**Briefing Paper on funding of adult social care for Members of the All Party Parliamentary Committee on Land Value Capture**

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**Adult Social Care**

In the last 20 years there have been several green and white papers, commissions and independent inquiries considering the future of adult social care. While consensus has generally been achieved around the nature of problem and developing a vision for the future, consensus on the key question of how, as a society, we should pay for adult social care and support has eluded governments to date.

As Sir Andrew Dilnot pointed out in his evidence to the HCLG select committee[[1]](#footnote-1):

 “*Where there is not consensus is where the money should come from. That is what is always politically most toxic for Governments. The debate is much more now about where the money should come from than about what the money should be spent on. My advice for any institution trying to build consensus would be try to focus on that*.”

The HCLG committee report concluded that “in its present state, the system is not fit to respond to current needs, let alone predicted future needs as a result of demographic trends”. The Committees proposed that a combination of different revenue-raising options will need to be employed, at both a local and a national level in order to raise the funds required

This briefing seeks to examine the potential role of land value capture in funding residential care homes and land value taxation in funding domiciliary care

**Where the money comes from**

In England, adult social care – the provision of support and personal care (as opposed to treatment) to meet needs arising from illness, disability or old age – is either paid for publicly or privately, or provided voluntarily, typically by family and friends[[2]](#footnote-2).

Local authorities provide publicly funded care. They have a legal duty to provide care to those who pass centrally set needs and means tests. The provision of government- funded social care is decided after an assessment looking at the severity of someone’s need and their ability to pay. People who apply for adult social care who have savings/wealth of less than £14,250 are eligible to have council pay for their care. For those with wealth up to £23,250 the council may pay for some of their care. Those with wealth above £23,250 have to pay for their social care privately.[[3]](#footnote-3)

If you receive domiciliary care at home the value of your residence is not included in these means tests. If you are receiving care in a residential or nursing home the value of your house is included.

For those who pass these means tests, local authorities commission services. The level of spending can differ between areas based on the amount of money that local authorities have, and their local priorities.

Although adult social care is delivered and mainly funded locally, central government in essence determines how much money local authorities have to spend – and what they are obliged to spend it on. It has significant influence over councils’ revenues, ability to borrow and legal obligations. Adult social care is therefore a national as well as a local responsibility.

**International Comparisons**

In research undertaken for the Health Foundation by the Rand Corporation[[4]](#footnote-4) it was found:

* Taxation and other public sources primarily fund health care in most countries reviewed. Social care, however, often relies more in private funding from individuals.
* There is no single, commonly preferred solution to achieving sustainable revenues. High-income countries have taken diverse approaches to tackling the need to increase health and social care funding.
* Funding reforms are driven by changes in economic conditions rather than rising demand for care. These reforms tend to be incremental, not radical, and are path-dependent.

**Hypothecation**

The Health Foundation research[[5]](#footnote-5) revealed that hypothecating tax revenues for health care or social care is not common — some countries have considered it and even fewer have used it. In France since 1998, employee payroll contributions to mandatory health insurance have been slowly replaced by a hypothecated tax called the “general social contribution” (CSG). The CSG is based on total income rather than on only earned income and was adopted as part of attempts to broaden the social health insurance system's revenue base.

Italy's publicly funded health care is partly financed through a number of hypothecated taxes: an earmarked corporate tax on the value added of companies and public sector salaries; a regional surcharge of up to 0.5% on the national income tax; and a fixed proportion of national VAT revenue used to supplement funding in poorer regions. A novel approach to hypothecating a small part of income tax is also in operation in Italy. Individuals can choose to allocate 0.5% of their income tax payments to any of a list of non-profit organisations, including (but not limited to) those delivering or supporting health care and social care. However, the sums these payments add are a tiny proportion of total public spending on care.

Earmarking taxes for public funding of health care or social care is clearly an option worth considering. However, whether it will be popular in the UK remains unclear. Shedding light on the public's preferences for different ways to pay for health and social care will be vital if the UK is to raise the billions of pounds needed each year.

**Cross-party positions**

The 2017 party manifesto’s give an insight into the approach of the main political parties in the UK to issues of funding adult social care:

**Conservative:**

* The manifesto proposed that the cut-off point for means tested assistance would increase from £23,250 to £100,000.
* The value of your home should be counted whether you are living in it or not. Consequently, people receiving social care at home may find themselves above the means test threshold, when before they might not have been.
* People meeting certain criteria would be able to defer payments on their care. This is “essentially a loan given by the local authority secured on the value of the person’s property, much as happens now when a person with property moves into a residential care home.
* Councils can charge a fee for this, as well as interest on the loan during a person’s lifetime. The council’s loan can be repaid in threeways: the full amount of the loan is paid back by the person or others on their behalf, from the sale of the property,or from the value of the person’s estate after their death.
* Means-test winter fuel payments, with money released going to health and social care.
* Introduce an ‘absolute limit’ on an individual’s lifetime liability for care costs (pledge announced after the manifesto had been published).

**Labour:**

Labour’s manifesto committed to “lay the foundations of a National Care Service[[6]](#footnote-6) for England”, and the party will ensure there is a limit on lifetime contributions to care costs. Labour says it will “seek consensus on a cross-party basis about how it should be funded, with options including wealth taxes, an employer care contribution or a new social care levy”

Andy Burnham as secretary of state for health has previously proposed an estate tax of 10% to 15% ring-fenced for adult social care.

**Liberal Democrats:**

The Lib Dem manifesto would introduce an immediate 1p rise in all rates of income tax[[7]](#footnote-7) and ring-fence the additional revenue (calculated at £6bn) for NHS and social care services. In the longer term this would be replaced with a hypothecated health and care tax. The manifesto also pledges to “finish the job of implementing a cap on the cost of social care”

There would also be a move towards free end-of-life social care.

**Greens:**

“There’s only a crisis in social care because of under-investment. Yes the ageing population is coming…”

Cross-party Initiatives

In March 2018, 98 MPs wrote to the Prime Minister[[8]](#footnote-8). The letter made the case for establishing a parliamentary commission on health and social care to examine, among other things, future demand for care and funding options. MPs who signed the letter argued that a cross-party approach to these issues was urgently needed.

In May 2018 Nick Boles (Conservative), Liz Kendall (Labour), and Norman Lamb (Liberal Democrat)appeared together to argue for more funding for the NHS and social care.[[9]](#footnote-9)  And urging the government to convert National Insurance into a specific tax for the NHS.

House of Commons Joint Committee Inquiry on the Long-term Funding of Social Care (2017-19)

The Housing, Communities and Local Government Committee and the Health and Social Care Committee conducted a joint inquiry on the long-term funding of adult social care.[[10]](#footnote-10) The inquiry sought “to identify funding reforms that will command broad consensus to allow progress in ensuring the long-term sustainability of both the health and care systems”

The report concludes that a combination of different revenue-raising options will need to be employed, at both a local and a national level in order to raise the funds required. At the national level the Committees recommended that an additional earmarked social care contribution, described as a ‘Social Care Premium’, should be introduced, to which employers would also contribute. This could either be as an addition to National Insurance, or through a separate mechanism similar to the German model. To ensure generation fairness, it was proposed that those aged under 40 should be exempt from the Social Care Premium, and that it should also be paid by those over the age of 65.

**The Dilnot Commission**

The Dilnot commission report focused on the inequity of catastrophic care costs faced by an unlucky proportion of about 10% of the population for which they were no means of pooling the risk through private insurance. The report concluded that the state was the only institution capable of pooling the risks as it does with health care. Individuals should pay the first £35,000 of their care if they have more than £100,000 in assets. Once that excess has been paid, the government would provide free social care.

A modified form of the recommendations were enacted by the coalition government in 2013[[11]](#footnote-11) but subsequently abandoned. The proposals adopted were:

* a new cap of £72,000 on eligible care costs, additional financial help for people of modest wealth with less than £118,000 in assets including their home and a scheme to prevent anyone having to sell their home in their lifetime.
* for people entering a care home, their property will not be included in the assessment of assets if a partner or dependent still lives in the home. In this case if a person has assets of less than £27,000 (excluding their home) they will qualify for financial assistance
* many people getting financial support towards the costs of meeting their eligible needs will reach the cap without paying out the whole £72,000 themselves. Because the cap is based on the total cost of meeting someone’s eligible needs, not just their own contribution, an individual’s payments are added to those made by the local authority when measuring progress towards the cap.

Sir Andrew Dilnot returning to the theme of adult social care in a lecture to the Resolution Foundation in 2018 condemned Britain’s social care system as “the most pernicious means-test in the whole of the British welfare state” and called for a new tax to fund adult social care for everyone who needs it, [[12]](#footnote-12) saying a tax was needed to provide lifelong adult social care that was not means-tested.

**Private Care Homes**

The Competition and Markets Authority undertook a Market study into residential and nursing homes in 2017.[[13]](#footnote-13) The report concludes

“The current model of service provision cannot be sustained without additional public funding; the parts of the industry that supply primarily local authority(LA)-funded residents are unlikely to be sustainable at the current rates LAs pay. Significant reforms are needed to enable the sector to grow to meet the expected substantial increase in care needs.”

**Inter-generational equity**

David Willetts at the Resolution Foundation Intergenerational Commission has undertaken a series of studies researching the impact of the changing demographics of the UK on fairness between the generations.[[14]](#footnote-14)

The conclusions are stark. “We face a choice of funding the NHS through capital taxes or cutting our children’s pay packets.”

 The issues are nowabout who pays more and how much they pay.

 *“The Conservative Party now faces the challenge of fighting elections without offering tax cuts – the manifesto of 2017 is a taste of things to come. The Labour Party faces the challenge of whether it is credible to say only the rich will pay more – taxing bankers cannot pay for everything.*

 *We are the first generation to have lived our entire lives under the modern welfare state.*

 *We have benefitted from Britain’s house price boom which has made home ownership unaffordable for our children.*

 *We have done so well compared with the younger generation in so many ways that we cannot just turn to them to pay for our health and social care.*

 *And it is this cost above all – paying for a service we particularly benefit from in our old age -which is pushing public spending inexorably upwards.*

 *We are going to have to make a contribution too. And when we look at how we should do this there is one obvious source – the wealth we are sitting on.”*

Overtime the pressures that the younger generation face in the housing market may start to ease as the baby boom generation begin to downsize, move into elderly people’s accommodation and eventually die off. As their properties are put on the market, supply will rise, depressing prices and bringing ownership within reach for more people.[[15]](#footnote-15)

The UK, however, does not have much of a downsizing culture and it is discouraged by government policies such as stamp duty, single occupancy relief for council tax and outdated valuations from 25 years ago that fall relatively lightly on big, pricey houses.

Britain is also under-supplied with good retirement housing with more than half of the existing stock built or refurbished more than 30 years ago.

As baby-boomers shake of this mortal coil they will leave record amounts of wealth to their descendants. According to the *Economist* roughly £100bn is currently bequeathed each year. The resolution foundation expects the level of bequests to more than double over the next 20 years.

Most of the inheritance bonanza, will go to a relative few. Nearly half of non-home owning millennials have no parental property wealth at all. When the current class of wealthy oldsters move on, they will be replaced by a class of wealthy inheritors perpetuating the divide between homeowners and tenants.

**The Role of Land Value Capture and Land Value Tax**

As per the conclusions of the House of Commons Joint Committee Inquiry on the Long-term Funding of Social care it appears likely that a combination of different revenue-raising options will need to be employed, at both a local and a national level in order to raise the funds required.

At a national level this may potentially take the form of a hypothecated social care premium element of national insurance as advocated by the cross-party group of backbench MPs.

However, as David Willetts at the Resolution Foundation Intergenerational Commission makes clear it is unrealistic to expect a proportionally smaller working population to solely bear the burden of funding the increasing demands of the welfare state.

 *“Today, for every ten working age adults there are seven young and old people needing their support. This dependency ratio has hit a historic low and now it is rising inexorably upwards. By 2030, that ratio will rise to nearly nine.*

 *So we are entering a period when just to maintain the existing welfare state promise is going to cost more and more. By the end of the next decade this cost will rise by £20bn a year. By 2040 it will rise to £60bn.”*

 *That translates to an income tax hike of 15p in the basic rate by 2040, the burden of which will overwhelmingly fall on the generations following baby boomers.*

 *Is that kind of tax rise really the legacy we – a generation that owns half the nation’s wealth £13tn of wealth – want to bequeath to our children and grandchildren?”*

Land Values as a tax base come in principally at the local level. Firstly, there is the issue of building more council run residential care and nursing homes as well as the provision of both assisted living (also known as extra-care housing) and sheltered housing that is made available to over 55’s. So too is there a need for supported housing for those who are homeless, people living with mental illness, learning disabilities or recovering from substance misuse, people who have spent their childhood in care, are fleeing domestic violence, or those who are elderly and need extra support to live.

While the lifting of borrowing caps for local authorities was announced last year, this needs to be coupled with access to development land at current use value to assist local authorities in the provision of affordable properties. Allowing access to land at current use value may require reform of the Land Compensation Act 1961 that presently makes it difficult for councils to acquire needed land without paying a prospective ‘hope value’.[[16]](#footnote-16)

Secondly, there is the issue of domiciliary care and operating costs of council run residential and nursing homes. The government has implemented some short-term stop gap measures in the form of supplementary treasury funding and social care precepts on top of existing council tax, but the issue of longer-term sustainable funding is yet to be resolved.

Willetts in the Resolution Foundation research writes:

 *“…the bulk of our property tax revenues come through Council Tax – which is just about the most regressive property tax you could have. The tax rate for a family living in a £100,000 house is five times that of someone living in a £1 million pound property.*

 *That is why Council Tax is crying out for reform…a 1% tax on the value of properties after their first £100,000 would add up to £9 billion to revenues. That’s more than enough to reduce other taxes, such as stamp duty, and provide valuable extra investment in social care.*

 *Yes, some would pay more. But there are ways to help asset-rich, low- income older families, for example through deferred payments. And those with the lowest incomes would pay less, as will younger people who don’t own their own homes.”*

 Council tax in its present form and the supplementary social precept creates an inequitable distribution of the tax burden. A Land Value Tax is not assessed on tenants but rather on Landowners i.e. where the accumulated wealth lies.

There appears to be a cross-party consensus around the need for a sharing of adult social care costs between the taxpayer and the individual user as well as a recognition that individuals should be protected from the loss of homes as a consequence of high care needs in later life.

Additionally, as Sir Andrew Dilnot has concluded “a tax is needed to provide lifelong adult social care that is not means-tested.

A residential Land Value Tax approach may offer a solution to these expressed aims in the funding of adult social care.

The tax base is the rental value of land in owner-occupied and let residential accommodation. The land rental value is assessed by the local authority valuation office.

An owner-occupied homeowners allowance is provided for against a single main residence equivalent to the local housing allowance set by the Local Authority based on the number of bedrooms and area in which the property is located.

The Social care precept is set by the local authority based on its budget for adult social care costs net of any central/NHS funding as a proportion of the residential land rental value taxable base.

The precept is automatically hypothecated for adult social care. Individuals receive care based on assessed needs not on their means.

Tenants and owner-occupiers in low value properties (below 30th percentile locally) receive domiciliary care free of charge. Landlords will pay the social care precept from rents paid by tenants.

Owner-occupiers in higher value properties (with a rental value above the Local Housing Allowance) and owners of let property pay the social care precept in proportion to the value of the property.

Owner-occupiers over 55 years of age or on benefits may apply to defer payment of the precept until the property is sold or bequeathed. Inheritors may apply for settlement of deferred tax liabilities in instalments over ten years as currently applies to Inheritance tax liabilities arising on property.

Owner-occupiers moving into residential care will no longer have the benefit of a owner-occupied homeowners allowance and may choose to rent the prior home privately or to the council as a means of paying the social care precept or defer payment until the property is sold or bequeathed (where for example the property continues to be occupied by a spouse or dependent).

**Next Steps**

The APPG to formulate a cross-party submission to the Green Paper o adult social care expected during the course of 2019.

1. <https://www.parliament.uk/business/committees/committees-a-z/commons-select/communities-and-local-government-committee/inquiries/parliament-2017/long-term-funding-of-adult-social-care-17-19/> [↑](#footnote-ref-1)
2. <https://www.instituteforgovernment.org.uk/publication/performance-tracker-2018/adult-social-care> [↑](#footnote-ref-2)
3. <https://fullfact.org/health/adult-social-care-england/> [↑](#footnote-ref-3)
4. <https://www.rand.org/pubs/external_publications/EP67657.html> [↑](#footnote-ref-4)
5. <https://www.rand.org/blog/2018/07/tax-funding-of-health-and-social-care-internationally.html> [↑](#footnote-ref-5)
6. <https://www.theguardian.com/society/2017/apr/11/national-social-care-service-centralised-nhs> [↑](#footnote-ref-6)
7. <https://www.theguardian.com/politics/2017/may/06/lib-dems-pledge-1p-tax-rise-to-rescue-nhs-and-social-care> [↑](#footnote-ref-7)
8. <https://twitter.com/sarahwollaston/status/978044156072419328> [↑](#footnote-ref-8)
9. <https://www.bbc.co.uk/news/uk-politics-43875246> [↑](#footnote-ref-9)
10. https://www.parliament.uk/business/committees/committees-a-z/commons-select/communities-and-local-government-committee/inquiries/parliament-2017/long-term-funding-of-adult-social-care-17-19/ [↑](#footnote-ref-10)
11. <https://www.gov.uk/government/news/new-fairer-capped-funding-system-to-help-everyone-plan-for-the-cost-of-care> [↑](#footnote-ref-11)
12. <https://www.theguardian.com/society/2017/apr/06/andrew-dilnot-social-care-reviewer-condemns-uk-system-and-calls-for-new-tax> [↑](#footnote-ref-12)
13. <https://www.gov.uk/government/publications/care-homes-market-study-summary-of-final-report/care-homes-market-study-summary-of-final-report> [↑](#footnote-ref-13)
14. <https://www.resolutionfoundation.org/media/blog/we-face-a-choice-of-funding-the-nhs-through-capital-taxes-or-cutting-our-childrens-pay-packets/> [↑](#footnote-ref-14)
15. <https://www.economist.com/britain/2019/01/05/cheer-up-millennials-it-will-become-easier-to-buy-a-house> [↑](#footnote-ref-15)
16. <http://bit.ly/APPG-LVC-Report-1> [↑](#footnote-ref-16)