a result also qualify for the severe disability premium. This can make a big difference to the viability of supported living provision, for private landlords, but even with this enhanced level of LHA, there can still be a shortfall in LHA compared with the rent necessary for private landlords to fully cover costs (see illustration below).

### **Recent changes to housing benefits**

The problem of the cost of an extra room for sleep-in support, where individuals require twenty four hour support has been recognised by the government in the recently announced changes to housing benefits, and a very welcome extra allowance is to be provided for non-resident overnight carer support. This should enable a two bed rate of LHA for single occupancy to be obtained for individuals not sharing, as well as the same higher rate for each occupant in a shared flat or house, where a shared sleep-in room is required.

These additional, enhanced LHAs should help to improve the viability of housing through private landlords, but are only helpful where a separate sleep-in room is required. The bigger the shortfall is between enhanced LHA and the exempt housing rate, the less likely it is that this will solve the overall shortfall, where sleep-in rooms have been established, because flats or houses with a sleep-in room will have had to be purchased with higher prices, effectively as homes for one more service user. The problem of inadequate benefits to cover housing costs in full (and particularly to cover the cost of adapting properties for people with severe learning disabilities) is still therefore likely to continue.

In addition to the greater relevance of economies of scale to providers and commissioners, as the costs to the 'public purse'/ central government of paying for ever increasing levels of housing benefit have risen, with higher rents, the question of relative unit costs of housing, associated rents and resultant housing benefits has become much more important for central government. There is therefore a clear desire to house people entitled to housing benefits in properties with lower rents, wherever possible, which has led to further recent changes to housing benefits.

The most significant, recently announced change to housing benefits, affecting people with learning disabilities, is likely to be the amendment to LHAs, which are now, since 1 April, to be set at the 30 percentile in relation local rents in the district (as opposed to the 50 percentile average local rent level previously used). In addition, there will no longer be a five bedroom LHA rate, and weekly LHA rates will not exceed £250 for a one bedroom property; £290 for a two bedroom property; £340 for a three bedroom property; £400 for a four bedroom property.

On top of the already significant problems arising from LHAs, this is likely to have a further negative impact on the ability of people with learning disabilities to procure suitable housing, particularly if their homes have been in areas where housing is in short supply and rents are high.

### **Calculation of Housing Benefits**

This is complicated in practice, as there is no standard format or content, although detailed guidance is available in the legislation and from various other expert sources. Housing associations tend to rely on experience gathered over many years to work out the appropriate allowances for various risks, coupled with gathering data from their accounting records on typical costs for various expense categories, as a basis for calculating rents and service charges required, for different sizes and types of property, in different locations.

An illustration of a rent schedule used by a housing association, for a typical three bedroom property, is included on the next page. Note that the figures are only illustrative, to give an idea of the relative magnitude of different categories of costs, and should in no way be relied on as realistic. For further understanding of definitions and the way in which it is appropriate to calculate various elements in the costing, it is recommended that an established housing association or other expert be consulted.

### **ILLUSTRATIVE RENT SCHEDULE – 3 Bedroom property**

Cost Category	£ per week	Basis
<b>LANDLORDS DUTY OF CARE</b>		
Bad debts allowance (L DoC)	0.33	3.33% of Landlord's DoC
Landlord's building insurance	2.96	P & L summary
Landlords liability insurances	0.72	P & L summary
Voids cover on landlords DoC	0.66	6.67% of Landlord's DoC elements
Landlord's DoC	6.16	Tenant Support Manager costs
Landlord's DoC Total	10.83	
<b>PROPERTY</b>		
Bad debts allowance (property)	6.49	3.33% of Landlord's DoC elements
Development costs	10.58	10k amortised over 10 years
HM Allowance (Property Element)	12.43	7.5% property rent elements, to cover all housing management functions
Professional fees	6.17	Conveyancing, SDLT, Design fees
Repairs and maintenance	8.67	Average cost per P & L
Resource Accounting Basis: Eligible Rent	152.15	Based on Resource accounting method devised by central govt. (notional return on capital invested)
Sinking Fund	4.86	0.25% of property value, accumulated for any major repairs
Voids cover on Property Rent	12.29	6.67% of property elements
Property Total	213.64	
<b>SERVICES</b>		
Appliances depreciation	5.48	From Furniture inventory
Bad debts allowance (services)	1.80	3.33% property elements
Cleaning of windows (communal)	0.96	
Communal furnishings depn.	14.60	See Furniture inventory
Communal gardening	5.29	
Communal Heat, Light & Water	4.76	Typical household bills – communal %
Council Tax	5.44	Per local authority
Electrical Inspection and Testing	4.02	Contracted costs
Fire Safety Reactive Maintenance	2.34	Contracted costs
Fire Safety Routine Inspections	3.06	Contracted costs
Heating System, Plumbing, Drains	2.64	Contracted costs
HM Allowance (Service Element)	2.57	5% of services elements
Tenants' room furnishings depn.	9.42	See Furniture inventory
Voids cover on Service charges	3.93	6.67% of services elements
Water Safety, Asbestos Mgmt.	2.89	Contracted costs
Services Total	69.20	
Grand Total	293.67	

## **COMPARISON OF LOCAL HOUSING ALLOWANCES AND HOUSING BENEFITS**

The following table has been provided by a housing association, to illustrate the shortfall which typically exists with local housing allowances, in meeting the full cost of rents required to cover costs of housing provision. This is particularly where properties need special adaptation to meet the needs of people with learning disabilities who have high needs and require specially tailored housing.

<b><u>Examples/ Allowances £</u></b>	<b><u>London 3 bed</u></b>	<b><u>London 1 bed</u></b>	<b><u>Norwich 1 bed</u></b>	<b><u>Cardiff 3 beds</u></b>	<b><u>Kent 2 beds</u></b>
<b>Property cost p.w. per tenant</b>	<u>215</u>	<u>186</u>	<u>159</u>	<u>113</u>	<u>201</u>
<b>LHA</b>	<u>115</u>	<u>114</u>	<u>58</u>	<u>58</u>	<u>62</u>
<b>LHA enhanced</b>	<u>250</u>	<u>260</u>	<u>98</u>	<u>109</u>	<u>97</u>
<b>EXEMPT</b>	<u>289</u>	<u>284</u>	<u>216</u>	<u>192</u>	<u>282</u>
<b>EXEMPT less profit at 7%</b>	<u>270</u>	<u>265</u>	<u>202</u>	<u>179</u>	<u>264</u>
<b>Shortfall of LHA to meet cost</b>	<u>155</u>	<u>151</u>	<u>144</u>	<u>121</u>	<u>202</u>
<b>Shortfall of LHA enhanced</b>	<u>20</u>	<u>5</u>	<u>104</u>	<u>70</u>	<u>167</u>

### **Notes**

1. None of these examples reflect the new lower local housing allowances based on the 30 percentile benchmarks.
2. Generally, the rents include not just the cost of obtaining the property, but any capital spend, such as fire systems, furniture, adaptations, the cost of which may need to be recovered over the term of the lease.
3. Property cost may be for purchase or lease.
4. The exempt rate is the rent charged to each tenant per week.

### **Social Housing Provision through a Registered Social Landlord**

*NB. Example, based on the submission of one RSL, which may not represent all other RSLs in all respects.*

This RSL has charitable status and does not make profit or aim for an operating surplus. Any surplus that is made including disposals is reinvested in the sector helping to provide more accommodation. All its property acquisitions are at the specific request of Social Services, PCT's or Support Providers to suit known client needs. It does not provide any speculative housing and protects its investments by entering into a Management Agreement with the scheme commissioners.

The costs from which it derives its rent can be split into four parts.

1. Fixed Costs (Housing Management, Day to Day Repairs) – these allowances do not vary with geographical area or property type.
2. Variable Costs dependant on Property Type (Elemental Renewal Costs)
3. Variable Costs, dependent on Capital required for Property (Finance Costs/Rate of Return)
4. Property Specific Costs (Service Charges)

The RSL can only provide accommodation where the rent is fully met by the tenant, as it cannot provide any internal subsidy by way of a top up. Due to the high costs involved, the only affordable route available to the tenant is to receive assistance from Housing Benefit and make use of the exemption rules available for housing provided through RSLs.

Individuals are entitled to claim full housing benefits, which vary depending on individual needs and entitlements, (n.b. irrespective of the size of accommodation). Typically these can amount to as much as £190 or £200 a week, and even sometimes over £200 per week, and normally prove sufficient to cover the rent required, at least for shared housing, determined based on costs incurred.

The RSL will also engage in situations where a Local Housing Allowance is required, but as this rent level is significantly less than the rent required to support the RSL's costs, the commissioners of this accommodation provide capital funding to reduce the RSL's capital requirement, therefore reducing the finance element of the rent.

The RSL does not involve itself in registered accommodation (or if so on a very small scale) and specialises in the provision of supporting housing with an assured tenancy. This is in contrast to a private developer that would provide a shorthold tenancy for periods of between 6 to 12 months).

Accommodation is provided to single occupants or multiple occupants of a shared house, but in each of these the RSL applies the same cost allowances. The organisation spreads its management costs nationally across all its properties, on an average basis. In the case of shared housing, the tenant receives an assured tenancy for the bedroom they have use of and in the case of single bedroom accommodation the tenant has a conventional assured tenancy for the property.

The RSL limits itself to a maximum of four sharing a house, this maximum being the limit before a property becomes a House of Multiple Occupation and requires registration. However, the RSL will provide a higher number of one bedroom flats within a block, the limitation on numbers being influenced by the perception that too large a number can seem to be creating an excessively large community, all with disabilities, in one location.

The RSL provides sleepover accommodation in nearly all its properties, which has recently been accepted as a permissible housing benefit cost. However, there are a few examples where the cost of funding the sleepover provision has been accommodated within the care package.

The main component of the rent is the cost of financing the capital to purchase the property and undertake repair and adaptation work. The financing cost is similar to normal rates in the industry, which are understood to be approximately 7% currently. This accounts for over 70% of the rent. The remainder of the costs are very much fixed, irrespective of location or property, (see tables below – these are charged based on annual averages).

Properties which can be purchased very much depend on the availability of capital grants, typically receivable in many cases from PCTs, where the individual has high needs, including health needs, and the PCTs are responsible for the individual's support funding.

Normally, properties for single occupancy will only now be purchased where a capital grant is available. The table below illustrates the difference these grants make to the purchase price affordable (capital cost), as well as differences in capital costs around the country, summarising purchases over the last five years, without any adjustment for inflation. Over this period, 36% of the properties purchased were grant aided and 64% none grant aided.

Average capital costs per tenant:

	None Grant Aided £	Grant Aided £
North	74,900	95,200
Midlands	71,800	80,000
South*	80,400	95,200
Average	75,700	90,100

\* Excludes London, where much higher.

The impact of the different Capital Costs per tenant in the property on rents required and actually being charged on average, for properties acquired over the last five years, together with the impact of capital grants is illustrated in the following table:

	Rent per tenant	Total scheme Cost per tenant	Capital Grant per tenant
<b>Tenancies- Capital grant aided</b>			
One person	150.30	225,800	173,700
Two person	104.25	186,100	157,500
Three person	128.39	136,700	85,200
Four person	170.08	126,100	51,000
<b>Tenancies- None capital grant aided</b>			
One person	213.57	115,970	
Two person	194.03	105,750	
Three person	179.55	89,790	
Four person	176.63	85,977	
<b>Shared Ownership – None capital grant aided</b>			
One person	141.21	149,680	
Two person	140.00	90,158	
Three person	145.50	99,700	
Four person	-	-	-

The rents for non grant aided properties clearly demonstrate the impact of economies of scale within property size, based on number of occupants, in lowering the total scheme costs, and thereby the average rents required. Balancing these economies with the needs and preferences of the individuals concerned, results in the most prevalent flat or house size of three people sharing together.

The properties taken on for single occupancy, where no grant is available are only those cheaper properties which have been affordable. A (stand-alone) one bedroom flat in many areas of the country could now cost as much as around £150,000 to £160,000, requiring a rent of between £300 - £350 a week, but the maximum housing benefits available, even for a registered social landlord could be between £200 to £230 per week.

For capital grant aided properties, the rents chargeable can typically be lower, but varying levels of capital grant (different percentages of the purchase price), for different sizes of property, have an effect on the properties affordable and resulting rents required. This means that the effect of economies of scale are masked and distorted, also given the relatively small sample size.

The level of capital grant receivable per tenant can be seen to be particularly high, especially for one and two bedroom flats. This is because these grants tend to be given mainly for individuals with very high health and social care needs, where there is typically a need for significant and expensive adaptation of the property. The housing is more specialised than the norm, and often needs to include a significant amount of communal services, such as lounges, and bathing. In addition, properties have frequently been built in specialist planning areas that require higher building specification.

If the same housing was being provided with or without grant, then the only difference between the two scenarios would be a lower rent in the case of the grant funded option. It is not expected that the level of grants provided over the last

couple of years (during transfers from NHS campuses) will continue at the same high levels for the future.

PCTs have tended to favour single (and, to a lesser extent, dual) occupancy for capital grants, and been prepared to pay a higher proportion of the total cost in capital costs for these properties. This preference has been influenced by the lower likelihood of problems with vacancies, where numbers of occupants are smaller, as well as taking into account the needs of the individuals.

Where housing is shared, and vacancies occur, it is necessary to consider incompatibilities, and this can be a constraint in finding suitable new tenants to share, within short timescales. However, this approach has arguably been less suitable where individuals might have wished to be housed in shared accommodation, to enjoy the greater sociability this affords.

The capital grants paid out per tenant are therefore typically significantly higher for single or dual occupancy, as can be seen in the table. Other anomalies occur in the averages derived, based on the mix of properties for different numbers of occupants not necessarily being uniform around the country (and costs differing by location).

In terms of vacancies, an allowance for voids is incorporated within the rent calculation. However, given that all provision is procured at the specific request of Social Services (or PCTs), they take financial responsibility for long-term voids. The costs are transferred back to them after one year, in line with nomination arrangements, which reduces the risks to the RSL.

## Cost Analysis

Tables below provide analysis of typical capital and revenue cost elements, as well as resident service charge elements.

### Capital Analysis

<b>Element</b>	<b>Basis</b>
Property Purchase	Open Market Value
Conversion/ refurbishment works, inc VAT	Up to 15% of Acquisition Price (normally)
Fittings	Approx. £2,300 per property
Development fee, development dept. input	4.5% of total scheme cost
Legal	0.45% of total scheme cost
Valuation	£600 per property (approx.)
Interest	Standard Rate of 7.5% applied to negative cash flow

## Rent/ Revenue Analysis per tenant

Typical costs, ratios and bases for a property serving 3 tenants

Element	Cost per week £	% of total (approx.)	Basis – Fixed/ Variable
Major repairs	11.25	5.6	Variable cost, dependent on property type. Derived from 30 year cashflow.
Gas service	1.26	0.6	Fixed cost – set annually from company a/cs
Responsive repairs	10.93	5.5	Fixed cost – set annually from company a/cs
Housing management	11.41	5.7	Fixed cost – set annually from company a/cs
Council tax	1.47	0.7	Fixed cost – set annually from company a/cs
Property insurance	0.59	0.3	Fixed cost – set annually from company a/cs
Capital	145.87	73.0	Variable cost – applied to total capital cost
Adaptations Sinking Fund	1.55	0.8	Fixed cost – set annually from company a/cs
Voids incl. bad debts	15.67	7.8	Variable cost – applied to net rent
<i>Rent amount per tenant</i>	200.00	100%	

All properties are mortgaged against a value that is created by independent valuers.

Whilst in practice housing management costs will vary slightly around the country, and in relation to individual properties, it is not considered worthwhile to charge these based on actual, given that differences are small, and accounting for these separately would be time consuming. There is also a desire not to disadvantage individual tenants. However, as a rule of thumb, it is important to have between 10 - 15 properties to be managed in each local area, for the housing management function to be economic and efficient.

## Typical service charge elements payable by the tenant

	£ per annum
Heat and Light	280*
Grounds Maintenance/ environment	20
Furniture & equipment	150*
Furniture & equipment - repair	60
Contents insurance	1
Internal redecoration	250*
Window cleaning	225*
Door entry/ security	0.00
Specialist Equipment	200*
Gardening	600*
Fire equipment	70
PAT/ TMV	60
Communal phones	140*

### **Assistive Technologies – examples of uses**

HFT (Home Farm Trust) a leading provider has compiled a number of case study examples of the benefits and cost savings arising from applications of assistive technology (AT), some of which are summarised below. More details can be found on their website [www.hft.org.uk](http://www.hft.org.uk). In addition, details of their Smart House demonstration of how AT can be deployed in a typical service user home can be accessed at [www.hftsmarthouse.org.uk](http://www.hftsmarthouse.org.uk). The activity monitoring systems being used in the pilot being conducted by the local authority in Warrington are provided by Just Checking, [www.justchecking.co.uk](http://www.justchecking.co.uk).

#### **1. The Ladies**

In this case, three ladies wishing to live as independently as possible together were moving from a residential to a supported living service. Sensors were installed to monitor fire, smoke and CO, plus personal and communal (bathrooms, front door) panic alarms, with links to a call centre through a telecare phone, so that staff could respond if an alert was triggered (telecare cost £700). In addition, they were provided with a Big Picture phone (£35), which aided their communication with family and friends. These minor costs were paid for by Gloucestershire Telecare.

As a result the ladies were able to do without night-time support, move from a situation where they had felt over-protected and gain additional confidence. The cost saving arising on elimination of night support amounted to £10,220 per annum. Savings were also achieved during the day in terms of a reduction in day-time hours support of 6 hours per day, which at £15 per hour equated to £32,850 per annum, so a total of £43,700 per annum combined.

#### **2. Jonathan**

Jonathan was moving to a new home where he was hoping to be more independent. One important part of this was his need to take medication and he wanted to do this on his own. Using a specialist medication device linked to the phone line, Jonathan was able to take medication independently. If he did not take it, a call centre was alerted, who would then inform staff that Jonathan needed their support.

The Lifeline unit cost £160 and the medication dispenser £175, amounting to a capital cost in total of only £335, paid for by HFT, plus call centre support of £52 per annum. Along with increased independence and safety, reassurance and confidence, more home alone time and better communication, savings in staff time were achieved of one hour a day, amounting to cost savings of £5,475 per annum at £15 per hour.

### **3. Jonnie**

Jonnie was moving into a new flat with a friend. He was moving from a service where there was waking nights support to a service with sleep-in support. His needs and barriers to independence were identified and a personalized list of technological solutions put in place, before he moved into his new flat. These included a range of telecare sensors, a Nurse Club system, with Staff Pagers, a finger print lock, automatic IR lighting, instant cooling hob, Big Jack Environmental Controller and automatic curtain opener.

As a result, Jonnie is more independent and able to live without waking nights support. The safety risks he faces have been reduced. The capital cost of the AT equipment amounted to £1,850. *A staff cost savings calculation was not included but can be estimated, illustratively, as the difference between the cost of shared waking nights cover, less the cost of shared sleep-in cover. Assuming that waking nights cover was previously shared between four residents, the cost for Jonnie's share would have been 10 hours a night @ £15 per hour = £54,750 per annum in total, shared between four residents = £13,687 per head. Using the sleep-in costs from the other example above, this cost amounts to £10,220 per annum, shared between two in the flat gives rise to a cost per head of £5,110. The annual saving on this basis, before capital costs would therefore be approximately £8,577.*

### **Deregistration case study**

*This example reflects a very recent deregistration of a service in the South of England, involving four residents with moderate support needs sharing a house.*

The group had been living together for quite a number of years in registered care, but with limited change and progress, and a service which was making a loss, through low fees being insufficient to cover overheads. The service was being run by a 'not for profit' support provider, with the housing already being provided by a separate housing association.

Within residential care, staffing was organised on a shared basis, with a total number of 172 daytime hours supported, amounting to 43 hours a week, on average. This represented a staff support ratio of 41% or 1.6 staff to 4 residents on average. These hours included 19.5 hours of management staff 'hands on' support and a full-time senior support worker.

Prior to the initiation of the project, the LA had decided that it would no longer be prepared to pay for the day service which residents in this home and others run by the same and other providers had been using for a long time. In addition, the local authority had introduced total residential fee bands, set at around only £440 and £640 per week, to cover core support needs at two different levels, with any additional one to one hours needing to be justified through use of the care funding calculator (CFC). There was, however, reluctance to use the CFC on the part of the local authority, and consequent increasing financial pressure on providers.

The local authority had developed an initiative to encourage providers to deregister their services, and this home was considered to be suitable, and the idea supported by the residents. The local authority was very keen to minimise the cost of supporting the deregistered service. They therefore requested that the existing support provider, along with a number of other providers, put forward prices to provide the support under supported living, so as to determine whether they should retain the role or be replaced .

Three providers were short-listed based on prices quoted and they then made presentations to the tenants and families. The existing support provider was successful in winning this tender, albeit at a very competitively low hourly support rate of around £12.72. Following negotiation, care packages and a support approach was agreed with the service users and their representatives which provided for:

1. A 'housekeeper' role, involving one full-time staff member resource to provide shared support for all four residents throughout each day.
2. Additional 1:1 hours for personal care each day, varying between zero (for one) to half an hour (for 2) to one hour, for the fourth.
3. A further 2 hours 1:1 support each per week, for shopping
4. 15 minutes a week each, for health appointments.

In total this has provided a total of 128 hours a week, or 32 hours a week on average. This now represents a lower staff support ratio of 30.4% or 1.2 staff to 4 residents, on average. Support hours include 20 hours a week for a senior support worker, with the rest provided by support workers.

## **Supervision**

Over and above these hours, the provider had included in their price an allowance for only 3.3 hours a week supervision, from a community team supervisor, and 0.4 hours overall supervision from the area manager, per week, to ensure that the price was competitive. The level of experience of the staff team on site is no greater than before, with no manager/deputy manager on site under supported living, and very little supervision.

It has, though, been recognised that staff are taking on more responsibility and need to be more self-sufficient, and pay rates have therefore been increased, but only very marginally. In addition, a senior spends 10 hours a week on administrative support for the home (which was excluded from the figures under residential care arrangements, so is excluded here); n.b. this does not include any involvement in the care or any supervision.

## **Meeting needs**

The development manager responsible for the deregistration project has indicated that the process itself has worked well (despite the heavy investment of time involved) and that the end results of the process have been good. While it is also still early days from the service users' perspective, needs are still being met under the new arrangements, despite the reduction in hours support of around 25%. There is also scope for development of more independence for the service users in future, as they are supported more in a way which encourages this.

This has not, however, been easy to achieve, requiring imagination and creativity in use of the limited hours available. The housekeeper's role is not confined to the house, in practice, and she will go out with the service users, some times a couple at a time, and sometimes with all four together. The two hours one to one allowed per week for each resident outside the home is used more flexibly, in a number of different ways, for activities, as shopping is not always a priority individually, or as frequently as weekly. One service user has a part-time job which also takes him out two days a week.

However, the major potential contributor to helping service users to enjoy a social activity programme outside the home has been the setting up of a club for service users from this home, and many other homes also run by the same provider. This club replaces the day service run by the local authority, which was now being charged for. The club, by comparison, is more inclusive and is run to some extent by the service users themselves; the activities are much better tailored to their preferences and needs, with the guidance of their own staff.

At this stage, the four service users in question are undertaking quite extensive travel training, to enable them to access the club independently, so they are not yet able to attend regularly, but it is hoped that this will be successful soon, and that this will complement their support programme significantly.

Fortunately, the running of the club can harness economies of scale, as it will be available to around sixty service users all supported by the same support provider (though by no means all using it at the same time). At this stage, though, funding still needs to be obtained to secure its financial future and support is being sought,

following preparation of a business plan, through lottery funding or some other form of grant.

The four individuals now also have personal budgets, which have been set up by an independent broker, who helps them manage their money and deals with the living support invoice payments on their behalf, and housing benefits.

## Financial considerations

### *Before (residential care)*

Unusually, perhaps, in situations where deregistration is taking place, this home was making a loss at the outset, so this affects comparisons of before and after financial outcomes. Residential care fees were very low, ranging from one at £377, two at £439 to one at £651 per week. This produced fees of £1,906 a week in total and around £99,000 per annum, to cover support, living costs and housing.

*Unfortunately, it has not been possible to double check all figures provided by the provider, due to lack of their time, under severe time constraints, but figures have been analysed and estimated totals produced, as follows.*

	£
Fees	99,000
Direct staff costs	87,000
Staff overheads	5,500
Living costs	14,500
Accommodation costs	8,500
Home costs total	115,500
Direct margin on home (loss)	(16,000)
Central overheads	14,000
Overall loss	(30,000)

### *After (Supported living)*

	£
Support Fees	84,500
Direct staff costs	78,000
Staff overheads	3,000
Home costs total	81,000
Direct margin	3,500
Office costs and Central overheads	10,000
Overall loss	(6,500)

These figures are approximate, and as indicated would benefit from some further validation (with the caveat that they are thought to be reliable to within two to three thousand pounds in either direction). They nonetheless illustrate several key points:

### Key points

- 1) Losses being made before deregistration were significant
- 2) Through support from housing benefits for residents to pay for the rent, as well as their taking responsibility for their own living expenses, this seems to have significantly reduced the burden of low overall fees for the provider, to cover all these costs (though not eliminated the problem entirely)
- 3) Office costs and central overheads estimated within the supported living costing model (of £10,000) were lower than had been previously been allocated in the accounts for central overheads (approx. £14,000) and need to cover a further £2,500 of office costs previously included in staff overheads (i.e. previous comparable costs are estimated to be (£14,000 plus £2,500 =) £16,500; the £10,000 figure seems to have been a broad estimate and might well understate the actual costs which should be allocated against this home, so understating the overall loss under supported living; there have, though, been some small reductions in overheads, given the pressure to reduce costs (according to the finance department, though not quantified); either way, there is a lack of clarity about what these costs relate to and how they support the individual home operations (which is not uncommon in similar reviews of overheads with local authorities)
- 4) Because of the low hourly rates being paid under the new supported living arrangements, there is still an overall loss to the provider; the direct margin on the support provided is estimated as only £3,500 or  $(3,500 / 81,000 =) 4\%$ , which seems inadequate, as a contribution to central overheads
- 5) Whilst the loss is substantially less than under residential care, and the provider is clearly much better off financially by comparison, under supported living, there is still a significant loss; if this was replicated at other homes, the support operation would not be viable
- 6) It would seem that the keen desire to retain the support role, and loyalty in relation to existing residents, in the face of competitive pressure, along with the tough stance taken by the local authority, have meant that the provider has entered into a contract which is close to making no contribution to fixed costs (assuming central overheads are fixed, for the moment), let alone the positive overall margin required
- 7) It should be borne in mind that costs normally increase faster than increases in fee rate increases allowed, and that the direct margin could therefore quickly disappear
- 8) In addition, it should be borne in mind that the time required and costs associated with the deregistration process were substantial (although no figures are available); these are not either taken into account in the losses (albeit as a 'one off' cost), or recoverable from the local authority which had initiated the process; although there were no significant home conversion costs in this case, substantial time needed to be spent by senior management in re-assessment of needs and in negotiation with the local authority, working with the families of service users, setting up personal budgets and other new financial arrangements etc.; however, the local authority did pay for the advocacy costs, which can easily mount up, if there is any doubt as to whether any service user (with their advisors) might not view the change as in their best interests

9) From the local authority perspective, they are clearly better off, as fees of only £84,500 as opposed to the previous £99,000 are being paid out of the social services budget

10) A broad calculation can also be made of the total costs of provision, to see whether these have reduced or increased, as compared with under residential care:

a) Housing benefit is approximately £120 a week each, on average, for the four service users, giving an annual total of  $120 \times 4 \times 52 = £24,960$ .

b) It is assumed that living expenses stay broadly the same and are now funded out of service user additional benefits and allowances, so still £14,500.

'Total costs to the public purse' therefore become:

	£
Supported living fees (social services budget)	84,500
Living expenses (benefits, allowances)	14,500
Rent (housing benefit)	<u>24,960</u>
Total	<u>123,960</u>

This is substantially higher than was being paid out from the public purse before (i.e. only £99,000 in residential care fees. In effect, the deregistration is correcting a large proportion of the problem that the costs involved in supporting these four individuals were not being fully paid for before, although not totally, as there is still a loss to the provider of at least £6,500.

(This seems to reconcile broadly at this assumed level of housing benefits, in that if this remaining loss of £6,500 is added to the cost to the public purse to give a total actual cost of £130,460, the total is fairly close to the previous total cost under residential care, this being the residential care fees of £99,000 plus the provider losses of £30,000 = £129,000. However, this would imply that there has actually been a slight increase in costs overall, despite the reduced support for service users, and related costs under supported living; but it should be stressed that this is only based on the approximations in the cost estimates and assumptions made and illustrative of the principle, rather than a clear conclusion for this situation).

## Conclusion

It cannot be claimed that this example is entirely typical, but it does illustrate the principles and some of the issues quite well. In the majority of cases the residential care provision will not have been loss making before deregistration. However, this might become more prevalent as providers with vacancies see deregistration as a route forward, where feasible, to fill vacancies. In this case, given the previously very low fees, the financial outcome for the provider was at least better, whereas, purely from the provider perspective, in many other cases it may not be, in terms of costs covered.

What is more typical is the reduction of hours support and staff costs overall, frequently accompanied by a lower margin on staff costs, as commissioners keep hourly rates low, whilst provider costs per hour tend to be higher, to compensate for the need to use more experienced staff. In many cases the cost to the public purse might also therefore end up being lower, rather than higher as in this case, given the need here to pay a higher proportion of the actual total costs incurred.

Although arrangements seem to have been made here to ensure that service users still have a reasonably active life, the danger generally is that reduced hours support

in some cases may not be sufficient. There is also the general issue of the sufficiency of staff supervision, which is not currently but may become an issue here, over time, as well as in other deregistration situations.

Hourly rates may not often, on average, be as low as this rate, but budget pressures on local authorities are increasing, so rates may be cut further. It is also believed that the deregistration process is not generally accompanied by competitive tendering, although this might also become more prevalent.

In this case, it has been possible to set-up an alternative to local authority day services (albeit still with funding uncertainties), but this may not be possible for many other providers, who cannot readily establish the economies of scale required to make this cost-effective.

### **Wider deregistration programme**

Three homes have been deregistered by the provider, as part of the overall initiative. It had been intended by the local authority that all this provider's homes, and many others belonging to other providers would also be deregistered, within the same project. However, this is now looking less likely.

The independent living version of the care funding calculator has been used by the provider, to consider the costs justified for individual service users in other existing residential care homes they run. In most cases the fees calculated based on a review of hourly support needs have been substantially more (by £300 - £400 per week) than the revised residential care bands, stipulated by the local authority (of £440 and £640 per week), given their (generally) higher needs.

Whilst the support costs would be somewhat different under supported living, this is still causing major concern for the local authority. In the event of needs being formally reassessed (upwards) as the first stage of the deregistration process, it is possible that they would then need to pay more from social services budgets than the current residential care bands indicate (even after housing benefits and other service user benefits have been accessed to cover some of the costs). The next phase of the deregistration project in relation to this provider has therefore been put on hold, for the moment, by the local authority, given severe and increasing overall budget constraints.

### **Shared Lives**

This appendix comprises an overview of the 'Operational model and costs' of Shared Lives, together with Key Responses from NAAPs to key cost-effectiveness questions posed within this study. Further appendices to the key responses are available on request, in a separate document.

#### **Operational model and costs**

Shared Lives carers receive a weekly (board and lodging) allowance, which reflects the cost of maintaining the person in the household, as well as a fee element, which relates to the amount of support which each shared lives carer gives to each individual. The support fee (additional payment) is linked to a points based assessment of the needs of the individual and the level of requirements this places on the carer (similar to the entitlement model which is used for RAS, on which it is based), and the points are then translated into one of four budget cost bands, to reflect these different levels of need.

The carer has 24 hour responsibility and has to include provision of support alongside living their own life. This support fee should not be linked to hours worked per day in supporting the individual, as it is believed that this might distort working practice, but would be higher instead if the individual had more significant needs or challenging behaviour, for example. This would mean the carer had a more demanding role in supporting the individual. The carer might, as a result need to have undertaken additional, specialist training and have more experience, so the higher assessment and bands would reflect this, in terms of a relative level of requirement. Allowance is also made in considering the cost bands, if expenses are also likely to vary, for example, for extra laundry or heating costs in relation to individuals with higher needs.

Whilst the carer might need to accompany the individual on some day time activities, depending on their level of independence and needs, this support fee is not expected to cover the cost of organising and running a day time programme, so that if this was also undertaken a further fee would be earned (covering the middle of the day, six hour period), as well as a further small additional payment for any 'kinship' support provided.

Some central overhead costs are also incurred to run each shared living scheme, which cover the critically important task of matching each individual with a suitable carer, monitoring the support provided and minor administration. These costs are not high provided that each scheme has sufficient placements, with a typical ratio of one placement scheme staff member to around twenty five placements.

Average costs for a typical learning disabilities shared lives provision (from within the business case report, based on 2008 costs) were indicated as:

<u>Average costs</u>	£ per week
Board and lodging allowance	125
Support fee	<u>235</u>
Core cost	360
Day-time allowance	42
Kinship allowance	<u>39</u>
Possible total carer cost	<u>£441</u>
SL Scheme overhead	<u>58</u>
Total weekly cost	<u>£499</u>

This is paid for in similar fashion to supported living, with the individual obtaining local housing allowance (normally at the basic rather than enhanced level) and the higher level of other benefits and allowances available, out of which they need to pay for living expenses and utilities costs. A financial assessment under 'Fairer Charging' determines how much the individual needs to pay from their benefits or work.

The local authority will pick up the balance of costs from within its social care budget. One difference from supported living is that the local authority will typically pay any shortfall in local housing allowance, as the overall costs are still much lower than other alternatives.

Specifically, the business case quotes the following comparisons with residential care and supported living weekly costs as follows:

	Weekly costs - £			
	Traditional care	Shared lives	Saving	%
LD residential care	1,059	419	640	60%
Supported living	1,288	293 Note 1	995	77%

Note 1. This comparative cost in shared lives is lower because, for comparative purposes with supported living, the board and lodging component of the cost, amounting to £126, needs to be excluded from the shared lives total of £419.

Note 2 These costs are from the PSSRU survey of relative social care unit costs for 2008.

Even allowing for what one would expect for the difference between hours charged at an hourly rate for professional support staff and the assessment based overall allowance for support in shared lives, these savings seem remarkably high. It is also interesting to see that the supported living cost is shown as higher than the cost for residential care. It would be useful to analyse the differences in costs in more detail, particularly as compared with personal budgets using the similar RAS system, so as to better understand where and why the savings arise in different areas (board and lodging, support fees, extra day time support etc.).

Where the profiling differs from the RAS is that it aims to calculate the level of activity of the Shared Lives carer rather than the level of need of the person placed, which may be met by others as well as the carer. So, the purpose is to ensure that

the carer is properly compensated for their input. This may therefore account for some of the savings relative to supported living.

The business case report pointed out that there were still problems calculating unit costs and relating to the fairness of tariffs for payments and charges. NAAPs admits that in practice there has been a lot of inconsistency historically in carer payments, but they are progressively addressing this through use of their more recently developed good practice profiling and costing approaches. Even if this leads to some upward revision of payments, they believe that savings are still likely to be high using shared lives.

It is also worth noting that HMRC provide an exemption to tax on £10,000 pa. and for the first £250 per placement. The way that this works is the same as for foster carers. The £10k allowance is given for being available as a Shared Lives carer and the carer providing their home and family as a resource. The £250 per person per week is added on top of this for each person placed.

So for a Shared Lives carer having three people living with them for a full year, their tax allowance would be £49k per annum. All of their income from Shared Lives would be set against this and they would only be eligible to pay tax on any amount exceeding the £49k allowance. This in effect means that most Shared Lives carers are taken outside of taxation. HMRC accept that like fostering there is little financial profit in Shared Lives.

## **Key questions**

This description of Shared Lives and related cost and cost-effectiveness considerations is based on the responses from Alex Fox, CEO, NAAPs (formerly National Association of Adult Placement Schemes) to questions raised as part of the study, where relevant. Questions have been simplified as headings, some appendices have been excluded and are available separately, through NAAPS, as a lower level of detail, and in some cases text has been omitted, where questions are not so relevant for NAAPs, but otherwise all the comments and views are those expressed by NAAPs.

## **Accommodation**

Shared Lives is an arrangement whereby people with assessed community care needs are accommodated in the homes of families, couples or single people who are approved Shared Lives carers. Shared Lives schemes which are mainly run by local authorities and increasingly by independent sector providers recruit, approve, train and support Shared Lives carers and arrange and monitor placements. Shared Lives carers are not directly employed, but are subject to a carer agreement (contract) with the scheme to provide a service. Shared Lives carers can accommodate up to three people at any one time and for this they receive payments (details of which are provided later) and are treated generously by HMRC who disregard from taxation £10,000 per annum plus £250 per placement per week throughout the year.

Shared Lives is a very flexible model of care and can potentially accommodate people with any type or level of disability or vulnerability. This may include people with a learning disability, people with mental health issues, older people, people with a physical disability, disabled young people transitioning into adulthood, ex offenders, parents with a disability and their children. As well as longer term

accommodation, Shared Lives is used for short breaks and respite care, intermediate and rehabilitative care and day time support; in fact all of the supports that might otherwise be provided by a supportive immediate or extended family. Shared Lives is founded on the establishment of family type relationships and is less of a service and more a lifestyle than other forms of care. Shared Lives is regulated by CQC.

### **Housing benefits and grants**

As the service is provided in the homes of ordinary members of the community the range and type of housing is wide, including both rented and owned accommodation. Housing benefit is used to fund the rent element (explained in more detail later) for each individual placement and this is subject to variation according to local rent determinations. In some cases Supporting People funding may be available to fund housing support needs.

### **Financial viability**

The payment model for Shared Lives is a very economic model. Shared Lives carers receive a weekly allowance which reflects the cost of maintaining the person in the household and a fee element which relates to the amount of support which the shared lives carer gives each individual. This is usually on a banding system determined by use of a Support Profile tool and Score Sheet (Appendix 3 and 4: not attached, but available separately).

Each carer therefore receives a total level of payment each week, which is commensurate with the cost of having the person living with them and the amount of support they provide. The amount is in itself obtained from three sources. The rent is from Housing Benefit, the cost of food and utilities comes from the service user and the balance comes from the Community Care Budget. The service user is able to claim their full range of benefits and charging for the element paid to the carer from the Community Care Budget is through Fairer Charging.

The service user remains responsible for purchase of their own clothing, holidays, travel and leisure activities. This model does mean that where the Housing Benefit received is low then more funding from the community Care budget may have to be paid in order to maintain the income level for the Shared Lives carer. This, however, still works out cheaper than the alternative of residential care where the individual is able to claim Housing and other benefits at all and is also generally left with insufficient disposable income with which to live an active life in the community. (see Appendix 2 Calculating the basics payment - available separately)

### **Housing shortages**

There are housing areas that we are unable to target in order to find Shared Lives carers simply because the properties contain no surplus room. Whilst there have been situations where Shared Lives carers have themselves been rehoused in order to provide a service this is by no means the norm. Since the first priority of Shared Lives is to find suitable carers rather than housing this is an area we feel should be explored further.

## **Staffing models**

Shared Lives depends on people who are self employed and who themselves do not employ further people to assist them. Care is therefore one to one in the main or a maximum of two carers to three service users. Additional support may be provided for particular people placed in the same way that support may be provided to a natural family. The Shared Lives scheme itself is a staffed service and subject to regulation by the CQC. Each scheme has a registered manager and additional shared lives workers.

Shared Lives carers and placements to be supported are generally in the ratio of 1 worker (including the manager) to 25 placements. Administrative support is proportionate to the size of scheme but tends to be minimal. In local authorities financial and HR functions tend to be absorbed within the infrastructure of the local authority. In independent schemes they will form part of a contractual arrangement with the commissioning local authority and usually equate to a management charge in relation to each placement. These charges are variable and can range from £45 to £100+ per placement per week. Shared Lives carers may receive up to 4 weeks respite (holiday) per year and this is factored into the overall cost of the service by budgeting on a 56 rather 52 week year.

## **Economy and Efficiency**

Shared Lives is a model of care that can if used achieve savings by using it as an alternative to other forms of care. The IESE Evaluation Report (Appendix 6 – see separate document) indicates the considerable savings that can be achieved by using Shared Lives rather than the more expensive residential model. Schemes are run very economically and it would be difficult to identify any areas where further savings could be achieved.

Carer payments have generally been subject to annual inflationary increases but there are indications that these are now being frozen. Some schemes have been subject to local review but the tendency has been to increase the service as a means of achieving savings in other areas. There have been some reports of staffing levels for the scheme (not the Shared Lives carers directly providing care) being reduced or increased in order to more closely match the level of support needed for the number of placements provided. There have also been indications of savings being achieved by lowering the qualification threshold for Shared Lives scheme workers.

## **RAS**

Application of the RAS appears to work reasonably well for Shared Lives as people will generally be assessed as needing personal care and accommodation and so tend to come out with a budget that equates to the cost of residential care. This will invariably be greater than the cost of a Shared Lives arrangement.

## **Developing independence, reducing support requirements**

We believe that it is a false assumption to suggest that the development of independence skills can automatically lead to a reduction in the support that an individual might need. For people with a learning disability that learning disability does not go away and so as people achieve their potential the issue shifts towards how this can be sustained in the longer term. Often this can be as labour intensive as

helping the person to their potential. The costing model for Shared Lives does take this into account and in assessing the support or care payment in relation to each placement looks at the amount of support that the shared lives carer will need to give to the individual rather than making payment on the basis of the dependency of the person placed (see Appendix 3, separate document).

### **Cost models and improving financial management**

We do accept that this is an area of weakness in how Shared Lives have been run to date. They have tended to develop in an incremental way usually staffed initially by just one person and without being properly costed out. We do have a position where there is a considerable inconsistency in terms of carer payments but this we as an organisation are helping schemes and Local Authorities to address and have been assisted by the work undertaken by Improvement and Efficiency South East.

Two summary level examples have been provided showing the breakdown of costs (Appendix 5)

### **Vacancies**

Vacancies in Shared Lives are less of an issue in financial terms than for other services as payments are only made to Shared Lives carers when they are accommodating a person. There will be a notional impact on the infrastructure costs of the scheme but this is not quantifiable. As the success of Shared Lives is highly dependent on getting the match right between the person and the Shared Lives carer then the existence of vacancies is seen as an important factor in ensuring an adequate range of choice for people who would be seriously compromised were any policy of full occupancy to be applied.

Available as a separate document, on request, from NAAPS, (except for Appendix 5, which is also attached here):

Appendix 1. Payment Model for Shared Lives

Appendix 2 Calculating the basic payment

Appendix 3 Support Profile

Appendix 4 Score Sheet

### **Appendix 5 Two examples**

Appendix 6 Evaluation of the Quality, Outcomes and Effectiveness of Shared Lives in the South East of England – Improvement and Efficiency South East Sept 2009

## **Appendix 5**

### **Example 1**

Mary is in her late 40's has a severe learning disability and at times displays very challenging behaviours. She lived within her own family until she was in her early 20's when both her parents died within a short space of time. Mary is very insecure and very demanding of her carer's attention. She is reluctant to go out without her carer and needs a lot of support both during the day, in the evenings and at weekends. She does attend a day service but does need to be taken. She likes trips

out in the evening and weekends but always this is with her carer. Mary can manage her personal care herself, just needing prompting from her carer. Using the Support profile Mary scored 99 which placed her in band 3. The total payment her Shared Lives carer receives is £414 per week.

This is made up of the following:

Housing Benefit	£76 per week
Meals and utilities	£49 per week
Care fee	£289 per week

Added to this are the management costs for the scheme (staffing accommodation, HR, finance etc) which is £60 per week per placement. The total weekly cost of the service is therefore £474 per week and cost for a 56 week year is £26,544.

## Example 2

James has multiple disabilities including a severe learning disability, physical disabilities which impair his mobility. He has limited communication skills and is unable to manage his personal care without assistance. He has breathing difficulty which places him at risk if left alone for any length of time. His Shared Lives carer has a support carer who is one of her neighbours and she assists the carer and also stays with James to allow the carer to go shopping and have some time for herself. Using the Support profile Mary scored 99 which placed her in band 3 on the Score Sheet. The total payment her Shared Lives carer should receive is £414 per week. However, because of the high level of demand on the carer's time and the need to provide additional support the fee has been increased by £50 per week giving a total of £454 per week.

This is made up of the following:

Housing Benefit	£76 per week
Meals and utilities	£49 per week
Care fee	£329 per week

Added to this are the management costs for the scheme (staffing accommodation, HR, finance etc) which is £60 per week per placement. The total weekly cost of the service is therefore £514 per week and cost for a 56 week year is £28,784.

N.B. The above examples and figures use figures from the IESE Evaluation report and can only be considered as notional. It should also be noted in relation to the overall cost that the actual cost to the Local Authority will be reduced by any assessed contribution from the service user under Fairer Charging and the amount paid by the service user for meals, utilities etc. The payment of Housing Benefit could also be viewed as a saving to the Social Care Budget.

(A rule of thumb calculation suggests that for a six bedded home the breakeven point is between four and five residents. For a three bedded home, two residents out of three may not, or only just might achieve breakeven).

**Extra Care – Illustrative costing**

This is a 25 unit Extra Care scheme, with 21 single flats and four two bedroom flats, located near to a local town. The scheme was a new build development, funded by a grant from the Housing Corporation, which opened in 2004. It was set up by a subsidiary of a large national housing association (an RSL). It offers fully self-contained flats which are accessible, and a number are built to wheelchair accessible standards. The communal facilities provide: communal lounges, gardens, launderettes, assisted bathroom, café, buggy store, caretaker service, 24 hour staff presence (staff sleep-in service at night), alarm call service.

The facility accommodates people over the age of 55 and this currently includes 6 people with learning disabilities, some of whom also have physical disabilities, as well as others with mental health conditions and dementia. The providers say it is working well and provides a very flexible way to meet changing individual support needs. They believe it offers good value for money. It took a while for the mix of people with such different backgrounds to fit in together, but there is now good interaction, initiative and taking on of responsibility from within the group, as well as mutual support.

<b>Weekly per person £</b>	<b>Customer 1</b>	<b>Customer 2</b>	<b>Customer 3</b>	<b>Customer 4</b>	<b>Customer 5</b>
<b>Hours of individual care and support per week, £13.50 per hour</b>	16.25	6.0	13.5	9.0	11.5
<b>Housing Rent</b>	85.88	85.88	85.88	85.88	85.88
<b>Housing service charge</b>	29.40	29.40	29.40	29.40	29.40
<b>Heating charge</b>	10.77	10.77	10.77	10.77	10.77
<b>Communal Furnishings</b>	5.72	5.72	5.72	5.72	5.72
<b>Local authority grant funded management cost</b>	22.65	22.65	22.65	22.65	22.65
<b>Local authority grant funded sleep-in service cost</b>	15.35	15.35	15.35	15.35	15.35
<b>Support charge (uniform)</b>	17.20	17.20	17.20	17.20	17.20
<b>Individual Care and Support Charge</b>	220.84	81.54	183.47	122.31	115.51
<b>Total per week</b>	<b>407.81</b>	<b>268.51</b>	<b>370.44</b>	<b>309.28</b>	<b>302.48</b>

**Costing explanation**

1. The individual support hourly rate of £13.50 includes staff on-costs and staff related overheads, such as training and recruitment. It is possible to keep this quite low because of the staffing efficiencies in the support model.

2. However, there is an extra allowance for management costs (the local authority grant-funded management cost), which was (unusually) established as a separate heading, when the social services contracts were agreed. This is a standard charge per resident and means that management costs can be covered overall but aren't covered in the hourly rate. (This avoids the problem of over or under-recovery of overheads in hourly rates discussed under the main report section on staffing costs and efficiencies).

3. Housing rent is charged by the housing association parent and recovered through housing benefits receivable by the residents. No problems have arisen as residents receive the full housing benefits applicable for housing provided through RSLs.

4. The housing service charge includes recharges by the housing association for communal costs of utilities, not recoverable from individuals through their allowances.

5. The building's heating is provided through a shared heating system, to reduce individual costings. This again relates to the cost of communal facilities not payable directly by individuals.

6. Communal furnishings, as the heading indicates, relates to the cost of ongoing replacement, renewal and maintenance of furniture and fittings in communal areas.

7. LA grant-funded sleep-in service costs simply cover the night-time support, treated as a standard charge for all individuals (no waking nights support being required for this group of residents (given also the deployment of assistive technology)).

8. The Support charge (uniform) relates to that component of the housing related operating costs which qualified for Supporting People funding assistance, and are therefore separately classified, and treated as the same for everyone. This covers maintaining tenancies, providing advice to residents on finance matters, providing access to health services etc.

9. The service is expected to make a 15% contribution to central head office costs, which cover quite significant HR (human resources) support, as well as information technology, accounting etc. The finance manager commented that there is 'not much' margin left over after all these costs.

## **References**

- 'Housing Commissioning Toolkit for Local Authorities'  
Housing Options for Valuing People Now, Department of Health 2010  
[www.valuingpeoplenow.dh.gov.uk](http://www.valuingpeoplenow.dh.gov.uk)
- 'Feeling Settled' NDTi, for Valuing People Now, Department of Health February 2011  
Guidance for those involved in changing a service from a residential care home to supported living. [www.ndti.org.uk](http://www.ndti.org.uk)
- Unit Costs of Health and Social Care 2010 PSSRU [www.pssru.ac.uk](http://www.pssru.ac.uk)
- 'Supported Living – Making the Move' NDTi, for Department of Health 2010  
[www.ndti.org.uk](http://www.ndti.org.uk)
- 'The Real Tenancy Test – tenancy rights in supported living'. NDTi for the Department of Health 2010. [www.ndti.org.uk](http://www.ndti.org.uk)
- 'Personalisation- What's housing got to do with it' ADASS Housing Network 2010  
[www.adass.org.uk](http://www.adass.org.uk)
- 'Financial Management of personal budgets' Audit Commission 2010 [www.audit-commission.gov.uk/personalbudgets](http://www.audit-commission.gov.uk/personalbudgets)
- 'Use of Resources' Department of Health 2009 [www.dh.gov.uk](http://www.dh.gov.uk)
- Extra Care Housing Projects: CSIP report, 'A Measure of Success' 2008.  
[www.dhcarenetworks.org.uk](http://www.dhcarenetworks.org.uk)
- Extra Care Housing toolkit, prepared by CSIP, available through the Housing Learning and Improvement Network (LIN). [www.dhcarenetworks.org.uk](http://www.dhcarenetworks.org.uk)
- Shared Ownership: 'Ownership options for people with a learning disability', by Nigel King and David Abbey, produced by the National Housing Federation.  
[www.mysafehome.info](http://www.mysafehome.info)
- Ordinary Residence: VODG, 'Not in my back yard' [www.vodg.org.uk](http://www.vodg.org.uk)
- Evaluation of Individual Budgets Pilot Programme. Department of Health 2008  
[www.dh.gov.uk](http://www.dh.gov.uk)
- Harnessing community based support: 'Altogether Now', Paradigm [www.paradigm-uk.org](http://www.paradigm-uk.org)
- Effectiveness:  
'The influence of living arrangements on lifestyle outcomes', by David Felce, at the Welsh Centre for Learning Disabilities, Cardiff University – for latest presentation email to [felce@cf.ac.uk](mailto:felce@cf.ac.uk)  
Eric Emerson at the University of Lancaster [www.lancs.ac.uk](http://www.lancs.ac.uk) (search social care, learning disabilities)

Jim Mansell, Julie Beadle-Brown and others at the Tizard Centre, at Kent University  
[www.kent.ac.uk/tizard](http://www.kent.ac.uk/tizard)

Active Support Handbook [www.arcuk.org.uk/silo/files/1507.pdf](http://www.arcuk.org.uk/silo/files/1507.pdf)  
Planning, monitoring and measuring achievement of outcomes: 'I Planit' system  
developed by Paradigm and Aspirico [www.paradigm-uk.org](http://www.paradigm-uk.org)

Department of Health consultation document, 'Transparency in Outcomes – A  
Framework for Adult Social Care' [www.dh.gov.uk](http://www.dh.gov.uk)

'Think Local, Act Personal' – Next Steps for Transforming Adult Social Care  
[www.puttingpeoplefirst.org.uk](http://www.puttingpeoplefirst.org.uk)

Particularly relevant supporting materials, from the range:  
Practical approaches to Building Community Capacity  
Practical approaches to market shaping for Better Care  
National Market Development Forum papers  
Personal Budgets: checking the results

ASCOT measures (Adult Social Care Outcome Toolkit). PSSRU [www.pssru.ac.uk](http://www.pssru.ac.uk)

Social Care Institute for Excellence (SCIE) 'Defining excellence in social care  
services' [www.scie.org.uk](http://www.scie.org.uk)

Support Solutions – an advisory consultancy and training provider, specialising in  
providing advice on housing support and social care [www.supportsolutions.co.uk](http://www.supportsolutions.co.uk)

Better Care Outcomes Ltd. An advisory consultancy, specialising in supporting the  
social care community, in business development, improving effectiveness, efficiency,  
service quality and outcomes, as well as financial management and overall value for  
money. Led by David Roe. [www.bettercareoutcomes.co.uk](http://www.bettercareoutcomes.co.uk) 01306 731311 mob.  
07860 163796 [david.roe@btconnect.com](mailto:david.roe@btconnect.com)

| Laing and Buisson [www.laingbuisson.co.uk](http://www.laingbuisson.co.uk) 0207 923 5347

# LAING & BUSSON

29 Angel Gate  
City Road  
London  
EC1V 2PT  
T: 020 7833 9123  
F: 020 7833 9129  
[www.laingbuisson.co.uk](http://www.laingbuisson.co.uk)