



# Reimagine housing

How reimagining Britain's current approach to housing could help meet people's needs, reduce the UK's health and social care burdens and allow for investment opportunities.

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# Let's reimagine...



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This paper is one of a series of thought experiments in which KPMG staff imagine new ways for government to achieve public policy objectives.

This might mean building services around the user rather than the provider. Or drawing on the huge potential of data and digital technologies. Or tapping into the power of markets, new incentives, transparency, or the wisdom of crowds. In every case, it involves fresh ideas.

To channel our thinking, we imposed three rules. Ideas must be designed to produce better public outcomes without increasing the burden on the taxpayer. They must align with the government's philosophy and headline policies. And they must be realistic and deliverable.

But within these rules we want to step outside conventional thinking, and test out new ideas on how public policy goals can be achieved. We want to stretch ourselves, applying new technologies and techniques to solve old problems. We are not calling for a specific future – but we are reimaging it. What do you think?



# Foreword

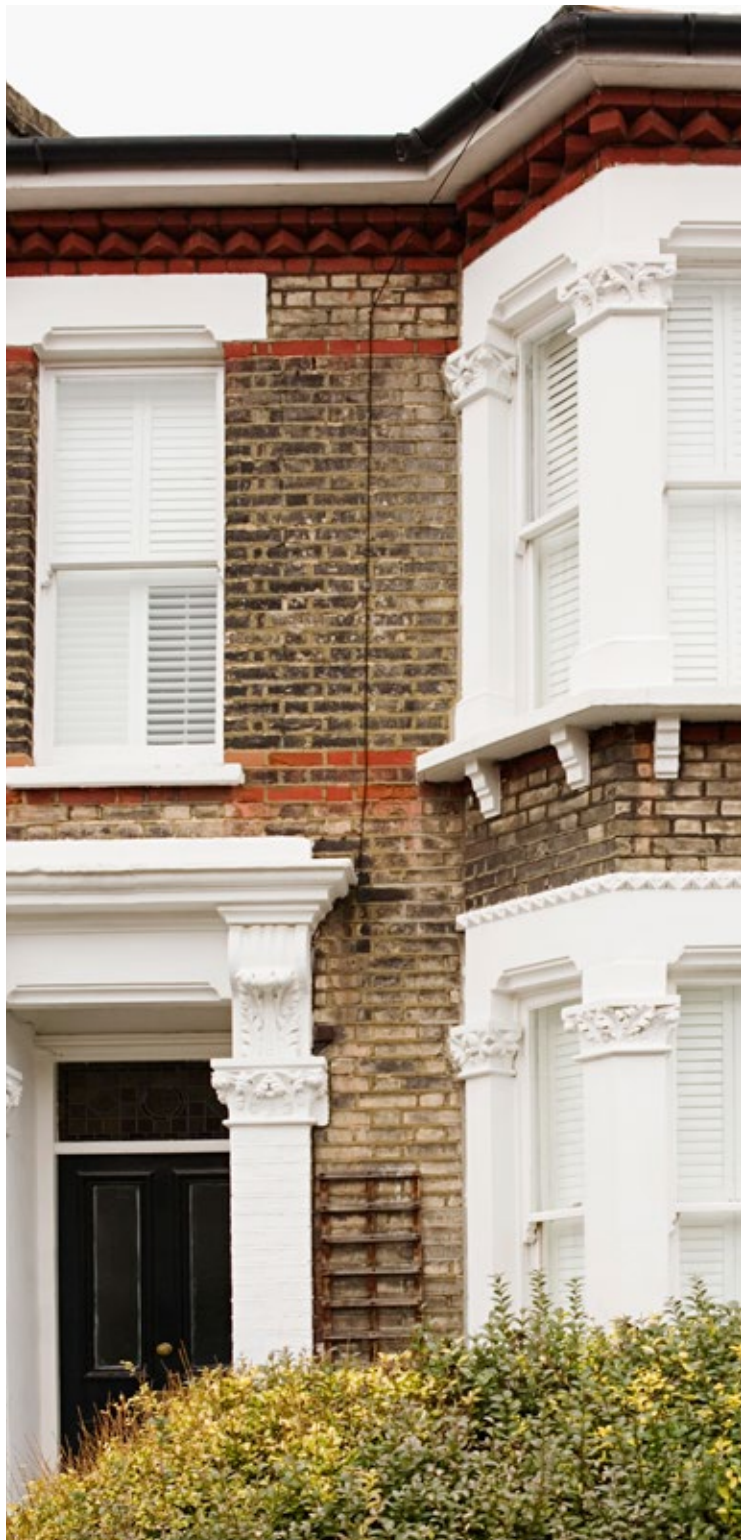
Successive governments have tried to keep the UK's housing stock affordable, either by boosting supply or by subsidising purchases – but prices continue to rise. A different approach to managing markets could meet people's needs for accommodation and investment opportunities, whilst reducing the economic, social and fiscal problems that flow from Britain's current approach to housing.

The pressure on hospital A&E departments this winter has again highlighted the weaknesses in our social care services. [After years of falling budgets<sup>1</sup>](#), many councils can't provide care plans for all the elderly patients that hospitals wish to discharge – leaving hospitals unable to clear enough beds to keep up with the flow of arriving patients. Our health and social care systems are under severe strain; and whilst more money would help in the short term, in the longer term we can only relieve that pressure by rethinking the systems themselves.

Last year, we at KPMG tried to reimagine the approach to social care – [publishing a thought experiment<sup>2</sup>](#) which put care users and staff in the lead, rather than councils and contractors. But there are many facets to the social care challenges: rising demand and constrained resources may explain why so many problems are surfacing now, but we'll need a range of tools and reforms to bring the system back into balance.

Some of these will have to focus on the issues around home ownership and social care means-testing – for the perverse incentives in our current system cause problems in both social care services and housing markets. And here, the social care challenges meet another dysfunctional sector; for problems within the current housing system create massive economic, fiscal and social costs.

Over the coming months, we'll be publishing a set of texts reimagining the housing market: our ideas will be designed to foster economic growth and social mobility, without disadvantaging Britain's existing homeowners. And to kick things off, here's a concept with benefits across both housing and social care. Both sectors are not working well, and the human costs are massive on both sides; it's time to reimagine our country's approach to these crucial services.



# Reimagine supported housing

The current model of social care funding is unfair and rife with perverse incentives, says Joanna Killian, KPMG's Head of Local Government UK. Reimagining the model could produce benefits for elderly people and their families, whilst improving the efficiency and quality of social care services.



The UK's love affair with home ownership has boosted paper wealth for a lucky generation of baby boomers. But the model is broken. While [rising property prices](#)<sup>3</sup> and [largely stagnant median household incomes](#)<sup>4</sup> put home ownership ever further out of reach for many young adults, the elderly often find themselves living in houses that are too big for their needs.

Many are trapped there by local authority means-testing rules, under which applicants for social care support in their own home have the value of their housing assets disregarded – but those with savings or income must make a substantial contribution towards the costs of care. Even older people who depend solely on a state pension can expect to pay some contribution for services; and if people sell a large property to move to smaller, more suitable accommodation, much of the cost of any care they require will come out of their leftover savings.

Rethinking this process could lead to a win-win situation – creating a new path that not only benefits the affected families, but also reduces the pressure on social care services.

### **How we trap people in unsuitable housing**

The perverse incentives go beyond applications for social care in the home. Older people moving into residential care don't have to pay anything if they leave their partner in the family home – but single people who enter care homes must pay all their care costs if they hold savings or housing assets worth more than £23,000. In addition, a person moving to a nursing home is also means tested for the social care element of their support, with the NHS funding only the healthcare element.

In 2015, the government delayed until 2020 the introduction of a new care cap which would limit to £72,000 the contribution asked of older people. It is still unclear whether this cap will ever be implemented.



Existing arrangements, then, disincentivise the elderly from realising the value held in their home. Selling up means crystallising their home's value as cash – which can immediately be called on to pay care costs. This means that older people often see the rational choice as continuing to live in their large home, receiving free domestic care and holding onto their home to fund residential care in later years or pass on to their children. Faced with missing out on support from the public purse, staying put is the logical decision for those worried about losing the legacy they've built up for their family.

Meanwhile, if people do sell up, their children are missing out on an inheritance that, in previous years, they could have expected to receive. At the moment, children are last in the pecking order, lucky if any money remains after their parents' care costs are paid for.

And all this means-testing doesn't get close to funding the UK's care costs, in part because it's expensive to support people living in the homes they've owned for decades. Sending care staff four times a day to a big house ten miles from the nearest town is a serious drain on scarce resources.

The result is a system that works for nobody: the older generation rattles around large homes feeling isolated; their children and grandchildren struggle to find a place of their own; and the public sector sees care costs rising whilst their budgets fall.

### **Rethinking the incentives**

There's a way out of this trap which could help address all these problems. Imagine a new deal between the elderly and government: the creation of an insurance policy which would encourage those in need of care to exchange their existing home for one in a new care community, while guaranteeing a fixed payment to their family after they pass away.

Reimagining supported housing could introduce an incentive that encourages older people to sell their homes 'earlier' to access the kind of support that will help them live longer, healthier, happier lives in the community, and postpone – or even avert – the need for residential care. This proposal could also cut public spending by encouraging people to pay for more of their care; reducing the need for institutional provision of residential care; and creating communities of older people living in a footprint that reduces provider costs.

Such a system would fundamentally shift the distribution of older people's assets, earned over a lifetime's work. Under this new system, offspring would be guaranteed a fixed payment at the outset – say 20% of the value of the sale of the house. This cash would be placed into a trust, providing peace of mind that the next generation's inheritance is secure and removing the injustices that fall out of different individuals' care needs.

Another portion of the sale proceeds would go towards buying a new, smaller property for older people. This could be in a town closer to public services, or a lifetime lease on a property in a care community with on-site support. A further segment of the proceeds from the house sale could buy an annuity to provide a source of income as a top-up to existing pension provision. And the final chunk could fund local authorities to purchase an annuity guaranteeing them a fixed contribution from the private citizen towards their future care costs.

### **Benefits for the elderly**

A new wave of care communities, provided by the private sector and housing associations working on a commercial basis, would provide an attractive alternative source of accommodation, offering a high quality of life to their residents. More reminiscent of holiday communities than the municipal residential homes

of the post-war welfare state, they would provide leisure facilities such as cinemas, restaurants, gyms, IT facilities, shops and landscaped gardens. Onsite medical care – with offers such as 24-hour nursing services – would pick up emerging health problems at an earlier stage, and speed up the provision of emergency medical care. Thus the burden on stretched NHS resources would be reduced.

Private providers would probably want to provide and charge for some of the support services that have been traditionally been supplied by the public sector. In moving to any new system, councils and the NHS might want to consider the possibilities offered by creating a public-private partnership under which construction, facilities management and services are bundled into a single contract.

Medical research suggests health outcomes are improved for those living in more active social settings. Creating new retirement communities would provide security and social opportunities for an age group that can sometimes find itself isolated. And residents would be able to support each other; the more active and relatively younger in the community would have opportunities to assist with care provision for those in greater need.

Communities would also be designed to cope with residents' changing care requirements as they grow older, providing a range of residential care options. Younger, more independent, residents would move into a flat supervised by a warden, progressively receiving more intensive care and support in later years.

### **Benefits for care providers**

The 2014 Care Act requires local authorities to help develop a market that delivers a wide range of sustainable, high-quality care and support services to their communities.

A handful of care communities, such as the College Green Care Village in Bournville near Birmingham, have already been created; but the public sector can play a bigger role in encouraging such development by private sector operators.

Councils' local development plans could be amended to provide for the new communities, helping to meet their duty to cater for housing need and giving investors confidence that such developments will win planning permission. These properties could be purpose-built or converted from existing homes in a specific neighbourhood, close to support services. Insisting on high design standards through planning guidance would make it easier to overcome local objections to development. Such a system would increase the amount of available rooms by creating high-quality, high-density development on sites where traditional housing developments might encounter resistance.

The rewards for local authorities from encouraging the new network of care facilities are manifold. In addition to the reduction in demand resulting from the improved health of residents, creating communities on sites closer to towns and cities would foster economies of scale. Care workers would no longer be required to waste time and resources making multiple visits to homes scattered around the countryside. Instead, a number of clients could be visited in a single trip.

For the system to work, councils would be required to accept a change to the current means testing rules. In return, however, they would benefit not only from reduced care costs, but also from more certainty over future care contributions and bills.

These payments – as at present – would not cover the entire lifetime care bill. But while councils would still be required to contribute, their

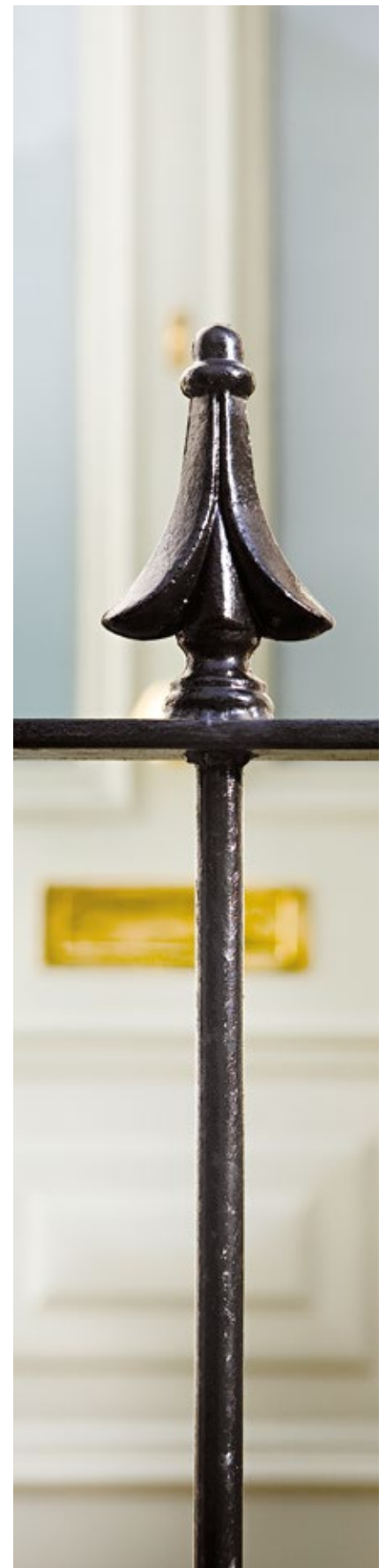
costs would be considerably reduced. Moreover, the guarantee of regular future income could free up the large sums which councils are currently obliged to lend at the outset of the process to allow older citizens to fund their care – reclaiming it when people die and their houses are sold.

### **Let's change the rules of this dysfunctional system**

These released resources could help stimulate the care community market through subsidies to the provider or the annuity, helping to increase the quality of care within the community. As the system becomes self-sustaining, savings could also be used to fund other council services.

Nobody wants to push the elderly out of their homes. But nor do we want to force them to stay in unsuitable accommodation; society needs to find a way to remove the perverse incentives that produce bad outcomes all round. Many such people might prefer to live in close communities, with good accommodation, busy social lives and improved health and care services – especially if doing so guarantees their children a share of their home's value.

The current system causes early decisions on care which can be seen as harmful for the elderly and burdensome for the taxpayer. Creating a new and more sustainable offer has the potential to provide peace of mind for all parties by promoting a planned move into care. It could remove the often-traumatic wrangling over care payments between citizens and public bodies, while tackling the problem of over-occupation. And it could provide more certainty and fairness for the families of older people, whilst improving efficiency and effectiveness in the provision of social and health care. The current model needs addressing, perhaps it is time to build a new one.



# Discounted accommodation for the young

In the UK, 2m people over 75 live alone<sup>5</sup> – and whilst many have the desire and the ability to stay in their homes, problems of loneliness, ill health and crime are common. Many have spare rooms – representing housing stock wasted at a time of great accommodation shortages – and might welcome the companionship, security and support provided by a young lodger.



**Meanwhile, hundreds of thousands of young professionals and students live in 'houses of multiple occupation' – often poorly maintained, overpriced, and shared with people placed by the landlord rather than chosen by the tenant. There's obvious potential for synergies here.**

Rather than paying £400-600 for a room in a shared house, young people could be offered discounted accommodation with an elderly person in exchange for a few hours a week – which could either be spent performing household tasks, or simply keeping their housemate company. The owner would benefit from an additional income as well as the companionship; and the younger resident could both help protect them from con-artists and burglars, and sound the alarm if they fell ill. Chances are, the government would find itself saving money on care, health and policing costs, along with the benefits for tenants and owners.

The scheme could be extended to certain benefit claimants, most obviously young unemployed people eligible for HMO housing benefit; and at this point, there would be cash savings for government. But the main aims would be threefold. To make better use of under-occupied housing stock and to reduce demand for HMOs, thus taking the edge off demand. To provide a cheaper alternative form of accommodation for those professionals and students who'd enjoy living with an older person. And to generate additional income, support in the home, and human companionship for older people – many of whom are short of all three.

This isn't a big solution; just another tool to add to the mix. But it's one that could work well for everybody involved; and that alone should make it something worth pursuing.

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Learn more about KPMG's Reimagine programme or join in the debate:



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# References

<sup>1</sup> <https://fullfact.org/health/social-care-funding-pmqs/>

<sup>2</sup> <https://home.kpmg.com/uk/en/home/insights/2016/03/reimagine-care.html>

<sup>3</sup> <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/2015-10-13>

<sup>4</sup> <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/nowcastinghouseholdincomeintheuk/2015to2016>

<sup>5</sup> <http://www.campaigntoendloneliness.org/loneliness-research/>

# Contact us

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Joanna joined KPMG in 2015 and leads KPMG's relationships with the public sector, advising clients on how they can transform their organisations, and work with their customers and citizens in more innovative ways.

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