

Innovation with Specialist Housing Capital Funding Options

Mencap: Homes not Hospitals

London

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Session Aims and Structure

What we'll cover

- How specialist housing is delivered in practice
- The key barriers: capital, regulation, commissioning
- What works (and what doesn't)

How it will run

- Think about your barriers in specialist housing delivery
- We'll deliver a presentation to set the context
- Interactive discussion based on your challenges and barriers in groups

What you'll leave with

- A clearer understanding of delivery and funding opportunities
- Practical insight you can apply locally
- A realistic view of what is possible within the current system

What's Your Biggest Barrier?

What is the biggest barrier you face in delivering specialist housing?

Think about:

- Capital funding
- Delivery and development
- Commissioning and governance
- Regulation and Housing Benefit

Have a think about what you would like to discuss further after the presentation with an interactive Q&A session at the end of the presentation.

We'll use this to surface common challenges across the room

Background: How the System Evolved

- **Shift in delivery model**

- Local Authorities originally delivered housing and care directly; 1980s - 90s reforms introduced deregulation of care and Registered Providers (RPs) for housing, with LAs moving from providers → commissioners

- **Resulting system**

- Mixed market model with care delivered by private providers and charities, and housing delivered via RPs, the private market and some remaining LA stock
- No coherent 'housing with care' framework has been established, leading to increasing reliance on fragmented and inconsistent delivery routes

- **Long-term pressures**

- Rising demand and increasing complexity of need, combined with austerity and reduced public funding
- Increased build costs, reduced capital, lack of expertise, and limited availability of suitable, affordable sites

Where We Are Now: System Challenges

- **Current delivery reality**

- Specialist housing is complex and resource intensive, with an ambiguous regulatory environment (HB, RSH, CQC, S117). Mainstream RPs largely avoid the space, leaving delivery to care providers and private investment.
- Funding, regulation and policy have not kept pace with demand

- **Structural issues**

- Highly siloed system across Local Authorities, NHS/ICBs, RPs, Regulators, Housing Benefit and Central Government
- Welfare reforms (e.g. LHA, Universal Credit) have undermined previous models and increased financial risk and ambiguity relating to housing costs.
- Provider-led models are increasingly unsustainable due to voids, rent pressures and care funding cross-subsidising housing

- **Market consequences**

- Gaps filled by non-compliant or exploitative providers
- Wide variation in quality and cost

Core paradox: The system continues to fund very high ongoing revenue costs (Housing Benefit, hospital, residential care), but struggles to invest capital in developing better housing

Commissioner-led model (Bristol approach)

- Housing Benefit background led to revised approach
- Local Authority leads scheme development with housing enablers, planning, Registered Providers and funders, with housing designed around specific client need and demand
- Local Authority underwrites voids, and retains 100% nomination rights
- Has oversight of scheme design and specification ensuring it fits known demand
- Tri-party alignment between Commissioner, RP and Housing Benefit, with rents and service charges agreed in principle pre-development (nothing is agreed until everything is agreed)

Outcomes:

- Reduced risk for RPs, increased confidence to invest, streamlined Housing Benefit once occupied, with clear accountability and control
- Joint endeavour to raise funding for schemes

Provider-led model (historical / common approach)

- RPs or care providers source and secure accommodation to deliver services, often without commissioner oversight
- Housing Benefit not supported upfront where schemes are non-commissioned; voids and nominations managed through provider contracts, placing financial risk in the wrong place
- Provider delivers what works for their business model – LA has limited or no input.
- **Structural risks:**
 - Misaligned incentives between RP and care provider
 - Contract failure or instability if provider exits
 - Care funding used to subsidise housing costs

Core message :

- **Commissioner-led** = planned, aligned, compliant, de-risked delivery
- **Provider-led** = reactive, high risk and often unsustainable

What is Specialist Housing?

- **Definition**

- Purpose-built housing for people with complex needs, designed for long-term community living rather than short-term provision

- **Where it sits**

- Distinct from general needs and standard supported housing, filling the gap between supported accommodation and institutional settings (hospital / residential care)

- **Specialist vs Specialised Supported Housing (SSH)**

- **SSH:** a defined funding model with a Rent Standard exemption
- **Specialist housing (wider):** any housing for complex needs, delivered through multiple funding routes

- **Key characteristics**

- Typically includes on-site staff accommodation and is designed to support high levels of care (LD/A, MH contexts), making it different from general needs provision

- **Core purpose**

- Enables people to live in the community, reduces reliance on institutional care in the least restrictive environment, and provides a long-term, stable home

Who is it for? Specialist Housing Need

Current position (high-need cohort)

- ~2,100 people with learning disability and/or autism in hospital
- ~50% have been detained for over 2 years
- Hundreds are ready for discharge but remain due to lack of suitable housing

But this is only the 'tip of the iceberg'

- Many people in residential care who could live more independently and large numbers living with ageing parents / family carers
- People in housing not designed for complex needs
- A significant cohort at risk of admission due to unsuitable environments
- Changes to the Mental Health Act in respect of detention where only LD/A is present.

Overall picture

- Demand is not limited to those in hospital
- It spans multiple cohorts already known to the system

Key Message: The true demand for specialist housing is not thousands in hospital, it is many thousands across the wider system

What Makes it 'Specialised' and Why it Costs More to Build

- **Core concept**

- Designed for people with complex needs to live safely in the community in the least restrictive environment
- Building itself supports modern care delivery models

- **What makes it 'specialised'**

- Design: low-density, self-contained, robust, sensory-informed
- Operational: 24/7 staffing (on-site accommodation), space for clinical support and de-escalation, additional safe access points

- **Why it costs more**

- Scale & space: ~6 units; NDSS ~37m² vs 50m²+ (67m²+ wheelchair standard)
- Staff provision: dedicated staff flat (~50m²)
- Land & layout: OMV land, low density, privacy, parking for care teams

- **Build & specification**

- Future-proofed, hard-wearing construction to support changing needs
- Specialist features: anti-ligature, enhanced heating/cooling, sound insulation, hoists, access control, adapted kitchens, sensory design

Specialised Housing: The Ingredients

Core components

- Capital, Registered Provider, Care Model, Commissioner, Land

Delivery requires a whole-system partnership

- Commissioners (Local Authority and ICB), Registered Providers, Housing Benefit, and funders (investors, Homes England, NHS England)
- Design and delivery: architects, planners, enablers, construction teams, valuers, surveyors, building control
- Care and support: care providers, OTs, social workers, clinicians, support staff
- Wider system: finance teams and central government (DHSC, MHCLG, DWP)

Key reality

- Delivery depends on alignment across all stakeholders and every party has a defined role, carries risk with some 'skin in the game'

Key Message: Different levels of expertise across the system make coordination complex, but alignment is essential for schemes to progress

Why Capital is the Bottleneck

Core issue

- The revenue case is broadly understood, but there remains a clear capital funding gap
- Schemes do not fit standard social housing funding models and do not 'stack' like general needs development

Result: Structural misalignment across funding systems

How schemes are funded in practice

- **100% grant funded (NHSE) – Commissioner led:** Good value model but very limited availability
- **100% Housing Benefit funded (full cost recovery) – Commissioner led:** rare, but demonstrated through models such as the Elim full cost recovery approach
- **100% Housing Benefit funded (Market led):** typically REIT / investment models, with wide variation in cost and quality
- **Affordable Rent ('Bristol model'):** emerging alternative route with potential to unlock subsidy and improve viability

Challenges in Capital Funding

- **Complexity of funding routes**
 - Multiple sources (NHSE, Homes England, LA/ICB, RP, private finance)
 - Each comes with different rules, constraints, risk and impossible to blend.
- **Risk and viability**
 - High-cost, complex schemes – very resource intensive
 - Uncertainty around HB, nominations and long-term revenue
 - Ongoing potential for uninsured damage and void costs
 - Reduced confidence from providers and investors
- **Fragmented system**
 - Responsibilities split across LA, NHS/ICB, RP and HB
 - Different incentives and risk positions
 - Complex governance and slower delivery
- **Key Message:** Delivery requires strong co-ordination to align partners and manage risk

Delivery Models: The Haven – Case Study

The Haven (Elim Housing Association, Bristol) used to test funding approaches on a like-for-like basis

- **Scheme overview**

- Six self-contained bungalows (~55m²) for young people with complex needs transitioning into adulthood
- **Development cost**
- Total build cost: £3.8m (incl. staff accommodation); ~£633,333 per unit
- Represents the **actual cost** of delivering specialist housing

- **Key point before comparison**

- All models deliver the same building
- The difference is who funds it and the long-term cost to the public purse

- **Core message**

- Commissioner-led models deliver the strongest value for money
- Higher returns (ROI) → higher long-term cost and tension with HB
- Less or Nil grant → higher HB → costs spread over decades

NHS England: Capital Grant

- 100% capital funding to support hospital discharge. Very limited national allocation (~£20m) and typically delivered as SSH with minimal interaction with other funding streams

Strengths

- Good value for money for the public purse, enables delivery of high-cost schemes, and gives commissioners complete control over quality and delivery

Limitations

- Requires upfront capital from a limited funding pot
- Cannot easily be blended with other public funding
- RPs have limited 'skin in the game' due to the 'legal charge' held by NHS England

Key issue / direction

- Too limited in scale as a mainstream model
- Strong case for blended funding (grant + RP borrowing), which could unlock additional finance and increase delivery

Core message: Highly cost-effective model, but constrained by capital allocation

Social Rent

- ~82% grant level required to deliver social rent for specialist schemes.
- Requires significant grant subsidy upfront to be viable
- Best VfM model for any specialised housing delivery.
- **Funding context**
 - Potentially deliverable through the Social and Affordable Homes Programme (SAHP) but requires a very strong Value for Money (VfM) case for specialist schemes
- **Practical constraints**
 - Homes England cautious on **very high** Grant per Unit (GPU)
 - Need to balance VfM with overall delivery targets which limits ability to fund high-cost specialist schemes at scale
- **Current position**
 - Will be explored in Bristol with Homes England
 - Potential option where strong schemes can be evidenced
- **Key message:** Best long-term value model but heavily constrained by upfront funding requirements and programme rules

Affordable Rent (The Bristol Model)

This is the closest **specialist** we've been able to develop to a 'blended' funding model, but very complex to achieve in practice.

- Uses RICS valuation of specialist design to set an evidence-based rent
- Grant reduces borrowing → lowers rent to a sustainable level
- Enables delivery of high-cost, low-volume schemes within a regulated framework
- Reduces reliance on high-cost investor lease models

Interaction with Housing Benefit

- While not regulated, Homes England oversight moves specialist housing from 'grey area' to regulated with oversight on costs which will reduce uncertainty and challenge at HB stage
- Lower rents (via grant) generate long-term HB savings (£1 grant = £4.55 in HB savings alone)

Opportunities

- Affordable Rent product unlocks grant in specialist housing
- Builds the case for grant intervention to drive affordability and value
- Brings consistency and confidence to Housing Benefit which enables market stabilisation and supply growth

Key message: Provides a compliant route to unlock subsidy for specialist housing. Only works where policy flexibility and grant alignment are applied (e.g. Bristol model)

RP Borrowing (Full Cost Recovery)

How the model works

- Standard RP finance model funded through rental income, requiring stable nominations and void management; difficult without LA backed voids and nominations and requires significant RP financial gearing to allocate capital
- High quality model providing good value for money.

Bristol example: Elim model

- Not for profit 'full cost recovery' approach using commercial borrowing at high street lender rates with no grant, delivering pure SSH without subsidy

Cost and value for money

- Significantly more expensive than NHSE or Social Rent or 'Blended Model'
- No profit → represents the best possible value for money without public subsidy

Impact of grant intervention

- Grant has a significant impact on long-term cost by reducing the long-term burden to HB.

Core message: Most viable non-grant model, but materially more expensive to the public purse and Housing Benefit without subsidy

Investment Model (REIT/Private Capital)

Private / institutional investment via lease or partnership models, reflecting market-led SSH delivery through Housing Benefit with no public subsidy.

- **What works (in principle)**

- Aligned to commissioner requirements and RP risk profiles, delivered at a reasonable return
- Investors provide capital for SSH schemes relieving pressure on government and LAs
- Emerging models with strong commissioner oversight and compliant RPs

- **Risks and realities**

- More expensive due to investor return, with wide variation (reasonable → exploitative)
- Exploitative models may artificially inflate property values, extract profit via lease structures

e.g. £300k purchase → £700k re-sale → leased back

- **Key message**

- Works well with strong commissioner oversight and Housing Benefit control
- Without this → significant cost and quality risk

- Any model is better than exploitative investment, but still materially more expensive than grant-based delivery

Blended Capital Model (doesn't exist!!)

- **Opportunity to build on existing funding systems**
 - Current models rely on a single source (100% grant, 100% borrowing, 100% investment), but in practice no single model delivers scale or consistency
- **Potential for a blended approach**
 - Remove the 'no public subsidy' clause and combine funding within a single scheme including Homes England grant, NHS England capital, RP borrowing and Local Authority/land contributions, supported over time through Housing Benefit
 - This enables greater overall capital availability, more schemes becoming viable, and improved value for money across the system
- **Unlocking RP capacity and investment**
 - SSH currently sits in a regulatory grey area for many RPs, limiting participation from larger, well-capitalised providers
 - Introducing grant (e.g. Homes England) provides certainty, aligns with established RP delivery models, and makes schemes more accessible and investable
 - This would draw in RPs not currently operating in SSH, unlocks new borrowing and capital capacity and expands delivery at scale
- **Core message:** The opportunity is not just new funding, but aligning and blending existing funding to unlock scale, confidence and new market capacity

Finance Summary Table

The below table compares indicative costs of delivering this scheme using different models. We have not adjusted for inflation as all RP delivery will likely be CPI+1%

Model	Grant per unit	Finance per unit (RP or Investor)	Core rent / week	25-year HB cost	Total gov cost over 25 years
Social rent with 82% HE grant	£519,333	£114,000	£108	£140,751	£660,084
100% NHSE grant / social rent	£633,333	£0	£108	£140,751	£774,084
Blended model	£300,000	£333,333	~£410	£533,307	£833,307
The Haven affordable rent	£150,000	£483,333	£562	£730,600	£880,600
RP borrowing only at 4%	£0	£633,333	~£779	£1,012,527	£1,012,527
Investor 7.5%	£0	£633,333	£922	£1,198,600	£1,198,600
Investor 12%	£0	£633,333	£1,462	£1,900,600	£1,900,600

Hospital vs Community: The Economics

Cost comparison (average per person)

- Hospital: ~£14,650 per week (~£762k per year)
- Specialised housing (incl. care): £5,800 – £12,000 per week
- Community is often cheaper at every level of need (including 3:1 support)

Revenue savings potential

- £140k – £460k annual saving per person (depending on care needs)
- ~£316k average saving per person per year
- £31.6m saved per 100 people discharged annually

Better outcomes + value for money

- People move from institutional care to long-term homes in the community
- Capital investment in housing delivers ongoing revenue savings across NHS, LA and DWP

Key message: Hospital is the most expensive and least effective setting and specialised housing delivers better outcomes at significantly lower overall cost

Voids and Nominations

Schemes depend on a reliable referral pipeline, with commissioners retaining 100% nomination rights

Core risk

- Voids create significant financial risk for Registered Providers and investors; without income certainty, capital will not be deployed
- We are asking partners to invest £3 - 4m into small schemes, so units cannot be left empty!

Bristol's approach

- BCC and Elim Housing Association developed a bespoke contract model including a pooled budget fund covering 3 or 6 months of void rent and service charges
- Fund is replenished if used and reviewed annually, covering voids and excessive uninsured damage
- In practice, BCC underwrites risk only where very rarely required and combination of the budget fund and HB temporary absence rules covers almost all risk

Key point: Risk is actively managed and shared, contract terms are tailored to each scheme, and this de-risks delivery while enabling RP participation

Separation of Housing and Care

We actively separate specialist housing (RP) and care (provider), with each regulated independently (RSH and CQC/Ofsted), which is critical for quality, flexibility and value for money

Risks when combined

- Care providers responsible for voids and nominations, with costs ultimately passed back to commissioners through care packages, or clients!
- Financial pressure can lead to inappropriate or rushed placements, with care funding used to cover housing risk
- Commissioners are unable to change provider easily and have limited influence over scheme design and quality
- Provider becomes effectively 'baked into' the scheme

Bristol's approach: Clear separation: RP = housing; Care Provider = care

- Local Authority retains control through nominations and management of voids, and can change providers if quality drops or safeguarding concerns arise

Key message: Separation protects quality, commissioning flexibility and the appropriate use of public funding

Governance and Contractual Arrangements

Why this matters

- Complex, multi-party agreements requiring alignment across Local Authority / ICB, Registered Provider, funder and Housing Benefit, with clear accountability and defined roles
- **Financial exposure**
 - Through voids and nominations, Local Authorities take on financial risk
 - The main funding flows through Housing Benefit, but LA/ASC may need to step in; these costs already exist in the system, with separation simply making them more visible
- **Bristol approach**
 - Robust governance process in place, with each scheme approved through Executive Director oversight and formal housing delivery governance
 - Supported by Officer Decision Notices (public facing) with clear sign off of long-term financial risk
- **Key principle:** No scheme progresses until commissioners (LA/ICB), Registered Provider, funders and Housing Benefit are fully aligned

Specified Accommodation Status

Route to access legacy Housing Benefit for supported housing, including Specified Managed (housing and care separated) Specified Exempt (housing + support linked)

How it works in practice

- Traditional model: RP provides housing and support → Exempt status
- **In specialist housing: RP = housing only, with care commissioned separately → Managed status**
- **Key considerations**
 - Either status enables high rents to reflect specialist provision
 - Housing Benefit will support reasonable costs but restrict or challenge where models are excessive
- **Commissioned models**
 - No requirement for 'exempt' accommodation status in commissioned service. Typically, non-compliant RPs use 'exempt' status to protect unreasonably high rents.
 - Where schemes are fully commissioned, Housing Benefit is agreed in advance and the RP does not provide support – no need for IHM at all.
 - **Implication:**
 - There is no requirement for a commissioned SSH scheme to be Specified Exempt. Risks are mitigated by commissioning, RP and HB collaboration.
- **Key message:** Specified status is critical to viability, but must be structured correctly, supported by commissioning and aligned with genuine need

Rents, Service Charges and Housing Benefit

- **Bristol Housing Benefit approach**

- BCC operates a formal HB protocol, with rents and service charges set collaboratively between commissioners, Registered Providers and Housing Benefit

- **How rents are set**

- Based on scheme design and projected delivery costs, ensuring alignment with the **true cost of provision**
- Commissioned as **specified managed**, with no care, support or intensive housing management delivered by the RP

- **Approval process**

- HB reviews proposals with commissioner input and provides an '**in principle**' **rent decision**, allowing schemes to proceed with a pre-agreed position

- **Governance and control**

- Process endorsed by commissioners and senior officers, allowing controlled adjustments during development
- Excessive or unjustified rents will not be supported

Discussion

What is the biggest barrier you face in developing specialist housing?

- Capital funding
- Delivery and development
- Commissioning and governance
- Regulation and Housing Benefit
- How can we make the ‘ecosystem’ most beneficial to the client and the public purse

We will now have a ‘round table’ discussion on specialist housing, and we invite questions and can generate a discussion.