The projected increase in the number of people aged over 65 poses challenges and opportunities to central and local governments in terms of managing public finances and setting housing policy.

In line with the wider global trend, the population in the UK is ageing – in England, the number of people aged 65 and over is projected to increase faster than any other age cohort in future years (Figure 1). Advancements in healthcare have allowed us to achieve this remarkable improvement to life expectancy, however central and local governments will soon be facing the economic and social challenges associated with this major demographic change.

The single, most pressing issue for central government is the forecasted increase in state pension liabilities, which amounted to £89 billion in 2014/15, according to HM Treasury. There are currently around 11.8 million people above state pension age in the UK and our analysis shows that this cohort is expected to rise to 16.5 million by 2039, despite plans to increase the state pension age to 67. In economic terms, the Office for Budget Responsibility projected a substantial increase in state pensions spending as a share of Gross Domestic Product (GDP) in the coming years, from 5.5% in 2014-15 to 6.8% in 2038-39. Intuitively, if the Government has to pay more in pensions, it will have to cut spending somewhere else or increase the level of taxation - both options may be difficult to implement.

To illustrate the magnitude of this shift, this Research Note draws upon two major demographic trends. The first looks at different population projections scenarios for England, while the second explores the uneven spatial distribution of older people across British local authorities, as measured by dependency ratios, i.e. a ratio between the number of people above 65 and those in working age (page 2).

If the population profile is set to change so markedly, housing needs are expected to change too. However, people’s preference to remain in their own home as they age (in fact, an ageing population affects the rate of household formation) and uncertainty around the use class or typology a development for older people will fall within can have significant investment in and the delivery of housing for an ageing population (page 3).

Finally, the analysis will explore the financial challenge local governments will face in funding the additional health and social care requirements of an ageing population and the implications of the announcement that some councils could increase Council Tax by up to 2% to fund adult social care costs (page 4).

Figure 1: Population projections by age cohort, England (2014=100)
A radical demographic shift

Longer life expectancy and low birth rates will radically change the population age structure in England (Figure 2). By 2039, 59% of the population is projected to be between 15 and 64, down from 64.1% in 2016. During the same period, the population over 65 is projected to increase from 18% to 24%.

Interestingly, this major demographic shift is partially counterbalanced by future migration levels. Specifically, the ‘natural change only’ scenario modelled by the ONS highlights how all age cohorts above 50 would account for a greater share of the total population should there be “zero net migration” in the future. The implications could be wide-ranging, as the country’s demographic profile is the foundation upon which public finances are designed and major policy decisions are made. There will be a need for greater funding to pay for the costs associated with an ageing population, but, at the same time, the proportion of people able to work and pay taxes is set to fall. This will be a major public funding challenge in the near future.

The degree to which each local authority will be affected by the demographic shift varies greatly. To observe this, it is interesting to analyse what the dependency ratios, a measure of social support need, are expected to be for each local authority in 2036 (Figure 3).

Two trends clearly emerge: while coastal localities are expected to have higher dependency ratios than urban areas, the largest absolute increase in the number of older people will take place in urban areas. Overall, just under one third of all people over 65 (5.9 million) are expected to live in coastal localities by 2036, while the remaining two thirds (12.2 million) will live in cities and rural areas. Cities’ dependency ratio will remain relatively lower thanks to the inflow of younger workers, which will not be experienced in coastal locations.

As a consequence, by 2036, there will be over four people aged over 65 for every 10 people between 16 and 64 in Great Britain as a whole, but the local figures will range between just over 1 in 10 in Tower Hamlets and over 8 in 10 in West Somerset.

Local economies are set to change dramatically and central government is putting forward policies to overcome the challenges. For example, the Government continues to push its devolution agenda by allowing councils in England to raise Council Tax to cover the increasing costs of adult social care (page 4) and, from 2020, to retain the business rates they collect.

Ageing: an uneven spatial pattern

The dependency ratios were calculated as a measure of the number of people aged over 65 for every person between 16 and 64.
Planning for housing an ageing population

The government has committed to building 200,000 starter homes (discounted homes for sale to those under 40) over the course of this Parliament, but there is no such commitment to build dwellings intended for older people.

The National Planning Policy Framework (NPPF) defines ‘older people’ and recognises them as one of the community groups that planning should be taken into consideration when planning to meet housing needs.

National Planning Practice Guidance (PPG) notes that the provision of housing for older people is ‘critical’ and that local planning authorities should identify the need for various types of housing for older people. Examples of housing types are provided, but the PPG does not provide guidance on which use class each should fall within.

Depending on the nature of the development, and the level of care provided, housing for older people is generally considered to be in one of the following two use classes:

- **Class C2. Residential institutions** – Use for the provision of residential accommodation and care to people in need of care (other than a use within class C3). Use as a hospital or nursing home. […]
- **Class C3. Dwellinghouses** – Use as a dwellinghouse (whether or not as a sole or main residence by: (a) a single person or by people to be regarded as forming a single household, (b) not more than six residents living together as a single household where care is provided for residents).[…]

As Table 1 indicates, ambiguity arises where a flexible level of care or support is provided for residents, for example in so-called ‘extra care homes’, and in some cases this has led to the use of the proposed development being considered by a planning application decision-taker to be ‘sui generis’ or ‘of its own class’.

This categorisation in turn has implications for the planning obligations (or ‘s106 contributions’) for affordable housing that may be considered necessary, and potentially for the community infrastructure levy (CIL) liability, where there is a levy for residential development that does not have housing for older people sub-categorised in a charging schedule, and consequently on the overall viability of such schemes.

A review of several local authorities’ CIL charging schedules indicates that some distinguish between general needs housing, retirement or sheltered housing, and extra care housing, while others do not sub-categorise these different types of residential uses.

In short, local authorities approach older people’s housing in a variety of ways, taking into account related legislation, policy and guidance. Given the subtleties that determine the use class or typology that a development for older people will fall within, it has been a matter for the courts to decide, with complex case law emerging.

The difference between the various typologies can be subtle, but the impacts on investment in and the delivery of such schemes can be hugely significant.

### Table 1: Overview of housing typologies for older people

<table>
<thead>
<tr>
<th>Typology</th>
<th>Description</th>
<th>Use Class</th>
<th>Financial Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Needs Housing</td>
<td>Housing not designed for specific needs</td>
<td>C3 Dwellinghouses</td>
<td>Affordable housing contributions often required</td>
</tr>
<tr>
<td>Retirement/Sheltered Housing</td>
<td>Group of (almost always) self-contained flats/ bungalows, offering shared facilities and management, where all residents are older people</td>
<td>C3 Dwellinghouses</td>
<td>Affordable housing contributions often required</td>
</tr>
<tr>
<td>Extra Care Homes</td>
<td>Retirement housing that also provides a flexible level of care</td>
<td>C2 Residential Institutions / C3 Dwellinghouses</td>
<td>Affordable housing contributions often required if considered C3</td>
</tr>
<tr>
<td>Care/Nursing Home</td>
<td>Residential complexes where residents usually live in single rooms and have access to on-site care and shared facilities</td>
<td>C2 Residential Institutions</td>
<td>Affordable housing contributions not usually required</td>
</tr>
</tbody>
</table>

Source: NLP analysis

---

2 Older people’ defined in Annex 2, P.54 reference to meeting housing needs of older people in para. 50 and para. 159

3 A ‘single household’ is essentially a family or family and their domestic or nursing staff, as defined by Article 3 of the Licensing and Management of Houses in Multiple Occupation and Other Houses (Miscellaneous Provisions) (England) Regulations 2006/373, as referred to by the Town and Country Planning (Use Classes) Order 1987 (as amended)

4 Including supported housing schemes, such as those for people with disabilities or mental health problems

5 As defined by the Town and Country Planning (Use Classes) Order 1987 (as amended)
Meeting the rising cost of adult social care

The need for additional funding to cover the costs associated with an ageing population coincides with a wider context of public spending reduction. Since 2009/10, local authorities’ expenditure on social care has decreased by 2.2% in real terms (Figure 4) and the latest figures from DCLG show that budgeted expenditure will decrease to £22.2bn in 2016/17, a 3.5% reduction in real terms compared to the previous year. However, this reduction must be put into perspective. By 2016/17, local authorities’ total expenditure will have decreased by 16.7%, while expenditure on planning and development will have declined by over 51.7% in real terms compared to 2009/10.

As part of the 2015 Spending Review and Autumn Statement, the Government announced that local authorities with social care responsibilities would be able to raise Council Tax in their area by up to 2% per year and use the new funding exclusively on adult social care. To maintain their spending capacity (after accounting for the planned reduction in redistributed grant funding to local authorities), the 152 councils with social care responsibilities would have to increase Council Tax by an average of 3.75% each year between 2016-17 and 2019-20. This increase would be possible – a council can already increase Council Tax by 1.99% before needing a referendum – so an additional 2% on top of this would allow the council to hit its target. However, this would not be a painless political decision to take on an annual basis. Nevertheless, 144 of the 152 councils with adult social care responsibilities announced that they will raise council tax rates under the Council Tax Social Care Precept in 2016-17 to raise a total of £382m.

The uneven geographical trends in ageing population are going to have a mixed impact on local governments, especially when coupled with the Government’s devolution initiatives. Councils will be more and more dependent on local economic performance, as their income will increasingly consist of locally collected taxes such as council tax and business rates. NLP will continue researching and will keep abreast of the challenges and opportunities arising from these trends.

Contact Us

Bristol
Andy Cockett
acockett@nlpplanning.com
0117 403 1980

Cardiff
Gareth Williams
gwilliams@nlpplanning.com
029 2043 5880

Edinburgh
Nicola Woodward
nwoodward@nlpplanning.com
0131 285 0670

Leeds
Justin Gartland
jgartland@nlpplanning.com
0113 397 1397

London
Matthew Spry
mjspry@nlpplanning.com
020 7837 4477

Manchester
Michael Watts
mwatts@nlpplanning.com
0161 837 6130

Newcastle
Michael Hepburn
mhepburn@nlpplanning.com
0191 261 5685

Thames Valley
Daniel Lampard
dlampard@nlpplanning.com
0118 334 1920

This publication has been written in general terms and cannot be relied on to cover specific situations. We recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. NLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from acting as a result of any material in this publication. Nathaniel Lichfield & Partners is the trading name of Nathaniel Lichfield & Partners Limited. Registered in England, no.2778116. Registered office: 14 Regent’s Wharf, All Saints Street, London N1 9RL© Nathaniel Lichfield & Partners Ltd 2016. All rights reserved.

Figure 4: Local authorities’ not current (or budgeted) expenditure by service

Source: DCLG, HM Treasury, NLP analysis

Local Government Association, Council Tax rises will not fix social care funding crisis, 23 February, 2016