



## **SELECT COMMITTEE ON INTERGENERATIONAL FAIRNESS AND PROVISION**

### **COLLATED ORAL EVIDENCE VOLUME**

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## **Age UK, British Youth Council and Dr Eliza Filby – Oral evidence (QQ 160–168)**

Tuesday 20 November 2018

[Watch the meeting](#)

Members present: Lord True (The Chairman); Lord Bichard; Baroness Blackstone; Viscount Chandos; Baroness Crawley; Lord Hollick; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Lord Price; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 17

Heard in Public

Questions 160-168

### **Witnesses**

Caroline Abrahams, Charity Director, Age UK; Lewis Addlington-Lee, Deputy Chair, British Youth Council; Dr Eliza Filby, Visiting Fellow, King's College London.

Q160 **The Chairman:** We are very grateful to you for coming to give evidence to this Committee this morning. We will not introduce ourselves as we are all identified. This session is open to the public and we are going out live on the parliamentary webcast. Your words are therefore immortal and will be accessible on the parliamentary website. We will take a verbatim transcript which you will be able to correct for the purposes of clarification or accuracy. Perhaps you would like to introduce yourselves for the record and we will move on to the questions.

**Caroline Abrahams:** I am the charity director of Age UK, which is the largest charity for older people in this country. It is probably worth pointing out that most of my career has been spent in the children, young people and families sector and I was an adviser on youth policy. Arguably, therefore, I have an interesting perspective on this issue.

**Lewis Addlington-Lee:** I am the deputy chair of the board of trustees at the British Youth Council and I will be speaking today about some of the matters relating to youth services. I also work in the Local Government Association.

**Dr Eliza Filby:** I am a generations expert and a historian of contemporary values, currently writing a history of generations.

Q161 **The Chairman:** That sounds like a great undertaking. To start with a sighting question, the Committee has been charged to look at intergenerational fairness as the target, though we are fully aware of intragenerational issues. Is the current intergenerational settlement in the UK fair and, if not, which generations are better off or worse off and in what ways?

**Lewis Addlington-Lee:** The current settlement is unfair for different generations in different ways but disproportionately there is an unfairness for young people. The British Youth Council has several things on its

radar that it campaigns on and influences policy on that we would like changed. I will give you a few examples of those. The first is employment. There is a striking and obvious unfairness in that the current legislation around the living wage in this country is only a provision for people who are 25 and older. If I was not working in my salaried position, as a 23 year-old, there would be no legal requirement for an employer to pay me a living wage, which means I might not be able to afford my rent, which in London is quite high. We are in the situation, therefore, where young people are deemed to not require the same level of pay as someone who might be older. This either means that we do not see the work that young people do as valid compared to people who are older than them, which is a problem in itself, or we do not recognise in the UK that young people below the age of 25 need a wage that they can support themselves with. The idea that young people can rely on families or guardians to support themselves right up to the age of 25 is not realistic. We would seek to change that because the work that young people do is no less valid, is not necessarily of a lower quality than that of people who are older and the difference in how young people are paid is unfair.

On democracy, it is no secret that the British Youth Council campaigns strongly for votes at 16. There are two points. First, we would like to see young people across the UK being able to participate in elections from the ages of 16 or 17. Young people are able to make life-changing decisions at the age of 16. As was quoted in the UK Youth Parliament sitting in the House of Commons last week, young people at the age of 16 are able to sleep with their MP but they are not able to vote for them, which is rather ridiculous. We also have a deficit in democracy in the UK whereby young people aged 16 or 17 in Scotland, and soon in Wales, will be able to vote in their local elections whereas in Northern Ireland and England young people are not able to do so. We are therefore currently experiencing a democratic deficit within that generation itself.

Lastly, we have seen a dramatic decline in youth services since 2010. The cuts that youth services have experienced means that they have been decimated across cities and in rural areas. This means that outside formal education young people are not able to access youth organisations, such as the Scouts, Guides, St John Ambulance or military cadets. The provision for young people to have a non-formal form of learning and to be able to participate in their communities and in society in a constructive way that might work towards creating more intergenerational fairness and a better relationship between generations does not exist.

**The Chairman:** I am glad that you did not mention the House of Lords in your second example.

**Caroline Abrahams:** I am not sure we recognise the term intergenerational settlement at Age UK and I am not quite sure what that is getting at. As you mentioned in your introduction, we are keenly aware that the differences within generations are greater than those between them, certainly with regard to income. Having said that, it is undoubtedly the case that austerity has impacted on younger and older people alike in some similar ways. For example, on public services, what you have just heard about the youth service I could equally say about what has

happened to social care or what has happened to more-preventive services run by councils, which have essentially fallen off a cliff. There are some similarities, therefore, because the cause is the same, which is the great reductions in the amount of money passed from central to local government. Where there is a difference is that successive Governments have chosen to protect, more or less, the benefits that they give to older people whereas they have not done so for people of working age. There is definitely a difference there which we would certainly acknowledge.

Speaking as someone who has had a varied background across all the generations, it seems that young people have a legitimate gripe. It is hard for some young people at the moment in a way that it has perhaps not always been in the past. That is largely because of the housing market where young people are often having to spend large sums of money on rent and are struggling to get onto the housing ladder and it is also because of the cost of education. Trying to compare these things over the years, however, is tricky. For example, whereas many more young people are going to university than was the case 20 or 30 years ago, they are coming out with large amounts of debt. In the past people like me got pretty much a free university education but there were far fewer of us who went. Clearly, there have been significant changes over time. I would acknowledge that this is a hard time for many young people.

**Dr Eliza Filby:** The pitting of the baby boomers versus the millennials, which dominates much of the media narrative on this topic and discussion, is very unhelpful and not nearly as nuanced as it should be. There are two elements to the intergenerational contract. There is the one that exists within society where you contribute to taxation and to an eventual pension and the older generations take that money out and use social services as a result. Those taxpayers do so later in life. There is that contract which dominates society. But there is also the intergenerational contract within families. I think it is no accident that, first, those two things are linked, and that, secondly, one has begun to replace the other. So as the state and employers have withdrawn from supporting workers and systems, the family is stronger than ever. I will talk a little about that and why it is important. There are four key demographic changes which I think this Committee needs to put at the centre and at the heart of the discussion around intergenerational fairness.

The first is that an ageing society is not necessarily a bad thing. It is always talked about as a bad thing but, although there are more old people than ever before, we are healthier for longer. The contribution of grandparents to childcare provision, for example, and the rising level of over-70 year-olds in the workplace goes to prove the way in which we are ageing better and living healthier and longer. There are undoubtedly challenges of the ageing society, but there are also genuine opportunities.

The second thing is the process of arrested development. It is disingenuous and unfair, if not incorrect, to compare millennials, aged 30, with baby boomers, aged 30, because a fundamental shift has taken place in society in that people are being younger for longer. This is out of

choice and through necessity. There are five markers of adulthood: the age at which you leave home, the age at which you finish your education, the age at which you are financially independent of your parents, the age at which you get married and the age at which you have kids. On average, millennials are achieving those five things eight years later than their baby-boomer parents. House buying is much later. Even with having kids, women are having them much later. The numbers of women having kids in their 40s now outstrips women having kids in their 20s. The average age of a man getting married in the 1970s was in his mid-20s; now it is in his mid-30s. We are doing things later in life. So comparing house-buying statistics between baby boomers at 30 and millennials at 30 is disingenuous and not very helpful. The process of arrested development is crucial to understanding how people's life cycles are fundamentally changing. People are becoming parents later, they are getting jobs later and they are buying houses later. That is a fact of life.

The third thing, which is equally important, is that baby boomers have had a classic three-stage life. They have had all their education and training in the early part of their life. If they were lucky to go to university this would be up to the age of 21. There was a long period of sustained employment and a long, happy and healthy retirement. We know that, because of automation and because of rising life expectancy, millennials are not going to have that classic three-stage life. There is no way that the education and training that they will have received up until the age of 21 is going to see them through what is most likely going to be a working life of about 65 years. Millennials will have to work probably up to the age of 75, if not 80, and hopefully in jobs that they have been upskilled and trained for. They are going to have to spend most of their lives in retraining and topping up their education. They will, therefore, have a multi-stage life rather than a three-stage life. Currently, taxation, pensions, house buying, any social service and any benefit you like, call it what you will, is geared towards accommodating and catering for that three-stage life. One thing that the state has to equip itself for, therefore, is the way in which people are living differently, will retire differently and will make different choices through the life cycle.

The fourth and most encouraging demographic development is the re-invention of the family. There are more multigenerational households in the UK today than there have been since the Second World War. Multigenerational households are those households with three generations living under one roof. There has been an increase of up to 35% in multigenerational households between 2005 and 2011. Yes, it is economic necessity. People in the boomerang generation are returning home. We are building grannexes to accommodate our elderly parents as they go deeper into old age. As I said earlier, 40% of grandparents provide some form of childcare for their grandchildren. Parents are spending more time with their children today than families did in the 1950s, the supposed golden age of the family. It is no surprise to me that, at a time when the state, whether through necessity, ideology or design, has withdrawn, the family has stepped up.

Those four transitions in how people are living their lives, particularly spearheaded by women because of their increasing educational status

and the desire for a professional career, are the kinds of social changes that are transforming the way people are living. Trying to fit everyone into a baby-boomer straitjacket is the wrong way to think about how people in the future are going to live their lives. So the intergenerational fairness debate is, in itself, short-sighted.

**The Chairman:** That is very challenging. In fact, all three of your interventions are very interesting. Baroness Tyler wanted to ask a specific detailed question and then I want to come back on some of the things that Dr Filby was saying, which are similar to the 100-year-life evidence that we heard earlier from Professor Scott.

Q162 **Baroness Tyler of Enfield:** The key thing for us as a Committee is what the Government can do about the whole issue of intergenerational fairness, however you might frame it. Recently, I became aware of the fact that in Wales, as a result of a piece of legislation called the Well-being of Future Generations Act, there is a Future Generations Commissioner for Wales. This was news to me. They are coming next week to talk to us in the Lords so that we can find out more about it. With a focus on the well-being of future generations, I wondered, first, if you are aware of this, and secondly, whether you think it is a good idea for there to be a commissioner of this type? Thirdly, if you do, and if it were to be introduced in other parts of the UK, would you favour it being more nuanced and looking at a Commissioner for Intergenerational Fairness rather than specifically focusing on the future generations?

**Lewis Addlington-Lee:** I was not aware that there was such a commissioner. I am not sure whether the British Youth Council would support that or move away from it. The British Youth Council has been very clear that it would love to see a Minister for young people. It would be a fantastic move by the Government to have that dedicated provision specifically looking at young people and the future generations. In the sense of the question asking whether it would be better to have one for intergenerational fairness or one dedicated solely to looking at future generations, I think that looking at intergenerational fairness is valid but a priority for the Government should be looking at how we support our young people coming into the future, especially in relation to the second question which was tabled around supporting the future workforce and how we are going to deal with things such as automation. Understanding how young people can play a genuine role in society and be active in their communities, and also be prepared for what society is going to throw at them when they become adults, is very important. If you had a commissioner and a Minister for young people that would be fab.

**The Chairman:** We will keep it brief on this question because we are coming on to those very points. Does anyone else want to comment?

**Caroline Abrahams:** I had not heard of it. One of our friends in the English ageing sector has just become the Older People's Commissioner for Wales. They like commissioners in Wales whereas we do not have a commissioner for older people in this country, unlike other parts of the UK. It sounds like it might be doing what the Centre for Ageing Better is doing here, which is taking a life-course approach and trying to think way ahead into the future about how to support much younger people so that



they can live the older lives that they want to lead. I do not know enough about what the commissioner does. The key is what their powers are and that is possibly a little unclear.

**The Chairman:** Let us get back to the main questions that were tabled. When we heard from Frank Field MP, he said that Government have simply failed to make a proper social audit for the future. We want to come into this area.

Q163 **Lord Price:** I would like to draw out and build on the comments that Dr Filby made about the issues and opportunities we have for an ageing population and the technological changes that we have in the workforce. My question is: do you think the Government are prepared enough to support a future workforce? I ask that question in the light of evidence that we received from Julian Gravatt of the Association of Colleges. He said that over the last 10 years adult education and training had dropped by 50% and also went on to say that he felt that employers were pulling back from training. Do you have a view on that?

**Dr Eliza Filby:** I think that it was laudable and credible to have a commitment of sending 50% of school leavers to university, as Tony Blair did back in 1997 or 1999. However, it is fundamentally misplaced because the top-up of tuition fees has led to, as you say, a drastic decline in adult learners, mature students and part-time undergraduates. They have seen a drop of up to 60% in the last 10 years. Universities or further education institutions across the board should see themselves like banks, offering a lifelong learning account. It is ridiculous and farcical now in the way that the workforce is evolving and changing at such a rapid pace to have all that learning training and debt associated with it saddled with you from such a young age and not equipping you and enabling you to top-up your education at further points throughout your life. There should be a radical overhaul as to how learning institutions broadly and not just universities—because we need to think about education beyond the university—enable people to have a lifelong learning account. The educational and training provision for older workers in this country is appalling. It is an assumption within business that you are training up until the age of 30 and then you are left to get on with the job. There is very little training at points for mature workers throughout their career. One of the reasons why people often retire early or at retirement age is that they are not able to get another job or feel that they are able to pursue the job that they have. You can do a lot to help younger workers prepare for the future of work but there is also stuff you can do immediately to help older workers right now.

**Lord Price:** What would you have in mind that the Government might do to support that?

**Dr Eliza Filby:** There are benefits to a complete shift to two-year degrees. A condensed, residential learning experience in your late teens and early 20s should be a rite of passage that is offered to the majority as it is now. There should, however, with the help of employers and the Government, be a way of enabling people to top-up their skills and education. That could be done now very easily through technology, e-learning and online platforms, enabling them to enhance their skills. I do

not think that should be necessarily about getting into more debt, because you are going to need to top-up your skills at times when you have other financial pressures, whether it is having kids, getting into a mortgage agreement—those kinds of points in your life. You are not going to be able to say, “Yes, let me drop £10,000 on another learning course or education qualification”. There needs to be a conversation, therefore, between business and the Government and learners to enable this lifelong learning account to take place that does not involve more and more debt.

**The Chairman:** I am mindful of time, so we will have to keep things relatively short. Lady Blackstone is interested in what you have said.

**Baroness Blackstone:** I entirely accept your aspirations and what you are proposing, but I do not know how you are going to make it happen. It is all very well to say employers should do this and should do that, but what are the incentives to them and what are the sanctions if they do not? Governments have been talking to employers about building greater skills for 20 or 30 years and it has not produced an enormous amount of commitment to releasing employees for further training or undertaking it themselves. You therefore have to put some flesh on how you are going to make this happen.

**Dr Eliza Filby:** I think you are absolutely right. I talk a lot to business. I do a lot of work with businesses across all sectors, and one of the things I hear the most is: why are young people not staying? The average millennial changes jobs up to three years. High turnover of staff is one of the biggest losses for business and one of the things that really affects their bottom line. One of the key ways that you can keep staff, particularly millennials, is offering them some upskilling, training and development. Explaining to business that this is how they will keep their staff over a longer period and ensure their loyalty and commitment to the company is one way. You are right, however. I am a historian who does not have all the answers but can definitely see the complexity of the problem that both the Government and the business community are faced with, where there is rapid automation. I was working in a company where the current workload of trainees will be automated in three years. Three years ago trainees were doing work that has already been automated. This automation process is happening rapidly. It is not 10 to 15 years down the line. As we know, it is not just going to affect unskilled workers; it will predominantly affect men more than women. There is a really important question that needs to be asked about how business does this in collaboration with government, that does not just mean individuals getting into more and more debt.

The second thing is the universities. Within universities right now there is a tension between them as a teaching institution and them as a research institution. Trying to bridge that gap and address that tension is one of the biggest challenges within the education sector.

**The Chairman:** I am mindful of time but Mr Addlington-Lee and Miss Abrahams have not had a chance to have a go at this question yet. Do you want to talk about supporting the future workforce?

**Caroline Abrahams:** We could be doing a lot more to support older workers to stay in work than we are. We know a lot of lower-skilled women in particular are being blown out of the labour market in their 60s. As the state pension age is increasing there are more women and men, sometimes, who are struggling to keep working for long enough and who are then thrown back on to the working-age benefits regime which was never properly designed for them. One of the biggest things the Government could do there is to be much firmer in its leadership around flexible working. One of the reasons why lots of women leave is that they are trying to juggle caring responsibilities, and some men, too. At the moment flexible working is available to some people, particularly people with higher skills. It is people with low skills, however, who could most benefit from it who often find it hardest to get. We could be much firmer about that. We would like to see a flexible working-by-default approach so that you could still allow employers to say that they cannot do it for a good reason. You would start to drive the cultural change to the effect of: we should be helping people to work flexibly, generally. It would be good for business as well as for individuals.

**Lewis Addlington-Lee:** There are two things that the Government could do. One is to establish a proper curriculum for life, by which I mean a curriculum that not only provides people with learning around the core subjects but teaches young people about things like mortgages and taxation and first aid and provides a proper sex and relationship education that is fully LGBT inclusive. Having an education that properly prepares you for leaving secondary and sixth-form education and either going off to university or joining the workforce or an apprenticeship would be of massive benefit to young people. Understanding the world you are about to enter can never do somebody any wrong. The second thing would be to have a greater focus on work experience. The Department for Education does include work experience within its strategy, however the White Paper of the Department for Business, Energy and Industrial Strategy, *Building a Britain fit for the future*, does not explicitly mention work experience. The Department for Business did not come and give evidence at the Youth Select Committee's inquiry recently into work experience.

Work experience is incredibly valuable. It was incredibly valuable in my formative years and it provides people with the opportunity, alongside their formal education, to experience, branch out and try new things within a workplace environment. Not having that within the Government's national strategy around *Building a Britain fit for the future* is a massive miss. Giving that opportunity at secondary and sixth-form education would allow people to branch out and test new things and broaden horizons and not enter university thinking that they had to do a degree that results in them having a job in that field. I am lucky that I went to university to study drama and had quite a lot of free time and now work in politics. The link is less tenuous than it might seem. For a lot of people, however, they go to university and study a degree because they think that that is going to get them a job at the end whereas we should not be having such a limited attitude and limited approach to how we experience our education because we are talking at the moment about having to retrain people later in life. If we start them off entering the real world by

saying, “Go to university and get a degree and get a job in that field”, we are not off to a good start.

**Dr Eliza Filby:** It is important that we are moving beyond the gig economy. A number of young people make their own pocket money. They are not doing traditional jobs such as working in bars or doing newspaper rounds; they are making money through their phone. Buying and selling second-hand clothes, for example, is big business for the under-21s. You will see, as we already have seen, a rise in self-employment. Protecting that segment of the workforce will become an ever-bigger issue.

**The Chairman:** Lord Hollick, you had said earlier that you might want to come in on this question.

**Lord Hollick:** I would like Dr Filby to explain the economics of the shift from the current investment in higher education to lifelong learning. You mentioned one potential saving—three years to two years for a degree, whether or not that turns out to be a real saving—but what does the economic model look like?

**Dr Eliza Filby:** My honest answer is that I have no idea.

**Lord Hollick:** That is a very honest answer. Thank you.

**The Chairman:** It is certainly an interesting concept.

Q164 **Baroness Jenkin of Kennington:** We have taken a lot of evidence around housing, as you can imagine. Indeed, the previous witnesses focused on that. The question was what the Government need to focus on to ensure that there is adequate housing. One of their answers was reform of the private rented sector, so if that is also your answer try to think of something new. What do you think are young people’s expectations as much as what the Government should be doing?

**Lewis Addlington-Lee:** Young people have very low expectations in relation to housing generally. You would struggle to find many people my age or younger who expect to own a house any time in the near future or, unfortunately, at all. There is quite a bleak outlook for young people as to how we are going to be able to access housing in the future. Many of us believe that we are going to spend our lives renting. With regard to saying something new, one of our pieces of policy at the British Youth Council came from the National Federation of Young Farmers’ Clubs around access to rural housing. This issue sees young people from rural backgrounds like myself not being able to stay in the areas where they grew up and not able to move to rural areas because there is a lack of affordable housing. What affordable housing there is, or whatever housing stock there is, is being bought up as second homes and for people who are able to move out of the city because of their salaries and live a commuter lifestyle. Mixed with the fact that there are terrible transport links within rural communities and a severe lack of opportunities for young people means that in communities like mine in rural north-east Essex near Clacton-on-Sea, when they finish secondary and sixth-form education, young people do not come back. We leave those areas because there are no opportunities for us there and the only opportunity to live there is to stay with mum and dad. Many of us want to move out and be financially independent but that is not necessarily an

option for some people. A focus around understanding the barriers to young people living and staying in rural areas would be interesting.

**Dr Eliza Filby:** I will make a couple of comments which I think align with how people are viewing housing differently. As Lewis referenced, there is a growing expectation that buying a home is never going to become a reality. I was doing some focus groups with very young people under 25 and a lot of them said to me, “Why would I even buy a house? I want to move around. I want to have freedom throughout my life. Why don’t I invest that money that I would have saved not into a house but into a business that I can grow?” You are seeing that with changing expectations within the housing market come changing behaviours such as the expectation of creating a generation that would not mind renting for life. First-time buyers are in their post-mid-30s and are more likely to have kids. Creating and building homes for first-time buyers, therefore, has to have outside space. There is no point building a flat for a first-time buyer because they are a lot older, they have kids and they want outdoor space. The remodelling and design of houses, therefore, has to completely change in line with demographic trends in the market.

As I said earlier, grandparents are crucial in childcare. People want to live where their parents live. Families are closer, multigenerational, interactive and living together. Particularly in the realm of social housing, there should be a policy put in place that stipulates that you are housed as much as you possibly can be within your family network so that you can draw on that social capital. Rights for renters and that kind of thing has been mentioned as well as incentivising downsizing through taxation and all that, but I think that building multigenerational communities and multigenerational homes is going to be the big challenge of housebuilding in the 21st century.

**The Chairman:** What about the older generation?

**Caroline Abrahams:** The housing market is not working for them either, partly because people cannot downsize because there is nowhere else to go if they want to. There is a shortage of appropriate housing for older people. Other things that would help include more social housing for affordable rents, which is exactly the same issue as for young people. We are also seeing more older people, from a small base but growing fast, privately renting. There are the same issues around unfitness. Poor terms and conditions that impact on young people are increasingly hitting older people.

I understand why some young people might be saying that it is okay not owning a house. Once they get to be much older people it is different ball game. I do not think that it is much fun renting when you are in much later life, because essentially the psychology of later life is that if you have a big housing asset, or any sort of housing asset, it gives you a sense of security. If you do not have that, people miss it in later life. There is also the constant drain on your income. It is fine if you are earning but, once you stop earning, continuing to pay the rent can be really quite challenging. We have to be a bit careful what we wish for. The traditional aspiration of owning a home in this country serves people well once they get older, and I think it would be a shame if today’s young

people were not able to aspire to that. I do not think that we should give it up easily.

Q165 **Baroness Crawley:** To what extent do you see older generations helping younger generations to tackle the challenges that they face, and vice versa? We heard some evidence from the Social Market Foundation, for example, that older people are helping younger people financially. They found that 23% of those payments were simply to help cover general costs of living whereas 7% was to help try to get a mortgage and 6% was helping with the cost of rent. Do you have any views on that?

**Caroline Abrahams:** You are right. It happens within families where people can afford to do it. We all hear about that quite a lot and there are probably people here doing it. There is no real institutional structure to support this more broadly across our society. There have been intergenerational projects which come and go a bit. They tend to be very dependent on funding. We also perhaps do not do as much as we could to help younger people in the workplace to learn more from older people who might not be able to do a heavy manual job but can certainly buddy and mentor a young person who is just starting off. There is not that sort of tradition in our workplace in the same way as happens in other countries such as Germany. We might have some lessons to learn from other countries on that.

**Lewis Addlington-Lee:** The British Youth Council is a membership organisation. Among our members there are organisations such as St John Ambulance, Girlguiding UK and the Scout Association, which is where I became involved in the British Youth Council. Those organisations are fantastic at breaking down intergenerational barriers. They put young people and adults from different generations into learning environments where you get a lot of two-way learning, people from different generations collaborating on teaching each other skills and playing an active part in communities. An example would be the Scout Association's A Million Hands project, which is a collaboration with lots of different charities. Up until last year it was with charities such as Alzheimer's UK, Mind, Leonard Cheshire Disability, Guide Dogs and WaterAid. That programme involved people within the Scout Association reaching out to communities that they live in and working to take action on those issues.

That was not just young people taking action on an issue that they are passionate about, it was actively looking to collaborate with the communities that they live in in a non-formal educational structure. Those kinds of programmes are fantastic and that happens across the work that we do in the British Youth Council. We also have that through our UK Youth Parliament work. The UK Youth Parliament works closely with local authorities and local organisations, whether they are faith groups or the local Rotary club. You get those kinds of interactions every single day. The more that we can encourage those kinds of experiences for young people to be involved with and encourage them to branch out their learning and community work to engage with the communities they are living in, the greater will be the benefit.

Young people are not a homogenous group and we do not just care about tuition fees. We have lots of things to say and a lot of the issues that we are very passionate about are cross-generational. Make Your Mark is the largest referendum of young people in Europe and we think in the world but we cannot prove that yet. It happens yearly. Over 1,100,000 young people took part in that ballot this summer and the issues that they tell us they care about are things like knife crime, a curriculum for life, access to transport and mental health. Things like votes for 16 year-olds and tuition fees do come up but young people are not limited to issues that affect young people. They are eager to get involved in their communities and they do. Understanding that young people's issues are not just tuition fees would help in breaking those barriers down and building a greater relationship between generations.

**Dr Eliza Filby:** I concur with Lewis. Social care, for example, is not an old person's issue; it is a cross-generational issue, just as tuition fees is a cross-generational issue rather than just a young person's issue. Building those links between old and young will come at a familial level and at a societal level. There are four aspects to that. One is the transference of wealth, and it is wrong to assume that that is flowing one way. A lot of millennial kids are now giving money to their elder parents, whether in rent or as a gift, or as financial support. Do not assume that it is a one-way flow of money. Second is the transference of skills. A lot of employers are now building skill-swap networks within companies in which baby boomers, for example, teach millennials how to answer the phone and millennials teach baby boomers how to engage with the technology in the workplace. Skill swaps is an important way in which they could build up education credits to further their education. Transference of housing is obviously an issue, but so is transference of care. The expectation is that if grandparents are helping look after the children in a way that they were not doing before, there is an expectation within families that we then have to look after them as they get further and further into old age. That contract within families is very strong and much stronger than it has been at any point in the recent past.

**The Chairman:** Some of these responses seem to feed into the wider consideration of the role of communities. Lord Bichard, you wanted to pursue that.

Q166 **Lord Bichard:** We have seen the state having to withdraw from providing support and services that traditionally it has been delivering. Dr Filby has talked about the way in which families, in particular, have made up for some of that deficit. I am interested in how the wider community could do that. I am interested not in hearing that you think that is a good thing, because most people do think it is a good thing, but in hearing some specifics about how you think the community could help generations old and young, and whether the Government could do something to incentivise communities to be more active in that way.

**Caroline Abrahams:** There is a lack of local structure to do the right thing. One of the issues that we spend a lot of time thinking about at Age UK is how to tackle loneliness among older people. There are some lovely initiatives that have been set up, usually quite local, which bring younger people into contact with older people who might be lonely. There are

things like the Casserole Club where people might cook a meal and take it to a local older person. We are still struggling with the fact that on any one street you have people in need of all ages and you have people who are prepared to help as well. With traditional British reticence getting in the way there is often no way of bringing those two groups together. There is a leadership role for councils there. There are some innovative voluntary organisations that are trying to do this. There is a great interest in more bottom-up asset-based approaches. I am not sure that there is anything at the moment that looks remotely like it could be scaled-up and that is what we are missing. There could be so much to gain for everybody of all ages.

**Lewis Addington-Lee:** Briefly, communities can get involved in the structures that already exist in the voluntary sector. They can get involved in those traditional groups such as the Scouts, Girlguiding, St John Ambulance and reach out to the local youth groups of faith communities. How could the Government support communities in this role? Reintroduce the funding for youth services that has been decimated over the last eight years.

**Lord Bichard:** That is a consistent message.

**Dr Eliza Filby:** As an add-on, technology can help enable and enhance a sense of belonging, albeit virtual. It does not combat loneliness; it sometimes reinforces it, but it is a way of exploring one avenue that needs to be explored in addressing this issue.

Q167 **Baroness Thornhill:** We are boxing all points of the compass today because we genuinely want your different perspectives on issues that we have had more detailed and “expert” evidence on earlier. Turning to tax, the basic question is do you think tax on wealth and income is fair and what changes could be made to change the system to increase intergenerational fairness, if you think that is the case? It is your opportunity to talk about the bits that you would like to tweak and change within that system.

**Caroline Abrahams:** Income tax hits everybody regardless of age. There is often a debate about national insurance. If you work past your state pension age you are exempt from paying NI, which some people say is unfair. You might think: why has somebody not done something about this? It has not been changed yet because the traditional view is that it has been a great incentive to encourage more older people to keep working past state pension age. Regarding the changes we are hearing about today, we are in the process of transitioning to a different sort of society and people pick up messages at different speeds. There are still lots of people who think you retire at 60 and that is it. Work is differentially available to people, depending on their skills. You would have to think hard about changing something that has been an incentive to keep people working past state pension age, because quite a lot of people have not thought about that yet.

The other issue is about wealth. If you look at what happens to wealth over people’s lifetimes, it typically peaks when you retire. You build it up and then you draw it down once you are not working anymore. You would expect that to happen. All the stats show that wealth is undertaxed in our



society and income is overtaxed. That is a big political football. As an example, we do lots of work on social care at Age UK. We have talked to older people recently about whether they would be prepared to pay a small levy on their assets at death in order to fund a decent care system, say 5% across the board. They said they were prepared to think about it. Sometimes politicians run scared of any kind of discussion about wealth tax, partly because of previous experience of the dementia tax and so on. Probably the population is a bit more grown-up about that than they might think.

**Dr Eliza Filby:** This may be an abstract point. I think that the notion of a family needs to be reconceptualised. The nuclear family, which is how the tax system works and is governed around and defined by, is a two-generation family. I would say that there needs to be a recalibration that needs to understand the family in terms of three generations and understand the way in which grandparents are contributing to the family pot, the way in which multigenerations are living together, spending together, saving together, shifting income, inheriting wealth and living under the same roof. That, therefore, will encourage certain behaviours and certain expenditure and ways of working and ways of living that will harmonise the gaps and the inequalities across the generations. Broadly speaking, I am talking about the reinvention of what constitutes the nuclear family.

**The Chairman:** It sounds like a series of tax allowances which would be quite complex.

**Dr Eliza Filby:** It is complex already.

**Lewis Addlington-Lee:** The British Youth Council does not have a policy on this so I will not contribute on this question.

Q168 **Baroness Blackstone:** What single thing do you think the Government might do to create greater intergenerational fairness? One answer to that might be to ask people when they reach pension age but are still working to pay national insurance. It is a fairly simple change and it would certainly create greater fairness. I am puzzled by what the evidence is that this is such a big incentive to people to continue working. The psychological dimensions of continuing to work are very positive and likely to lead to a less lonely and happier life. Secondly, the amount you will earn will be quite a lot more than what your national insurance contributions might be.

**Caroline Abrahams:** Not necessarily.

**Baroness Blackstone:** Unless you are doing a very small part-time job; but if you are working full-time, it is likely to be.

**Caroline Abrahams:** You could approach the DWP who have evidence about it and they would be able to help you with your evidence. The other issue is the fairness point, which is a different sort of fairness point. What if you have been in a really well-paid job, you retire on a great pension and you can have a wonderful retirement to look forward to, as opposed to somebody else who has struggled all their lives financially, has not built up a good state pension record and is forced to work past the state pension age. Why should they lose out, relatively speaking, compared to somebody else? Is that the right group of people? If you take the view

that older people need to contribute more, is that the fairest place to look? That would be one of the arguments against. As to your broader question about the one thing Government could do, I think housing and problems and concerns about housing probably lie at the root of a lot of the anger and unhappiness of some young people. If we had a functioning housing market where people could have more genuine expectation of getting their foot on the housing ladder when they are younger, and if they are older, being able to downsize and buy somewhere appropriate to support them as they age, some of those tensions would dissipate.

**Lewis Addlington-Lee:** Young people are consistently told that we either do not care about politics or that we only care about issues that affect young people. The easy fix to start with this conversation is around engaging young people in every aspect of policy. If you want young people to have a genuine stake and to break down those intergenerational barriers and to feel like they are part of society and contributing to society, consult them. Do not just consult them on tuition fees; consult them on changes to social care funding. Consult them on restructures in local government. Consult them on issues that do not necessarily seem like they are addressing young people's concerns, because our concerns are not necessarily identifiable as just being ours. Speak to us about all things. Give us a genuine seat at the table and those barriers will start falling down.

**Dr Eliza Filby:** Stop defining anyone under 40 as young. Trying to adapt rights in the workplace, policies in the workplace and care responsibilities and enablers in the workplace, keeping that legislation up to date as the world of work becomes more fluid, is absolutely key.

**The Chairman:** Thank you very much. I am sorry that we have run over by a couple of minutes but we are grateful to you for coming in and giving your evidence today.

Dr Tom Archer, Locality, Dr Thomas Moore and Power to Change – Oral evidence (QQ 137–143)

## **Dr Tom Archer, Locality, Dr Thomas Moore and Power to Change – Oral evidence (QQ 137–143)**

Tuesday 13 November 2018

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Members present: Lord True (The Chairman); Lord Bichard; Baroness Blackstone; Viscount Chandos; Baroness Crawley; Baroness Greengross; Lord Hollick; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 14

Heard in Public

Questions 137 - 143

### Witnesses

**I:** Ailbhe McNabola, Head of Research and Policy, Power to Change; Stephen Rolph, Head of Community Assets and Enterprise, Locality; Dr Tom Archer, Research Fellow, Sheffield Hallam University; Dr Thomas Moore, Lecturer in Planning, University of Liverpool.

Q137 **The Chairman:** Good morning. We will not introduce ourselves as we want to hear from you. As you know, this session is publicly available. Even if people are not here, a webcast is going out live now and will subsequently be accessible for all time or for as long as the parliamentary website survives. We will take a verbatim transcript and you will have the opportunity to make minor corrections for the purposes of clarification or accuracy. For the record, I would be grateful if you would briefly introduce yourselves and we will then start with the questions.

**Ailbhe McNabola:** I am head of research and policy at Power to Change, which is a charitable endowment set up with Big Lottery funding three years ago to support and fund community businesses.

**Stephen Rolph:** I am head of community assets and enterprise at Locality, which is a national charity and membership organisation representing around 600 community-based organisations across England. We support them to be as strong and healthy as possible.

**Dr Tom Archer:** I am a research fellow at the Centre for Regional, Economic and Social Research at Sheffield Hallam University.

**Dr Thomas Moore:** I am a lecturer in housing and planning at the University of Liverpool.

**The Chairman:** The Committee is taking a series of hearings on the broad subject of communities, and is looking at the concept of intergenerational fairness. A sense of fairness may be related to a sense of alienation, where people feel either as individuals or parts of society that they are not involved or engaged. That can affect a sense of whether society is seen as fair. Thinking particularly about different generations, which is our job, rather than within generations, could you say something about how common community assets—we have heard a lot about the drive for community

assets—and community participation are in services across the country? Can you give us an answer to this sighting question as a bit of a snapshot? How has this changed in recent years? There have been different initiatives from the Government to encourage this. How do you see the position at the moment?

**Ailbhe McNabola:** “Community assets” is very broad. It can include anything from village halls, of which there are about 10,000. At Power to Change we fund and support community-run businesses. A lot of those are operating out of an asset and either own or manage an asset. We estimate that there are roughly 8,000 community-run businesses in England which can be anything from community hubs, which are very common and which make up the majority, and also community-run libraries, sports and leisure centres, assets that were once in local authority ownership, including art centre facilities. Increasingly communities are taking over pubs, which are run as multipurpose community centres as well as pubs. We do not have good evidence on exactly how many community assets there are. We have commissioned research jointly with the Ministry of Housing, Communities and Local Government this year, delivered by Sheffield Hallam University, to try to ascertain how much community asset ownership there is in England.

As a funder we see that there is a lot of demand for community assets and for community services run out of those assets, and that is growing. We have two large funds, one at start-up level for people starting a community business and a larger fund for established businesses. In the start-up fund about 45% of applications are asset-related and in the larger fund 70%. This is a significant aspect. Dr Archer might have better numbers than I have. The evidence is patchy and we are working on improving that.

**The Chairman:** Would anyone else like to come in?

**Dr Tom Archer:** The study we are working on with Power to Change provides details on the scale and nature of community asset ownership, though it is at an early stage. On indicative figures, community-led housing is around 1,200 groups owning or playing some role in the provision of 170,000 units. There are 10,000 village halls that are likely to be in some form of community control or management. There are several tens of community-owned village shops and pubs. That gives you a sense of the scale and the provision of these types of services in some of these buildings that is woven into our society.

With regard to change, policy is shaping some of the demands. Asset transfer has become a bigger issue for local authorities wanting to transfer their assets to community groups. Work that Power to Change did on that recently has shown that about 20%<sup>1</sup> engaged in or completed an asset transfer of one to 10 assets in the last five years. There is activity in this form of asset transfer.

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<sup>1</sup> Note by the witness: A correction to these figures. The research revealed that 28 of the local authorities surveyed had completed 1-10 asset transfer(s). However this constituted 48 per cent of all the Councils responding.

**Dr Thomas Moore:** I would like to follow Dr Archer with a point about community-led housing which has seen significant scale of change. About 10 years ago there was not very much awareness of community-led housing and 10 years on we have quite a lot of groups numerically, as Dr Archer pointed out, but also an infrastructure of organisations at national and regional level who are supporting groups. What is interesting about that change is that that emergence pre-dates a lot of the policies through the Localism Act, for example, and is responding to housing shortages and generational issues that communities are facing.

**Stephen Rolph:** Just a bit more context on the demand and interest from our perspective: we see from things like the “asset of community value” listings regime that followed the Localism Act a continued annual upward trend in listing activity. There are currently about 6,000 registered assets across the country, which says something, and that has increased annually as well. Where Locality and other organisations like ourselves have offered national support programmes to assist communities to take on assets and do capacity building in the past, they have always been oversubscribed two or three times at least in terms of interest. Things like that point to ambition and interest. With regard to how things have changed, it is worth pointing out that, looking back a decade or so, the demand pull from communities for assets particularly from local government was prevalent, whereas now that has shifted over time to more of a supply push from local authorities to communities as the austerity budgets kick in and the disposal plans are enacted by local authorities, sometimes at speed and scale. Locality and others have noted that, while there are opportunities within that, there are also risks for volunteers taking on liabilities rather than real asset transfers. The changing nature over the last decade for various reasons produces both opportunities and risks.

Q138 **Lord Bichard:** It is quite difficult to get anyone to talk against the idea of active communities as everyone likes the idea, but it is also difficult to get beyond the warm words and the rhetoric. We are interested in finding practical ways in which active communities can address the issues in intergenerational fairness. We are interested, therefore, in the hard-edged examples. Do you have any examples of good practice that you could bring to us and also what you thought were the lessons to be learned from those? Any order.

**The Chairman:** I am not going to call on you. It is as the muse takes you, please.

**Ailbhe McNabola:** There is an organisation that we funded in Anfield in Liverpool. It is called Homebaked, a bakery in an area which has a lot of boarded-up housing very close to the stadium. The bakery closed in 2010 and the community decided to reopen it as a community-run enterprise. That has been successful. They are operating as a business and they have a contract with the football stadium to sell pies on match days. They are succeeding as a business. Because they are trading and generating surplus, they are re-investing in the area. They are running a training kitchen in this bakery to train young people and offer apprenticeships. They have also taken on the flat above the shop, which they are

refurbishing in order to give young people somewhere to live in the area. In that work they are also giving people training opportunities.

We see quite a lot of organisations doing something and generating a surplus and using that to do something else. Often you would not necessarily put those two things together but it is responding to need in the local community and, in this case, it is to do with young people and there being very little opportunity for young people as much around housing as around jobs. It is across generations as well and is responding to different needs.

**Lord Bichard:** Thank you. That is very good.

**Stephen Rolph:** From a Locality perspective and Locality members' perspective, some of this work is very much bread and butter for these kinds of community-based organisations, often operating in areas of multiple deprivation and looking to support those kinds of multiple issues. An example would be Bramley Lawn, a Locality member in Leeds, that is working in this multipurpose way. Since the community took over the centre from the council in 2014, that space has been completely transformed. What was previously a struggling day centre for older people is now a much more innovative multipurpose social centre for the whole community. A whole range of activities are being delivered from it for people of a very young age as well as over-60s. There is a ukulele club and Remember Thursdays, helping people with dementia. Much of what they do is intergenerational, bringing together older people who feel isolated and young parents at home who also experience loneliness and isolation.

**Lord Bichard:** That is just the sort of thing we are interested in. How did that come about and what are the lessons that we can all learn from it?

**Stephen Rolph:** That particular one, which is like many, was the result of a community asset transfer. That's when a local authority identifies a service, usually a discretionary service, and a building which it wants to create a solution for. It was a disposal decision by that local authority. The group in question came together on a campaigning basis to start with, but over time the volunteers, with support, coalesced, produced a business plan and proposal and worked alongside the local authority for an efficient transfer. These things often start with a desire to rescue something or to save something, but in other cases it can be the opposite approach where an opportunity is looked for and asked of the local authority. Authorities with policies and procedures and a facilitative structure in place are more likely in our view and according to the evidence to achieve an efficient community asset transfer. The survival of the organisation is much more likely when those sorts of things are in place. Unfortunately, that is not the norm.

**Lord Bichard:** Maybe we can follow that up with a bit more information.

**The Chairman:** We would be interested in that. Lord Bichard, please continue.

**Lord Bichard:** I am just seeing if there are any other examples.

**Dr Thomas Moore:** I have two examples from my expertise in housing. There are good examples of communities coming together to form asset-

owning housing organisations that tackle different ends of the generational spectrum. For example, in London I am aware of the Older Women's Co-Housing community, which is affordable accommodation for women who are over 50. There is a value in providing affordable housing but it is also there to tackle issues such as loneliness and generational segregation. At the other end of the generational spectrum there are organisations such as community land trusts in both rural and urban areas, which provide affordable housing to young people who might be excluded from housing opportunities that previous generations might have benefited from. The important point is that the value of affordable housing lies not only in the physical structure of the home but connections to family, communities, jobs, et cetera. There are some good examples of that in the south-west in areas such as Wessex, Devon, Dorset and Somerset, and in urban communities as well such as the one my colleague mentioned in Liverpool.

**The Chairman:** Do you want to say something on that, Dr Archer?

**Dr Tom Archer:** On the second part of your question, which is how these things happen, particularly in the south-west of England we have strong enabling bodies that support community groups to acquire land and build houses. In the community-led housing field that has become a real strength. Government can take some credit for supporting that structure to develop. That is not the case across all assets such as pubs and shops, but maybe there are some lessons from the community housing field that can be transferred to some of those other types of provision.

**Ailbhe McNabola:** Pubs are an interesting example. There are 86 community-owned pubs in England but they have mostly been set up in the last four years. There has been a dramatic increase in community pub ownership. The support of infrastructure like the Plunkett Foundation has been absolutely critical. Power to Change and MHCLG have funded that. There has been a programme dedicated to helping groups to come together, develop an idea, develop the business plan, raise the funds, et cetera. That support can make a dramatic difference over time.

**Lord Hollick:** Are the assets of community value, with the exception of the one you mentioned in Liverpool, principally in villages, county towns and suburban areas rather than in metropolitan areas? Secondly, a number of you have said that they come into assets of community value because the local authority does not want to continue to own and operate them. Is this the result of lack of local authority funding which is transferred to a third sector?

**Ailbhe McNabola:** On assets of community value, we are working on improving the data. That is where a community nominates a building. It could be privately owned or publicly owned. If the local authority approves that, it goes on to a list and the local authority publishes that list. That is published 353 different times on local authority websites. We have been working to bring all that together on one platform called Keep it in the Community which has just gone live this year. It is very difficult to find what assets have been listed in your area and what other people in your area are trying to energise around. We are trying to make that data better therefore. It is very difficult to say how many there are,

where they are and what the spread is. That data is improving. I can probably follow up with the Committee afterwards as we have pulled that data together. We know that there are 5,887, which I would not have been able to tell you last year, but I do not know the geographical breakdown.

**Lord Hollick:** Can anyone shed any light on the geographical breakdown?

**Stephen Rolph:** From the minimal investigation that we have done on this in the past, it seems to be patchy. It is fair to say that there are some gaps across the country. Understanding the reasons for that is very difficult and there could be quite a complicated set of issues going on. Raising awareness of the opportunity itself is not a uniform activity of local government. In the past, organisations like ourselves and others have had a central role in making this and all the community rights more known about generally. Some of that support has ended and has had an effect on knowledge and awareness.

**The Chairman:** I know a couple of other people have asked for supplementaries but I want to bring in Baroness Crawley, as I know she wanted to focus on the intergenerational aspect.

Q139 **Baroness Crawley:** Moving on from Lord Richard's question and following Lord Hollick's point, do you think that community assets and community participation in services is a bit ad hoc? The fact that it is only in the last 12 months that we know geographically where these are is a cause of concern for this Committee. Do you think that those assets, given the status quo at the moment, bring people together? I know that you mentioned the pub is the hub, which means extending the role of the pub. Obviously, it brings people together if they like drinking but beyond that it extends the role of the pub. The Government gave us evidence highlighting work in Kent where the local authority is working with the voluntary and community sector to develop a local community hub that will reduce isolation and improve the local environment. That is through volunteering to help people struggling with their gardens, for instance. It also has the effect of reducing self-referrals to primary services. Do you find that there is a strong seam of evidence for community assets to do that?

**Dr Tom Archer:** I think we should say something about the nature of the evidence. The last large study of community assets in the round, taking all assets and looking across the different types, was funded by the Joseph Rowntree Foundation in 2011. Large studies are now historic. We do have case study evidence which shows some of the benefits for different age groups, be that offering low-cost housing for young people, the provision of affordable childcare for working-age adults or services to enhance well-being for old people. We have cases where we are only now getting to the point where we are doing larger-scale studies of this again.

There are a couple of points that I would like to make about the evidence. There was an article written last year which looked at the relationship between participation in community assets and health-related quality of life. It was quite a large survey-based study which showed a measurable difference for those involved in community assets with regard to their quality of life. There are pieces of evidence which I could provide later.



The other thing that I would like to draw your attention to is in the housing field. There was a good study done by Peter Ambrose in 2010 looking at an organisation called Waltherton & Elgin Community Homes. He compared the responses of residents to national responses on the citizenship survey. To take one finding from that, he asked the extent to which they felt that people in the neighbourhood could pull together. The marked difference between residents' responses and the national average was significant. There is something about the processes of involvement and participation which makes people feel part of something, part of a collective with some sort of solidarity. There are bits of evidence. Large-scale studies are becoming slightly old.

**Dr Thomas Moore:** I will pick up on Dr Archer's point because I think it is important to separate out and understand process and outcome since the question is about both things. Outcome is how these asset organisations might benefit different generations, but there is also an important point about process and the ability of people to participate in the planning, delivery, management and ownership of different assets and more generally in what happens in their local area. If we are being honest, as Dr Archer said, the evidence base is quite patchy on a national level but there is some good case study evidence in different localities. Again, to draw on my housing experience, people who might have traditionally opposed housing development in their communities have supported it because of having the power to have an influence over what that development looks like and who it benefits. It is also important to note that on community participation we think about it even in this field in terms of formal government structures. These organisations often have one member, one vote systems. That is commendable but people often participate and engage in very different and informal ways. The example my colleague gave about Homebaked in Anfield was a good one, where they engaged people across the generations—from young children at school to older people in the community, having a say about what their neighbourhood looked like and the work that the asset organisation was doing.

**The Chairman:** You are attracting the attention of the Committee and a number of people want to come in. I will let this discussion go on a little bit more and we will come to the role of central and local government, either as an enabler or perhaps an obstructor. Pursuing this community area for a minute, I will take a question from Baroness Jenkin and I will bring in some of those wanting to ask supplementaries.

Q140 **Baroness Jenkin of Kennington:** Research is beginning to show that older people now live in completely different places from younger people, and that is an increasing trend. I would be interested to know whether you think it is an increasing trend. Do you think that this generational segregation harms the ability of communities to run those community services? Do you think that the age profile of a community affects the ability to run sustainable services? It would be helpful if you can give any examples on that.

**Dr Thomas Moore:** To answer the latter part of your question, in rural areas the age profile of the community definitely affects the sustainability and vibrancy of services, but that is not exclusive to whether they are

community-run or not. Lots of rural communities are often confronted with ageing populations and very expensive housing which is beyond the reach of young people. It has been quite interesting that many community organisations have stepped in to not only provide the housing to meet that generational inequity but to take on village shops and so on as well, which has helped to sustain local services.

**Ailbhe McNabola:** There is an organisation called Minehead Eye in Minehead in West Somerset, which is the least socially mobile place in the UK. They have an issue with an older population who are probably a little better off. It is a nice place to live if you are retired, but a very difficult place to live if you are young as there is not a lot to do. With regard to employment opportunities and development, the feeling is that you have to go somewhere else in order to take your career forward. Minehead Eye has set up a youth and community centre to try to tackle this. Coming back to your question, this can be tackled even if the population is of one generation in an area if the governance works well and that population is trying to do something for the whole community. This community centre is now running all of the youth clubs in the district because the council no longer offer that service. In order to try to tackle this they are trying to offer something for young people and keep them in the area. Older people recognise that, if all the young people leave, it is not going to be the kind of place where they want to live. Governance is very important. Just because you are running an organisation and you are elderly does not mean you do not want to offer services to young people, to put it simply.

**Dr Tom Archer:** I think that is right. We should urge caution on the assumption of “rural old, urban young” in terms of participation. One of the most impressive community-led housing projects that I have come across in recent years is led by three or four formidable older women, benefiting younger people at Granby 4 Streets Community Land Trust. In some of our past evaluation work we evaluated the Village SOS project, which you may remember was a partnership between BBC1 and the Big Lottery Fund and followed 10 villages as they set up community enterprises. The majority of participants in those projects were working age. It is not always the case that working-age people are not participating. There are instances where those age groups do get involved in running community assets.

**Baroness Jenkin of Kennington:** Any of us who are involved in elected politics or actively involved in communities will know that it sometimes takes only two or three people in a village to make it thrive, whether it is the bell ringers or the community shop. The question is about sustainability once that person gets too old to do it. You have answered that question but do you have any other thoughts on it?

**Ailbhe McNabola:** We look at the sustainability of organisations that we are funding and there is something in the fact that we are funding community businesses. They are trading. They may not be covering all of the costs of trading but it is an element of what they are doing. With regard to sustainability, a lot of these organisations will employ people as well. Volunteers are hugely important. Particularly in community housing, we did some research last year to help us shape our investment in

community housing. If you do not have a paid project manager who knows this sector and is paid to do this, things will not proceed. It is often the case that there are at least some paid staff, which helps with the stability and the professionalisation of the organisation but it is still community run and community led. It is a question of striking that balance between business and social impact.

**Dr Thomas Moore:** I would endorse that comment about paid staff. Two other key ingredients would be the role of regional and national enablers. Bodies such as Locality and the National Community Land Trust Network and their regional organisations help volunteers form and develop these organisations, because they can flag up those issues of sustainability which might not be immediately apparent to people when they are starting out on a project. While we should not assume that these organisations are completely reliant on volunteers, there have been some interesting examples. I am thinking of a village called Norton-sub-Hamdon in the south-west where they initially started off as a community-led housing scheme. Once the volunteers in the community had built up their confidence through doing that first scheme and managing it, they took a lease on the local shop and engaged more people in the community who perhaps were not as energised by housing but cared about the village shop and wanted to contribute. We should also be wary of assuming that these organisations are static. They might be reliant sometimes on one or two individuals but that might change over time.

**Baroness Tyler of Enfield:** Picking up on something Mr Rolph said, you gave an example of a project in Leeds with some groups and activities which you thought were older people trying to address loneliness and young mothers. I am sorry, I cannot quite remember. In that particular example, are they making any effort to organise activities which would bring younger and older generations together as distinct from bringing those generations together among themselves? Is there anyone pushing that agenda with regard to community assets and, if not, should there be and who might fulfil that role?

**Stephen Rolph:** In that particular example, and there are others for which we have some written case study evidence, they are looking to create those connections across the age spectrum. That example is about working with younger volunteers and training to work with their older neighbours as well. It is about confidence building, sharing of experiences and growing the next generation, in terms of thinking about their own succession planning within the organisation. That does happen. Good organisations, such as good Locality members, will be aware of that and always changing and adapting to the changing needs of their community. That is the whole point of a community anchor-type organisation. They are reading the needs of their community on a constant basis and are not just locked into a particular kind of service prism because they are aware that needs will alter and, therefore, so should their organisation if they are to remain relevant and to serve their community in the long term.

**Viscount Chandos:** Pubs, shops and ukulele orchestras appeal to different people in different ways. I guess the ideal, if you are looking to maximise the intergenerational bonding and interactivity, is to find something that

plays equally powerfully across all those age groups. A specialist area that I have been quite interested in is community renewable energy. It is obviously, like housing, a bigger-ticket item than some but it does seem to address the different needs and enthusiasms of different age groups very powerfully.

**Ailbhe McNabola:** I agree. We have recently launched a community energy programme to try to grow community energy ownership in England. We survey every year, trying to get a sense of how big the community business market is and what it is made up of. We estimate there are roughly 192 community energy businesses in England. There is quite a lot going on and some of those issues will bring all sorts of people in an area together. A lot of what we found was about a place and providing something in that place because you live there, or making that place better. That brings everybody together because they are all invested in that locality. That is very important. Some of those include examples of a couple of local authorities that have invested with communities around energy. Some work we did this year looked at Public Works Loan Board borrowing by councils in order to lend on to communities and to support community assets in their areas. In Plymouth and Swansea, we found examples where the council had borrowed in order to invest in community energy because obviously it is a big undertaking to get those facilities up and running. Yes, I would agree.

**Baroness Greengross:** In the past, these community activities and community housing and so on have all been started by individuals who are benefactors or who have a lot of money or whatever. In areas where nothing very much happens, however, is it because there is no leader who gets these things off the ground? It seems that in some areas it does not happen because nobody is inspired to make it happen. An individual can make all the difference. Do you depend on such people?

**Stephen Rolph:** In some cases a very strong personality can overcome all sorts of barriers on the ground, but that is not always the case.

**Baroness Greengross:** Where there is nothing is it because they do not have those sorts of people to get it off the ground?

**Stephen Rolph:** It is perhaps more about the supportive infrastructure and joined-up networks, of which there is not necessarily a homogeneous spread across the country. There clearly are gaps and, where community-led type activities are supported, there is a propensity to see these kinds of initiatives starting. I do not think it is always reliant on an individual, although that certainly helps to provide a spark.

**Ailbhe McNabola:** There are two things there. We see a lot of activity coming to us from very deprived areas. People sometimes assume that you will not see the sort of community leadership coming forward in areas where they do not have great social capital. It does happen. We are predominantly funding in deprived areas. Secondly, the local authority in those kinds of relationships is hugely important. A supportive local authority and that kind of infrastructure and supporting communities to develop and take things on makes a massive difference, as opposed to a local council that perhaps wants to sell assets and is not engaging.

**Dr Tom Archer:** There was a point you made about the chicken and egg nature of this problem where if people feel their efforts are likely to result in something beneficial there will be more demand. We are seeing that in community-led housing. The Government have backed community-led housing with a big pot of funding revenue and capital, and we see increased demand for those types of projects and more people coming forward to set these things up. The nature of the demand is partly affected by how likely things seem to come to fruition. The more it looks possible, the more we would see groups coming forward to take ownership of assets and use them for community benefit.

**Baroness Greengross:** I have set up intergenerational projects and they have always had someone rather inspired. You have people who you do not think would get on well together, and they are inspiring programmes. But it has always needed somebody who has got a sense of what might be and who experiments a bit and the local authority helps, rather than the other way around in my experience. Is that what you have experienced?

**Ailbhe McNabola:** It is fair to say that a lot of the impetus comes from the community because often it is meeting a need or services have been taken away, or in times of austerity when there have been cuts. A lot of the growth that we have seen in community enterprises, stepping in and taking over local authority swimming pools, taking over community centres or taking over libraries, is because they do not want to see a service lost. The leadership comes from the community and hopefully there is a responsive environment. There are lots of other issues such as funding. We invest in the capacity building of those leaders, helping those people come together as a network and develop themselves and think about themselves as leaders. There is quite a lot to it.

**The Chairman:** We are edging towards discussion of the role of central and local government, which is the last phase of questioning. I am mindful that Baroness Thornhill wants to come in, but Lord Hollick wants to take us on to this subject which you have begun to talk about, the role of central and local government to help or hinder.

Q141 **Lord Hollick:** What should be the role of local or central government to help community activity? The Commission on the Future of Localism suggested that the Government often act as a barrier to community activity, have a top-down approach and adopt a somewhat paternalistic style. Their concern is that community activities lack funding and resources. That is a fairly damning conclusion about what local and central government do. In your view, what are the things that local and central government can concentrate on to make a difference and to improve the community activity that you are all supportive of?

**Dr Thomas Moore:** It might be an obvious one about resources, but stability and continuity require resources such as financial resources to help community organisations. We have to be aware that the community asset sector is quite broad, so the funding needs of organisations will be different according to what they are hoping to do. There may be a renewable energy organisation versus a housing organisation versus someone running a library. To use the housing example, the Government are to be commended for creating a community housing fund which was

announced this year. However, it is currently only guaranteed to last until 2020. Two years in the housing world to form a community asset organisation, buy land and get planning permission to develop homes is not a very long time. If we are serious about trying to help and support a thriving community housing sector, or more broadly a community asset sector, we have to make the resources available.

**Lord Hollick:** How much money did the Government make available to that project?

**Dr Thomas Moore:** Do you know?

**Dr Tom Archer:** It is £160 million through the community housing fund.

**Lord Hollick:** How much of it was drawn down in the two-year period?

**Dr Thomas Moore:** The funding period is not until 2020, and my point is that it is not a very long time for organisations to draw down on that funding. To give a specific example, I am currently working with some communities in Manchester where they are setting up a community housing hub to help enable communities to form and develop these schemes. My fear is that by the time that hub is set up with a paid employee to help support these schemes the central government funding might be gone.

**Stephen Rolph:** On investment, in our Save our Spaces campaign we have called upon Government to kick-start a community ownership fund. It looks specifically at the dormant assets fund which is available to leverage that and convene other contributions. We have expectations that around £500 million of this funding could be invested in community ownership. Our report attempts to quantify and suggest how this could be actioned now by way of a long-term supportive approach by central government.

**Ailbhe McNabola:** Quite a lot rests with local government regarding community asset ownership and management and those benefits, because that is where relationships lie and local government is the relevant level for the groups that we are supporting. On the legislation and policy, policy is quite supportive. There is the Localism Act and the general disposal consent - which allows community asset transfer from local authorities – so it is not so much a problem of policy; it is more of behaviour and take-up. Central government could be doing more to energise this. They are supportive, but being a champion of community asset ownership and helping raise awareness of those good examples and that peer network, the networking and the sharing of best practice helps. There is investment that could be used. On housing, we are investing a lot in the early stage by helping people to form a group and find the money to get technical advice and get to the point of planning permission where you might be able to borrow some money. We have identified that early-stage funding for a lot of groups is still needed, and local authority grants are still needed to help people move along the path where they might be able to take on a service. That pays the local authority back in the long run. It helps service provision in an area.

**Lord Hollick:** Following on Baroness Greengross's question, if you need somebody to lead, there are also many organisations. In the central London

borough I live in, the local schools are a really important community hub. Local churches play the same role. The WI plays an important role. There are networks and community organisations that seem to be active in quite a lot of parts of the country. To what extent do you think local government should work through them and with them because they already have the resources and they have the commitment and the energy and the determination to deliver?

**Ailbhe McNabola:** We are always advocating for local government to work in partnership. You cannot ask for communities and the voluntary sector to deliver services instead and you cannot ask them to fill the gaps, but to work in partnership, co-design and co-delivery of services is not a new area either. That has been discussed for several years. We see good examples of local government doing this and working with communities to help shape that service delivery, give them the asset or help them to get the asset in order to deliver a service.

**Lord Hollick:** Do you think the local authorities are smart about working with these types of organisations to deliver these outcomes?

**Ailbhe McNabola:** Stephen would probably agree that there are examples but I would not say that it is across the board.

**Stephen Rolph:** Some are. I came back last week from our annual convention at which we were handing out local authority hero awards to those officers and councils who are doing good productive work across assets and across commissioning as well. Our Keep it Local campaign endorses those kinds of approaches. In Hackney, Leeds and Newcastle, there is very good work going on within the commissioning environment. We are just about to undertake some deep action research with Bristol and Bradford as well. There are definitely pockets of interest and there is a real desire by local authority officers as well to network and learn from each other.

**Lord Hollick:** Did you have any central government heroes?

**Stephen Rolph:** Not on this occasion.

**Dr Tom Archer:** There is a point to be made about the community development functions within local authorities. In 2016 there were an estimated 20,000 community development workers in the UK. We do not know how many that is now because the bodies that represented them, trained them and supported them are no longer there. There has been a drop in those functions that are within local authorities that support organisations to take ownership of assets and manage them. There is a point to be made about the revenue side for these organisations. A lot of them run services on behalf of public providers and the question is whether those contracts are there any more. There are important questions about that. On the more technical issue about the role that central government could play, if you look over the border to Scotland the powers for communities to acquire land, in particular, are stronger. They can force the sale of land when it is abandoned, neglected or detrimental. We can look again at some of our community rights and ask whether they are strong enough and whether they could be strengthened.

Q142 **Baroness Blackstone:** I am trying to understand how far resources is an issue, and the fact that local government has been severely cut with regard to its capacity to spend on additional services rather than basic ones. I do not want to say that your services are not in many ways basic but they might be perceived by many local authorities as something in addition to the things that they are required in a statutory way to do. You were just touching on it when you talked about the revenue funding for the third sector of voluntary organisations. There was a long-standing pattern of contracts between voluntary organisations and local government, and I suspect that a lot of that has been dropped because there is not enough money. Even using local authority facilities, such as primary or secondary schools, if you want to open them up to the community for the weekend—I absolutely believe they should be open—you have to pay to do that because you have to pay your school caretakers additional money, there will be extra heating costs and so on. In everything you have said, I am not clear how far any further development of community-type activities bringing generations together is unlikely to happen because there are not the resources in local government to do it, or whether I am being overpessimistic about that because there are all sorts of other sources of funding that you can tap, such as charitable funding.

**Dr Tom Archer:** I do not think we can definitively answer your question, but we do know, for instance, that the Local Government Association did some research a couple of years ago looking at youth services. I think 90% of the local authorities that they spoke to had cut services for teenagers. A lot of those services will take place within community assets, particularly on peripheral estates where transport is a key issue in rural areas. Other research with park managers suggests that most of their budgets are being decreased. There is a picture on the revenue side of them not having as much resource as they would like in order to be able to use that asset to maximum effect.

**Ailbhe McNabola:** From a survey we undertook on social value, commissioning from these organisations is very important. We looked at the sustainability and health of the organisations that we fund and it appeared that those that had public sector contracts were much more precarious than those that had a few legs to their stool and other forms of income. Local government contracts or public sector contracts are precarious. They can disappear at any point and you are very dependent on your one funder. In our sector, people are keen to contract. Not all organisations want to do that, as not all of them are big enough, but quite a few do. They find social value commissioning hard to navigate. Small organisations do not get a look-in as much as the larger ones, and there is also the issue of dependency on contracts and on what can happen.

**Baroness Blackstone:** To follow up on this, nobody has mentioned public libraries where there is obviously scope for intergenerational-type activities, including older people and mothers with small children, people who are at home during the day. Huge numbers of public libraries have had their hours restricted and others have been closed. There must be some issue about whether there is enough in the way of public funding to do the kinds of things that you have been talking about on a large scale rather than little



pockets of it here and there.

**Ailbhe McNabola:** There absolutely is. Libraries are a statutory service for local government and yet they are still seeing these cuts. The growth in community-run libraries where communities take the building on from the local authority and continue to run the library in the last few years has been quite strong. There are about 400 of them now. It has grown very rapidly in recent years. DCMS did a study on that last year. A lot of them are operating in the space of the local authority so they have some kind of relationship where they share the book-lending software and they share librarians. They still work as part of the public infrastructure but are independently run by communities. There are some that are very independently run but it seems to work quite well when they are somewhere in the middle. Whether or not it is a solution is a different question.

**The Chairman:** We are overrunning in this session but I have two people who want to come in. I am going to have to move off this section but Baroness Thornhill has been dying to come in.

Q143 **Baroness Thornhill:** On the commissioning, I agree with you. My example is anecdotal from running a district. I count small charities as community effort because they are usually bottom up and what I have seen is that they have been pushed out of commissioning activities. A very local homeless project or response to a need in a community have been pushed out to bigger commissioning; they must commission over the whole county. We need to watch that because it is stifling the kinds of things that you are talking about. What I am interested in is that a lot of this has come out of a rescue package and that is certainly my experience as well. What we really need is to shift the thinking and the culture that of itself, having empowered communities, is of intrinsic value. We would all agree with that. To what extent do you think that local authorities are a block on that because I can be quite critical of my own authority in projects like this? It is due to a genuine fear of groups taking on whatever it might be which are community assets of value, and it is usually about accountability, about governance and about liabilities in the end. How do we upskill communities to have the confidence in the first place but, in particular, to allow local authorities to feel that they can let go, because there is a huge culture of not wanting to let go? How do we empower at both ends and say to local authorities, “We can let go but it does mean being tight”? I have had some examples where the local authority has been left holding the bill and having to pick up the pieces. A lot of this is new and we have not got longevity on evidence.

**Stephen Rolph:** Things can go wrong and mistakes can be made. I can look into the past, where there have been serious attempts to work with both local authorities and the community sector in the round to do that peer-to-peer working and understand each other’s perspectives to overcome some of those fears. But, some of this is about myth-busting as well—the idea that we cannot let go or we are not allowed to, or we have to get full market price for something. All those sorts of things have been addressed in the past and been dealt with, and there have been some good toolkits about how to manage that kind of risk. A lot of this goes back to talking and communicating and getting to know each other’s

perspectives because these kinds of risks can be overcome and there are some good examples of doing that. There is not enough of that good peer-to-peer support within local government and outside. There is certainly not enough cross-fertilisation across the two unless it is undertaken at a local level.

**The Chairman:** Does anyone else want to come in, mindful of the time?

**Lord Bichard:** Baroness Thornhill has opened up an important issue which we ought to keep in mind. I do not agree with Baroness Blackstone that it is a question of money. There are 400 community-led libraries. The question I would ask is: why should a local authority run a library?

**Ailbhe McNabola:** This is a question about power and comes back to the localism commission which our organisations jointly worked on. It is also about trust. What communities want to take on and run is one thing but, where they want to, why not? How many local authorities have that “why not” attitude? Obviously, local authorities have to manage an awful lot of risk. This is not going to happen overnight but there are examples. It is about building up a track record. There is a community association we know in Leeds, New Wortley, which runs a very successful community association in a deprived area. They do a lot of what you might expect a community hub would do, but over time they have built up such a good relationship with the local authority that they have been approached about other assets in the city which are surplus to requirements which they could take on and develop. They have been given land close to where they are to build housing. I think it is the track record. This association is perfectly capable and is doing things that perhaps the local authority could not do because they are able to dedicate their time and effort and they know the area, whereas the local authority has got an awful lot else to cover.

**The Chairman:** We are regrettably going to have to call this session to a halt because we have gone on. I apologise to the number of colleagues who wanted to come in. Would I be right in noting that none of you is advocating any legislative change in this area? Is that a correct takeout?

**Stephen Rolph:** There could be improvements to some aspects of the Localism Act. In the past, ourselves and others have called for reforms around some of the grey areas. It is a step in the right direction, but improvements could be made particularly in the assets of community value and the right-to-bid side of things. For instance, the six-month moratorium, the pause period, is nowhere near long enough in reality for most organisations to raise the capital required to purchase an asset on the open market in competition with private sector developers.

**The Chairman:** If there are any others who have thoughts that you would like the Committee to consider before we report, please let us know.

**Dr Thomas Moore:** I cannot remember which member of the Committee mentioned the fact that we want to get to a point where we want a thriving community sector. We have talked a lot today about the demands from communities. I want to flip it the other way around as something that local government could think about. There is a big pressure on public bodies to dispose of land and I do not think that that has been very well co-ordinated with either community-led housing or

Dr Tom Archer, Locality, Dr Thomas Moore and Power to Change – Oral evidence (QQ 137–143)

community-led assets more generally. Maybe local government and public bodies need to think about how they use those land assets in relation to this field and sector.

**The Chairman:** Thank you. By the way the clock has gone on, you will gather that the Committee has been very interested and grateful to you all for coming along this morning. I am sorry that we went on a bit longer but there is still time for lunch. We have work to do and you can have a rest now. Thank you very much.

## **Association of Colleges, Policy Connect and Professor Andrew Scott – Oral evidence (QQ 56–64)**

Tuesday 9 October 2018

[Watch the meeting](#)

Members present: Lord True (The Chairman); Lord Bichard; Baroness Blackstone; Viscount Chandos; Baroness Crawley; Baroness Greengross; Lord Hollick; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Lord Price; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 5

Heard in Public

Questions 56 - 64

### Witnesses

I: Simon Kelleher, Head of Education and Skills, Policy Connect; Julian Gravatt, Deputy Chief Executive, Association of Colleges; Professor Andrew Scott, Professor of Economics, London Business School.

Q56 **The Chairman:** Good morning. Thank you very much for agreeing to come and give evidence this morning. We are very much looking forward to it. Thank you also to the association for the written evidence that we have received. As you will know and you can hear from the noises behind you, this session is open to the public. A webcast goes out live, and is always subsequently accessible through Parliament's website. There will be a verbatim transcript taken of evidence, which will also be put on the parliamentary website. You will have an opportunity to make minor corrections for the purpose of clarification or accuracy, but not to add new material.

My name is Nicholas True; I am Chairman of the Committee, but the rest of us are identified by placards. I think I am also identified by one. Perhaps for the record, for the broadcast, you would like to introduce yourselves, and then we will begin with questions.

**Professor Andrew Scott:** I am an economics professor at London Business School.

**Julian Gravatt:** I am the deputy chief executive at the Association of Colleges, which is a representative organisation for further education and sixth-form colleges.

**Simon Kelleher:** I am the head of education and skills at the cross-party think tank Policy Connect, which is responsible for the research of the Skills Commission.

Q57 **The Chairman:** I will kick off with a rather broad question. Where do you see the largest problems in skills policy, and which age groups are poorly served by skills policy? That is really an opening to say whatever you feel about the need for promoting more skills. Do not feel you all need to answer every question; it is up to you to come in where you feel you want to.

**Julian Gravatt:** A substantial issue at the moment is the fact that we have falling public investment in education. As I put in my written evidence, it has been falling as a proportion of GDP since the financial crisis. With the protection of the schools budget, that has squeezed education and training for large numbers of adults across generations. In terms of the people who are losing out, it is young adults who do not go to higher education, because the Government have found a solution to the funding of higher education, which is not really quite there for the other 50% of the age group.

An issue that is not here yet, but might be if we get economic change, is people being made redundant. If we had economic change, I am not certain we would have support for large-scale redundancies in the way we had in the past.

**Simon Kelleher:** As part of our research for the Skills Commission, we looked at a number of different groups, which included young people with below average academic attainment, so those who do not get their GCSE benchmark grades. We looked at older workers as a category, which you may be pleased or dismayed to hear is anyone over the age of 50. We also looked at apprenticeships through the lens of social mobility. As part of that research, we identified challenges facing each of those generations, but there are particular groups across that spectrum where age intersects with other issues to really compound the disadvantage.

An example of that would be the young people I mentioned who leave school with very few qualifications at a low level. They may live in rural or isolated coastal areas and have problems accessing places of work or places of further study. In addition to that, there might be older workers who have care responsibilities for either partners with dementia or Alzheimer's or perhaps grandchildren. They will face age discrimination within the labour market and, potentially, working practices that are not particularly flexible to their needs.

**Professor Andrew Scott:** First, I would like to endorse what has been said. Younger adults who do not go through to university, preparing people for the technological transitions that will take place in the labour market, and dealing with older workers and the prejudice they face are key. I am very glad to be on the panel with experts in this area, because my expertise is in a slightly different area. Perhaps I can just say, in a few words, where I see things, in a somewhat abstract way, rather than a detailed way.

I suspect I am here because I wrote a book with Lynda Gratton called *The 100-Year Life*, and that is trying to change our narrative away from the concept of an ageing society to thinking about longevity. There are two things happening at the moment across the world. First, there are lots more older people, because the birth rates are lower and more people are living longer. The second thing, which is not really seen so clearly, is that how we are ageing is changing. In general, we are living longer and, on average, we are healthier for longer. At every age, on average, we are a little healthier. For instance, the average Brit has never been older, but never had so many years left to live. As a

consequence of that, we have more time, and we will change how we use that time.

In the 20th century, we created a three-stage life of education, work and retirement. We invented teenagers and pensioners, and we invented a whole range of institutions to support that, including of course our education system. If, as the ONS suggests, one in three children born today will live to 100, we have to think about life rather differently. If all we do is change the retirement date to extend that second stage, we face the prospect of a 60-year career, and I cannot think of anything that I can learn at 20 that will probably still be relevant when I am 70. We will have to think about a multistage career, where people need to continually change what they are doing and what they are learning. If you impose technological change on this longevity, you can see that the implications for the skills provision are pretty extensive.

That changes the issue of what we learn and when we learn it. There are two main challenges: what do we teach young people if they are going to be working into their 70s, and how do we create a system where people can continually learn and update their skills throughout their life? The danger is that you have a long life but you are incapacitated or out of work at 50. We want to try to minimise that by maximising what I call the longevity channel. In general, alongside our existing system, we are going to see a focus not just on education but on learning, and not just on qualifications but on skills. That is going to be a very interesting agenda as it develops. I would like to echo the identity of the groups missing out the most, but also come in with my more abstract approach to this topic.

**The Chairman:** Thank you. That is a very helpful insight. We are going to pursue in detail the points you have raised. On the specific point you made, as you get older, and I speak from experience, you cannot do some things as quickly as you were able to, either mentally or physically. A lot of people get to a certain point and say, "Oh, I cannot do this anymore. I am not as skilled as I was", yet there is a tremendous aptitude there in terms of experience of life, and a remaining ability to perform extremely complex tasks and reasoning. I am taking from the way you have spoken about this that you feel we are not thinking about preserving the accumulated treasures, even if they are slightly depleted. Is that one of the underlying points of your argument?

**Professor Andrew Scott:** That is true. We have to look at all ages. There is a tendency to slice us up into ages, and then that comes into generations. We need to think about a new life map for people, for the young as well as those who are older. Employers are about to realise, particularly given what is likely to happen to immigration, that a lot of experience may be about to leave the workforce. How can they keep that experience there? AI and robotics should be incredibly helpful. Robotics can help take away some of the harder, physical work. I like to think of AI as a cognitive prosthetic, so if I do not remember things I can just look them up.

There is that, but there is also a whole range of things that, as a society, we understate people's ability to learn at all ages. We know that,

neurologically, the brain is capable of relearning at all ages, although in different ways and with diminished effects. Also, if people are working until they are 70, they probably have a very different incentive to learn than if they are going to stop work at 60. There is a lot we can do to say, “You can learn, and there are new ways of learning”, rather than relying entirely upon experience, which is of course a valuable asset.

**The Chairman:** That is very helpful. I am going to move on—although there will be opportunities to come back—simply because we have limited time. We have heard about a lot of disquieting evidence, and lacunae in evidence, on these various aspects and subjects.

Q58 **Lord Price:** The Intergenerational Commission concluded that the level of in-work training had declined over recent decades. They said that each successive cohort received less training than the cohorts before. Does this decline need to be reversed and, if so, how is it best reversed?

**Julian Gravatt:** It is quite a complicated issue, because there are different statistics on what in-work training exists. The Government in their apprenticeship strategy produced a graph, which shows a very clear decline in the amount of time that people are out on off-the-job training. I have seen other criticisms saying that there is still quite a lot of on-the-job training, so effectively employers have stopped sending people out; they have trained them internally. The issue then is what they are doing on that on-the-job training. The Government’s reforms of apprenticeships mean that we have more on-the-job training and the apprenticeship levy, although that is still in the early stages. I have a concern that, in some cases, that is just certification rather than training. Quite a lot of on-the-job training is just dealing with the compliance required by government regulations or by insurance companies.

More anecdotally, when I started in further education, there were large employers, such as British Telecom, that still provided quite a lot of training. They would train for their industries. British Telecom still does quite a lot of training, but it has been stripped back across the piece. The public sector has definitely cut back its training a lot since the financial crisis. You have seen the effect of that in both adult education and part-time higher education. We have had a situation where there is less education and training going on, which means we do not really have the infrastructure that we used to have and that we would need in order to adapt to deal with the problems Andrew was talking about. It is not really there. There has been a 50% decline in adult education in 10 years, and the funding has gone down by 50%. It is a more complicated issue than that: it is employers pulling back, it is individuals not realising they should, and it is government taking savings.

**Simon Kelleher:** I would second that, in that fewer big, nationalised industries are overtraining, and business practices are generally slightly leaner now. The pace of technological change has increased, certainly in its application to the workplace. People are estimating that is really going to take off. In today’s labour market, there are fewer opportunities for people with low-level skills. We need to reverse this trend. The apprenticeship levy was quite a far-sighted attempt by government to do

this. It is not without its problems, but it is a good opportunity for us to start making this shift towards a culture of lifelong learning.

**Professor Andrew Scott:** Historically, when we had the Industrial Revolution, we realised that we had to provide substantial education for longer. We did it at the beginning of life, as well as providing a lot more adult colleges. With technology and longevity, we will need a similar invention, but of course we have in place quite a lot of early education, even if we may need to change what is taught. We will have to think about investing majorly in institutions providing adult education. If we have a labour force where more and more people are in a non-traditional job, freelancing or short-term working, with multiple stages to their career, you can imagine corporates would be cutting back on training, along with the other factors that are talked about.

The only other thing I would like to stress, on this skills provision issue, is what I see as a nascent but very big industry looking at measuring skills and monitoring skills development outside what you would call standard training. This is the machine learning, big data approach. A lot of learning happens in work that is not done through training courses. If that can be more structured, that will be a very big way in which both individuals and companies try to discover what skills people have, what skills they are learning, what skills they need and where to get them. It is striking, when we ask people what their education is, that they say, "I did an economics degree 30 years ago". A lot has happened since then that may well be skill development, and we may be in a position to start to capture it. That will be a very interesting area going forward.

**Lord Price:** Do you have any views on the hollowing out of middle management in the workforce and how that might have impacted on this?

**Julian Gravatt:** It may have reduced people's motivation. If they felt that getting a qualification and doing some training in their 30s and 40s would mean that they got promoted, there was a clearer path. There is a hypothesis that, as the workforce has been hollowed out, people see fewer opportunities, so that may affect the demand. It is only a hypothesis.

**Professor Andrew Scott:** The returns for skills—for some skills—are continuing to rise. I would have thought that, if you looked at the structure of wages with respect to skills, the emphasis on education would still remain. I suspect that the hollowing out may not have had a big effect, but that is an uncalibrated guess.

**Baroness Crawley:** I discovered over the weekend that my husband has your book on his office shelf. He is fixated on living as long as he can. You say in your book, *The 100-Year Life*, that making the most of the gift of a long life requires everyone to face up to the truth of working into their 70s or even their 80s, and yet we have different evidence presented to us. The TUC, for instance, says that there is less training in industries that employ young people, and yet the Centre for Ageing Better is telling us that older people are less likely to have opportunities for training, development and progression compared to younger workers. Are you gloomy about this or do you see a way forward, if future generations are going to live to 100?



**Professor Andrew Scott:** I am encouraged by the fact that we are having this session here today. If you look at the responses that we need to make to longevity and technology, it will not happen overnight. It is going to be a decadal process of response. It is challenging because we do not yet know how to make the most of these longer lives. Whether it is 80, 90 or 100, our existing institutions were not built around that, so we have much to learn. One of the big issues we have for educating the young is what we teach them. It seems to me that teaching them how to learn is going to be one of the most fundamental things we can do, because they will need to relearn continuously. Because of technology and longevity, we will have to see an expansion of adult education the likes of which we have never seen before, and I am not sure we know how to teach people, what to teach them or when to teach them in adult life.

There will be an answer, but there will be a lot of experimentation. Governments will be a key part of that. We are already seeing huge social experimentation, and beginning to see some firms thinking that this is an interesting market and providing some resources. The issue is that we will need to provide something for everyone. That is going to be a government response. In China and Japan, we are seeing a big focus on lifelong education, and I suspect that we will see the same in the UK. I am optimistic in that sense. It would be foolish to say that everything is fine or that there is a readymade answer. We have issues around inequality and access in the UK, which are of grave concern. We call our book *The 100-Year Life*, but it depends where you are born as to whether you face the prospect of a 100-year life.

**The Chairman:** I am going to move on slightly. We have to focus on the younger age groups as well, but we will have an opportunity later, as we have only half an hour or so, to come back to the older age group. There will be further questions.

Q59 **Viscount Chandos:** Mr Kelleher, you said that the apprenticeship policy and levy were not without their problems. With 15 months or so of experience, how do you feel that that policy and, looking forward a couple of years, the introduction of T-level qualifications are improving the skills picture?

**Simon Kelleher:** There are some similar challenges with both of those agendas around social mobility and making sure that there is cover and that we are not leaving another generation of people behind across the country. On apprenticeships, we need to see how the reforms go, because it has been only a year and a half now. We identified some particular challenges through our research. One was around the position of some young people to even be able to access apprenticeships in the first place. While there might be perfectly good apprenticeship standards and employers who want to take these people on, there are real issues with young people being in a position to enrol on these and take these jobs up.

That came partly through the choices that young people are faced with. We spoke to apprentices and young people themselves about this, as well as a number of charities. A few of them told us that many young people

were confronted with a situation where they were having to choose between maybe staying in full-time education, receiving child benefits and getting council tax exemptions, and pursuing an apprenticeship that they wanted to pursue while their household lost the child benefit entitlement and council tax exemption. Here, I am talking about 16 to 18 year-olds who wanted to pursue apprenticeships.

There was another issue around travel. Many of the people we spoke to raised this time and again. The apprenticeship wage is lower than the minimum wage, and apprentices may have to travel to multiple sites of work and learning. An example of that would be in Lincolnshire, where an apprentice on a minimum wage might be taking home £640 a month. A bus pass there would cost £145. That is between 20% and 25% of their monthly income. Young people are having to make real choices around whether an apprenticeship is a viable option for them in the first place. Those are some of the things that we uncovered and that I would like to stress to the Committee.

**Julian Gravatt:** We provided quite a bit of evidence on apprenticeships in our written evidence. The levy itself was a bold move by the Government. I believe it was rejected by the Labour Party as being too radical for its manifesto in 2015 and then was implemented by the Conservative Government a couple of months later in their budget. It was partly to get them out of a spending fix, so it is, effectively, a new tax to support training. Given the problems around in-work training and employer support, it is potentially a way of energising the system. There are lots of good things in the apprenticeship reforms. There is a much higher awareness of apprenticeships now than there was 10 years ago. People see it as an alternative route. We have had some good new areas of focus, with high-level apprenticeships and people seeing this as an alternative to the traditional three-year degree. The Education Select Committee did a very good report yesterday on apprenticeships, which picked up some of the points that Simon mentioned about social justice.

The slight risk is that government tries to do too much too quickly. The timetable for bringing in the levy was driven by the Treasury's spending timetable, so lots of things happened all at once. The system works but it has had some unanticipated effects. We have up to a third fewer apprentices each month than there were before. While it is good that we have more high-level or degree apprenticeships, some of those have been taken by people mid-career just to certify rather than necessarily to have some content and training. It is a bit of a chaotic market in which there is a danger that colleges, and certainly some of those that I represent, find that the income they need to keep their specialist facilities going is at risk, because employers are being a bit cautious and their money has gone all over the place. It is one of those knotty topics that need some thought.

On T-levels, which is a very different reform, government is taking a sensibly long time to implement and bring it in over several years. This Committee has two people who were in the DfE when previous reforms of vocational 16-to-18 qualifications happened. In a way, the officials have learnt some things from those past reforms but it is going to be a big challenge. One of the big challenges on T-levels is introducing them

alongside A-levels, which is the brand that is well understood. Building up a credible and quality alternative is going to be difficult, but the right things are being done to get that in place. They are going to be piloted in 2020. They will become available in the mid-2020s. Potentially, it is something that we need as a country. These different reforms are happening and there are other reforms. It does not quite feel like we have a coherent strategy and, as I said at the beginning, we have falling investment overall, so there is a danger that we will do these things and they will be introduced without the money that is necessary to make them work.

**Baroness Blackstone:** Is there not a real danger that the decision to allow degree-level apprenticeships and all these other higher-level apprenticeships is simply going to deflect from what we really should be focused on, which is providing apprenticeship opportunities for young people, aged 16 to 25 in particular, who are never going to get any other form of post-school education? It seems to me a complete cop-out that many people are going down this route, at the cost of the original aim, which is to help young people who would otherwise not get any form of post-school educational training.

**Julian Gravatt:** I could not agree more. As with many things in the apprenticeship area, it would have been better to have it a little more planned than just as a free-for-all. There is definite evidence that there is a shift towards middle-aged or mid-career apprentices and apprenticeships at slightly higher levels. We did a paper for the Government's post-18 review in September, which suggested that apprenticeships should not be for the over-25s and that there should be different arrangements for them. I guess that was possibly to cut off some of the practice that you describe on degree apprenticeships.

**Viscount Chandos:** Particularly given that one of the two key age groups you suggested we should focus on is young people with low levels of educational attainment, it seems to me that that point is hugely important.

The Chairman: I agree.

Q60 **Baroness Thornhill:** We have had various evidence that has brought to our attention the fact that young people's pay progression has stalled, and that this started before the recession. I wonder how much a lack of skills is contributing to this and what progress a skills policy might make in this direction. Following some of the things that you have said, Professor Scott, I also wonder how much of an issue this is, given some of the other things that you have stated. Is it something intergenerational that we should be concerned about?

**Professor Andrew Scott:** I can pick up on the latter point, but there are far better people than me to talk on the more technical issues. There are two themes coming through here in this discussion. One is how we deal with people who do not have resources or who come from difficult social circumstances. Clearly, the right type of education has to be a priority there, and getting access to them is always difficult and needs to be prioritised. In a longer life, that is even more important, because you may otherwise not get the longer life and because, over a longer life,

disparities can get even greater if you do not try to equalise them. I agree on that.

On the intergenerational side, I worry. There has always been some form of generational conflict. We are beginning to see, with shifts in demographics, an older voter, but our age stereotypes may impute characteristics to older voters that are no longer as relevant as they used to be. Everyone is trying to come up with a new map of life that deals with the fact that the old certainties are not working so well. Education, along with flexible and meaningful work, is something that unites the generations. I see the young as having a particular incentive in this area, because they have the longest lives of all to come, so we have to make sure that the political agenda is not captured by the baby boomers. Whatever we put in place now for the course of life will benefit the young the most, because they will go through all that.

I would like to try to minimise the intergenerational conflict that plays but, if you have a fixed budget and you are also trying to get wider access to adult education, there becomes a conflict. Therefore, the implication is that one has to change the budget. Trying to increase the number of people while keeping the budget the same will produce a conflict. This is an area where we need substantial investment, to try to ease that.

**Julian Gravatt:** To be honest, on the issue of pay progression, I do not really know. That is more of a question for labour market economists. As I understand it, pay has plateaued and has not increased much in the last 10 years compared to previous changes in rates. I am sure that has had an impact on the demand for skills and training. There may also be a link to the fact that other things are going on. Because of the expansion of higher education, which is completely understandable, we have more graduates, and we have more graduates in non-graduate jobs, which may mean that there is more competition for people who are not graduates in their 20s and 30s. It is one that I could go away and look at, but I do not really know the answer.

**Simon Kelleher:** There may be greater macroeconomic forces in play there. However, we know that today's labour market perhaps requires a higher set of skills to function in it. With that in mind, I hope that apprenticeships could be part of a solution in terms of linking pay and progression, but we need to do a bit more than hope.

Returning to your point, Baroness Blackstone, we need more hard facts and data around this. For example, we talk a lot about the parity of esteem between FE and HE. However, if we want to emulate the success of universities in widening access, we need to collect better data on apprenticeships and apprentices. I will give you a quick example of that. Until very recently, it was not known how many people were doing degree apprenticeships. At the moment, we still do not know who is doing a degree apprenticeship or what background they come from. I heard recently of a university business school where all the women apprentices on its degree apprenticeship management course were privately educated. There are a lot of interesting debates around who exactly apprenticeships are for. They can work for a large number of

people but it is important that we know who is benefiting from these policies so we can assess them and make the right policy interventions.

**The Chairman:** The level of completions is also referred to in your written evidence.

Q61 **Lord Holmes of Richmond:** Is there sufficient government support for retraining different age groups? Which age groups are most in need of extra support?

**Julian Gravatt:** It is a very confusing picture. The adult education budget has been cut in half in the last 10 years, and there has been a similar reduction in the numbers. The Department for Work and Pensions, working separately, because of higher employment, has cut its training budgets back. The European Social Fund continues until we are out of the transition period, and then it is unclear what happens afterwards with the shared prosperity fund. Then we have government piloting the national retraining scheme. We have potentially four different programmes that are not completely joined up, and they are hard for people to access.

Government acts in cases where there is a big, high-profile reason to act, like the steel industry closures in the north-east. These agencies got together and some very good work went on with the colleges, working with the councils, DWP and local enterprise partnerships to retrain people. On an ordinary basis, it is not really where it should be at all.

**Professor Andrew Scott:** We have identified a certain category of young adults. Speaking as a macroeconomist, we will see the biggest pressure on raising employment between 50 and 65. We are seeing people after 65 work a lot more, but the myth of a retirement where everyone worked to 65 was clearly wrong. If we are going to support GDP to support an ageing society, enabling more people aged 50 to stay in work is going to be crucial. There are lots of myths around productivity of older workers. In general, they are wrong. The real problem with older workers is that their wages tend to rise more than their productivity, so they become expensive. That is going to become all the more apparent with technical obsolescence, so something around that late stage will be increasing important.

**Simon Kelleher:** As I mentioned earlier, there are particular groups whose disadvantages are compounded by age at different ends of the spectrum, hence the importance of gathering better data in this area. One of the key things here is probably leadership on this. This is a huge cultural shift that we will have to make. One of the recommendations in our report here was for a Minister for Lifelong Learning, who could be shared between the Department for Work and Pensions and the Department for Education. In the future, the Department for Work and Pensions cannot simply be about picking up the pieces around worklessness and the problems caused by premature retirement from the labour market. We would like to see a Minister who would be leading on that. As I said, it is a serious long-term issue, so the employment and skills agendas must be linked.

Q62 **Lord Hollick:** The challenge of providing the right type of training, skills and education, particularly for those who are less well educated, becomes even greater as we move forward. The institutions and the funding model

that we have now, as you say, are very much for the 20th century. How does that model now have to change? How do you see that model changing over time to address the challenges of lifelong learning for everybody and not just those who go into higher education? How is that to be funded on a fair basis? The Association of Colleges has suggested that there should be a statutory lifelong learning entitlement, so there is one important suggestion. Professor Scott, maybe this is one for you: how do you see the institutional and funding framework addressing these challenges?

**Professor Andrew Scott:** It is clear that there has to be state provision. We cannot rely on the market to provide all this. Then the question is whether it provides it to the individual or through the institutions. I suspect there will be some balance of the two. I like the idea of giving people a lifelong learning entitlement, either in the form of credits that they can use or, in the way we introduced maternity and paternity leave, by introducing paid time out, so you can go and get education.

There is the funding issue. The more difficult issue is knowing what to teach, how to teach and who should teach it. To me, this is the bigger challenge. I know that, politically, there is always a challenge funding things, but how we provide it, as well as what we provide, is going to be very challenging. This is not about degrees or qualifications, but something to do with skills that can be measured in a variety of ways.

The other important thing is that there will be two ways of doing this. One is through remote courses or drop-in courses, but the role of community in supporting people through a process of change is very important, as is how we embed this in community colleges, where people who may be in very difficult circumstances, economically and personally, are really trying to change what they do. That has to be a different type of educational institution than just popping in or going online and doing a course.

**Lord Hollick:** Are there any examples internationally of countries that have moved in that direction to address just these issues?

**Professor Andrew Scott:** A number of countries are moving into this issue. China is one of them, but China has a singular institutional structure. I am also seeing Japan and the US do it, but you are seeing it more at the top end rather than the bottom end of the income distribution, so that is the challenge. Historically, we used to do it. Trade unions and some of the community colleges had a key role here, and it may well be that resuscitating that—forgive me—in a more mainstream fashion is the way of the future.

**Julian Gravatt:** Many countries are struggling with these same issues. You cannot just go somewhere else and say, "This country has sorted it out". I definitely support the idea that we need to look at what organisations can do this. At the moment, government takes a very transactional approach, in that it will pay organisations to produce a certain number of outputs, whereas what perhaps needs to be done is to work out how to build the organisations so that they can then start coming up with solutions themselves.

**Lord Bichard:** As a footnote, Singapore is doing some quite interesting things in terms of learning entitlements and learning credits, which are not

a million miles away from what the colleges are suggesting.

I just wanted to add a note of realism, I suppose. I was a bit struck earlier by Andrew Scott and his optimism about lifelong learning. You are optimistic at a time when lifelong learning appears to be going over a cliff edge. Part-time continuing education is going through the floor. Fewer people are involved in learning after they have gone through the first experience of school and higher education. Lifelong learning, which some of us were involved in trying to promote 20 years ago, seems to be in the worst space it has ever been. Comment.

**Professor Andrew Scott:** First, forgive me for not mentioning Singapore. The answer to any question of which country we should look at is always Singapore.

On lifelong learning, forgive me but I always think of optimism as a forward-looking idea rather than a current one. I agree with you that where we are is not where I would wish us to begin, but can we find solutions to it and are there ways forward? The answer is yes, because there are all sorts of challenges here but, if we look at people's incentive to learn and interest in learning, we see a rise in those. It may be that the institutional structures and the funding are not supporting it.

I would also suggest that we will see some of this increase in learning happen outside traditional institutions. I go back again to this growing industry that is trying to map people's skills just by observing what they do as opposed to saying, "You need to go to this training course and achieve this". That is very utopian and very nascent, and I am sure there will be disappointments along the way, but blending that form of skill identification and provision alongside the more standard educational institutions and training courses will be a big part of the solution to this.

Q63 **Baroness Greengross:** I have been involved in responsible business practice for many years and I just wondered what you felt employers could do, what their role is, and what it might be, because we have not really talked about their role.

**Professor Andrew Scott:** I talk to a number of employers, and they vary. I am seeing a number of larger and more responsible firms recognise that perhaps going back to industry-level provision is important. Interestingly, they are becoming aware that their workforce is becoming what they call a layered workforce: "I have my full-time employees, my part-time employees and people I keep seeing over and over again who are not working for me". They are beginning to understand that they may need to start providing training for all those people in different ways and that the best way of doing that may be through industry bodies. I am hearing some conversations that I have not heard for 10 or 20 years. Responsible businesses will be identifying this.

To my mind, the challenge is this. While I am seeing a lot of companies who value human capital investing in this, and they are investing in all sorts of different ways, the companies for which human capital is less important are not. We talked about people in their 50s with lower levels of skills. If one looks at AI and robotics, I worry about retail employment enormously. It is that group in particular that I would also be worried

about in terms of education and provision. I am not sure, given the margins and the competitiveness in the high street, that those firms will be a big part of the solution. It may be that they can be funded or supported to do so, but they will struggle.

**Julian Gravatt:** The Government are taxing the 20,000 levy-paying employers and then giving them a chance to spend the money on apprenticeships. Effectively, they have put employers in the driving seat, and it is really important for employers to drive carefully and to use the apprenticeship levy for what it is supposed to be used for, or not to use it at all and let somebody else in the system use the money. They definitely have to take a proper approach to apprenticeships and not just use them as a way of trying to get money back off the Government, because it will come back to bite them if they do that and behave irresponsibly.

There is definitely an opportunity with T-levels to offer work placements and train the next generation of young people. The planned immigration White Paper is going to make it harder to bring people in from other countries, so companies will need to start training their own. There are plenty of opportunities but, equally, we must be realistic, as Andrew says, about what employers can do. That is why it is then similarly important to build up institutions alongside, to do some of the work that employers are not able to do because they are so busy competing and surviving.

**Simon Kelleher:** Employers have a really important role here in offering older workers greater flexibility and glide paths with more phased approaches to retirement over a number of years. However, we are already asking a lot of employers—if you think about trailblazers, apprenticeships and T-levels, taking students on for work placements for three months—so this is probably an area where we could see a bit more leadership. I have already mentioned some of that leadership coming from central government through a Lifelong Learning Minister. Perhaps that could be looking at lifelong learning accounts alongside an entitlement, which would allow a model of co-investment from the individual, employers and government. In addition, there is probably a role for leadership at a local and devolved level, coming from elected mayors and LEPs working with the DWP or even the Institute for Apprenticeships, to make sure that there is the right set-up and that areas can respond to the demography and the skills needs they have.

**Baroness Tyler of Enfield:** It has been suggested to us, specifically by Paul Johnson from the IFS, that there could and, indeed, should be better collaboration between educational institutions and employers. I just wondered what role, if any, you felt that government had in providing an appropriate framework to foster that better and more productive collaboration.

**Julian Gravatt:** There is already a lot of collaboration in my sector with employers, because that is what fuels the construction, catering, engineering and other sorts of provision that colleges offer. Government needs to provide a stable framework, a predictable policy and sufficient funding, so that the work that needs to happen can get done. I realise that those three asks are quite difficult but, if you are asking what would help, some of that would help, because it would allow the colleges that



have been training construction workers for 50 years to work with the industry to modernise and change as it needs to.

**Professor Andrew Scott:** These are people with more knowledge, but one thing that is needed is some form of narrative that learning is changing, and that lifelong learning rather than episodic learning for the next interval is going to become important. There is clearly a co-ordination role rather than a hampering role to be played, but a narrative that times are changing and lifelong learning is important will be a crucial way of getting people engaged with this stuff.

Q64 **Baroness Blackstone:** Could you tell the Committee how skills policy could improve fairness between generations? I will come back to the second part of my question when you have answered that one.

**Julian Gravatt:** A bit more data might help. It would be quite interesting for the DfE to publish what its spending is at different ages, so that some of the choices become a little more explicit. We have a system that is very front loaded now. Spending reaches its height at 15 and then declines through every age after that.

**Baroness Blackstone:** That will not really help, will it? All it will tell you is that we spend an enormous amount on young people under the age of 18, because it is pretty well universal, and then we spend a large sum on about 50% of the population between the ages of 18 and 24. I do not know whether what you are suggesting will help much.

**Julian Gravatt:** It is not a matter of redistributing between the generations but trying to work out what different generations need. We have a very fragmented system. The approach in the last 20 years has been to create new institutions rather than to strengthen and change the institutions we have.

**Professor Andrew Scott:** On the intergenerational point, it is important to take a life-course approach. One tends to think about things statically and say, "These people are young, these people are this age and these people are old", but you are putting in place a new life path, so that is an important perspective. Whatever institutions you are putting in place today for those who are older, they should be available to those who are young as well, so you should be thinking about a whole map of life. It is very easy in this world to start pitting generations against one another. Once you start to think about the life course, the inequities that are also part of your question come out more quickly. How do you get people across the whole income distribution to engage in those activities?

**Baroness Blackstone:** There is a demand issue as well as a supply issue here. I just wonder whether we should be requiring or encouraging institutions that are responsible for the full-time education of young people, schools, colleges and universities, to build into what they are telling them something about this lifelong commitment, in that they should be seeing education as a lifetime journey and not just something that ends when they get to the end of the particular stage they are in.

**Julian Gravatt:** Something like a midlife MOT would also be useful. There have been some experiments with that. It happens in the health

service, whereby the careers service helps people work through what skills they have and where they should go.

**Professor Andrew Scott:** I am launching a charity called the Longevity Forum and we are looking at two educational projects: one around a midlife MOT, and one aimed at making schoolchildren aged 16 to 18 aware of the need for lifelong learning and future changes. I agree. The question is how you motivate people to understand it because, if someone in education says, “You will need to be learning all the time”, that can come across as a little self-serving. It is about how you get people to engage in this narrative of why they need to do it. That is the key thing.

**Simon Kelleher:** We need a framework for leadership to develop the narrative around how it is changing, perhaps through a Minister. One other thing, going back to young people, is not to alienate the 160,000 or so young people who have to retake their GCSEs at college, only a quarter of whom will pass. That is not setting these young people up to be lifelong learners and is giving them a damaging experience of formal education.

**Baroness Blackstone:** If government could focus on only one thing, what do you think it should be?

**Simon Kelleher:** I would revise the GCSE resit policy. Another interesting recommendation that came out of our research is modernising our approach to parental leave, perhaps enabling it to be transferred across the generations and used more flexibly.

**Julian Gravatt:** If it is for the Treasury, I would put more money into education as a proportion of GDP. If that does not happen, it is for DfE to make sure it uses the money it has more efficiently, by building up the institutions it has rather than reducing the amount of competition.

**Professor Andrew Scott:** One thing is hard: I like the idea of a Minister of Lifelong Learning, but it is about focusing on the narrative and getting this to be understood as a life-course issue rather than a stage-of-life issue.

**The Chairman:** Thank you very much. We are looking in our inquiry for coherence in this policy area. I have to say we are still searching, but we have had great coherence in your evidence today. I am very grateful to you for coming in. You have left us a lot to think about, so thank you very much for your time.

## **Associated Retirement Community Operators and Royal Town Planning Institute – (QQ 120–129)**

Tuesday 6 November 2018

[Watch the meeting](#)

Members present: Lord True (The Chairman); Lord Bichard; Baroness Blackstone; Lord Chandos; Baroness Crawley; Baroness Greengross; Lord Hollick; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 12

Heard in Public

Questions 120 - 129

### Witnesses

**I:** Tom Kenny, Acting Deputy Head of Policy and Research, Royal Town Planning Institute; Gareth Lyon, Head of Policy and Communications, Associated Retirement Community Operators.

**Q120 The Chairman:** My name is Nicholas True and I have the honour of being the Chair of the Select Committee. We will not introduce ourselves, because it would take too long and we are identified here. You know that the session is open to the public. It will go out live on webcast and will subsequently be kept on the parliamentary website. There will be a verbatim transcript and you can make corrections, but only for the purposes of clarification or accuracy. Without more ado, would you introduce yourselves for the record, and we will begin with the questions?

**Tom Kenny:** I am a policy officer at the Royal Town Planning Institute, and I am responsible for all our research and policy work on housing.

**Gareth Lyon:** I am head of policy and communications at the Associated Retirement Community Operators—ARCO for short.

**Q121 The Chairman:** I get to ask the sighting question that enables you to put your broader points. Does the planning system ensure that adequate housing is provided for all generations? If not, from your perspective which age groups are least well served at present?

**Tom Kenny:** Planning should certainly enable a housing mix that meets the needs of various different generations. I think we will talk a lot about whether we should be focusing on particular generations or on creating places and housing that work for different generations. Yes, planning should, by balancing different needs in the community, help different generations to meet their needs, and through national and local policy and guidance there is provision for meeting the needs of different generations.

There is certainly more to do. Resourcing is a major issue in virtually all local planning authorities. It challenges the ability of planners to deliver not just this but all the social goals that they want to deliver, and as much as they would like to. Planning is certainly part of the solution to

providing adequate housing for all the generations. I would also encourage the Committee not to view it as a silver bullet. There are quite a lot of things about wealth inequality between and within generations that planning cannot fix. It is definitely part of the solution, and it is better than letting the market guide development exclusively, but it is not the whole solution.

**Gareth Lyon:** From our perspective, the planning system is not ensuring the provision of the kind of housing that we need. Particularly with specialist housing for older people, there is a great lack of clarity in the planning system. At the moment, for example, different government departments and agencies use eight different terms to describe our retirement community sector.

I would reference the pack that has been handed out to you all, which shows the living options for older people. The central column is our sector of retirement communities, which are developments with care available on site through a CQC-registered provider, and a number of other facilities, including restaurants, but they are not care homes and not downsizing flats.

The problem with the planning system is that it does not adequately distinguish between the range of options. When local authorities look at making appropriate provision and their strategic housing market assessments, in most cases they make no provision at all for retirement—also known as extra care—communities. We think that is a major issue with the planning system as it stands.

We also think that unblocking the level of unmet supply for specialist housing—that is, housing with care—for older people, will have significant knock-on benefits for the provision of housing as a whole for all generations, simply because in most cases people who move into retirement communities are living in houses that are too large for them, so by moving into a retirement community they can free up larger housing stock for younger people.

**The Chairman:** We will pursue some of those issues in detail later. In your written evidence, which I must thank you for and should have acknowledged at the start, you argue for greater flexibility in the use or adjustment of the use class orders, which implies some degree of local flexibility. How do you see the balance between national and local solutions? National government has been trenching more into local authority rights in recent years under successive Governments. Is the solution to the issues that you describe at the national or the local level?

**Gareth Lyon:** We think there is a big role for local flexibility and autonomy, but there needs to be greater clarity in the guidance provided by central government, particularly on the planning uses as you described it.

**The Chairman:** That is an important response, and we will come back to it.

Q122 **Baroness Greengross:** I declare my interest as patron of ARCO, which I do a lot of work with.

You probably know that I agree that there is just not enough provision for older people through this type of development. Do you think the demand

would rise if we changed the way planning was introduced through legislation? The age at which people go into this type of housing is much higher than everybody acknowledges; it is usually in the mid-70s or even 80s. Housing with care must be the right sort of housing for a lot of people, but the demand in this country is terribly low because people do not know what this can provide for them.

How can we better set and implement those targets so that there is much more of this housing? The numbers of people going into specialist housing compared with other countries such as the US and many European countries are ridiculously low. It would make a huge difference to young people if more were introduced. Part of the problem, in my view, is that it is not adequately publicised and not known about. Do you agree, and what can be done?

**Gareth Lyon:** Just for the record, we are incredibly grateful for your support, Baroness Greengross, as our patron. You definitely do a lot of good work in the sector.

We see the major issue facing the sector as supply. Our members record a very strong interest when there are developments and there is space available. As you alluded to, Baroness Greengross, the level of provision in the UK is well short of comparable countries. In Australia, New Zealand and the US, between 5% and 6% of older people live in retirement communities. In the UK, that figure is 0.5% to 0.6%. As a sector, we are committed to massively increasing supply between now and 2030.

The planning system can definitely help to unlock that provision. We know that when communities open they generate a huge amount of local interest and demand, because, as it is a relatively new sector, most people do not understand what a retirement community is until they visit one. When they are understood they are very popular indeed. That is why I talk about the need for much greater clarity in the planning system about the different types of specialist housing for older people, be they care homes, downsized accommodation or retirement communities.

In terms of requirements in legislation, we think it would be quite effective for local councils to have to declare the level of provision that is coming on stream for retirement community housing. At the moment, only 11% of local councils in the country have policies in place to provide older people's housing, despite the fact that all strategic housing market assessments demonstrate a large and growing need for it. We think that requiring councils to publish the figures on how much retirement community housing and other specialist housing is coming online would be a way of nudging them in the right direction without having to be prescriptive.

Q123 **The Chairman:** Could I broaden the question out a little? This is somewhat specialist, but the Committee is interested, obviously, in housing for all generations. Perhaps the wider question should be to Mr Kenny. Are the measures of housing demand in the National Planning Policy Framework the right way to set targets, or do we need to modify them in some way or other?

**Tom Kenny:** If we are talking about objectively assessed needs based on the ONS household projections, we consulted a lot of our members and

many of them welcomed the objective approach to assessing housing need. The key point, however, is that it can only really provide a baseline because it is based on demand and does not respond to specific needs, let alone specific local needs. So we welcome the objectively assessed needs approach, but it has to provide a baseline, and local authorities can develop prescriptive local plans that take older people's housing into account, but, as you say, it is not just about older people; it is also about affordable housing and meeting all the other local needs that we would want to meet.

More than that, at the moment overall housing targets can be a bit of a stick with which developers can beat local planning authorities. They say, "We know you have this really big target", which makes it easier to get inappropriate development through. A key part of it not just the national policy but strengthening local planning authorities so that in viability negotiations and in general negotiations with developers, they can really push for the needs that they specify in their plans to be met by new developments.

**Gareth Lyon:** I agree with what Mr Kenny has said. I would add that we would argue that the assessment of need should be broader and should look at need in a much more joined-up holistic sense. Given the impact that certain forms of housing such as that in our own sector can have on the social care sector, the needs of the social care sector should be taken into account when assessing housing need.

We should also look at the needs of employers. In our sector care workers, or other sector workers such as teachers or nurses, need accommodation nearby, that should be much more effectively represented in the objectively assessed needs.

**The Chairman:** This line of discussion is leading very directly into what Viscount Chandos wanted to raise.

Q124 **Viscount Chandos:** Do local planning authorities need more freedom in planning to better provide housing for different generations, or should central government ensure greater consistency through more regulation? With that, how much does the way public sector land is sold under the existing regulations affect things, in your view?

**Tom Kenny:** I would go back to what I said earlier, which is that there is a significant and growing body of national policy and guidance, and we are expecting more from the Ministry of Housing, Communities and Local Government soon. There is quite a lot of national policy and we welcome that a need has been identified which national policy can help to drive.

I would go back to the idea that, where possible, we like to leave flexibility and powers with local authorities. Housing need is very different in different areas. Equally, the existing provision is very different in different areas, and local authorities will benefit from having the flexibility to set their own supplementary planning guidance on how to deliver these types of housing.

You touched earlier on the question of public land. An issue here is being able to dispose of land at less than market value. The Government are currently consulting on making that easier. That is certainly a key way in

which local authorities could use their own land to meet social needs. In 2017, we published research led by UCL which showed that lots of local authorities are getting into delivering new housing by building housing themselves or using joint vehicles, specifically to meet special needs, including housing for older people as a major one. Some 42% of the authorities that were building had got into building in part to meet a perceived failure of the market to deliver housing for older people.

**Gareth Lyon:** On that point, we would argue much more about the need for guidance than a prescriptive approach. There are a couple of areas where it would be good to get greater clarity from central government, particularly in relation to land use types. Again, for our sector, we believe that retirement communities with care provision on site and a CQC-registered domiciliary care agency should be designated as C2 land usage.

More broadly, we think that some land use types are preventing public sector land being used for beneficial housing with care or other housing developments that would benefit the local area. A great deal more clarity in that area would be helpful.

On the issue of guidance, the measures of delivery could be much more specific and granular for areas which the Government are prioritising.

Q125 **Lord Hollick:** You say in your written evidence that there is a widespread failure of the planning system. Are the 11% that prescribe housing for older people using existing planning laws or are they freelancing? Why can those 11% apparently designate certain land for development for older people's homes and the other 89% cannot?

**Gareth Lyon:** They are operating within existing planning law. Within their local plans they definitely have the freedom to put those provisions in place. There is no requirement as there is for social housing or affordable housing for local councils, for example.

**Lord Hollick:** A local authority could say, "That's one of our priorities". They have the power to do that.

**Gareth Lyon:** Absolutely, yes, and because on a national level there is so much unmet need for this generation and so many potential positive knock-on effects in freeing up wider housing stock, it should be required as a priority.

**Lord Hollick:** McCarthy & Stone, which builds quite a lot of retirement homes, said when they appeared in front of the Economic Affairs Committee about three years ago that the economic model for building communities for older residents was not sufficiently attractive to make them more competitive when it came to securing land, either from local authorities or from others? Do you agree?

**Gareth Lyon:** No, I do not. In our sector, we have seen some very significant investments coming in in recent months. Large multinationals, such as Legal & General and AXA, are looking at the retirement community sector and making significant investments because they see it as something that can deliver.

**Lord Hollick:** So you can compete in the open market.

**Gareth Lyon:** Yes. We can compete for land, but you would not get from a general-use form of housing the benefits of social care provision that it delivers to local authorities.

**Lord Hollick:** So really it is the local authority that has to be geed up and encouraged to designate certain development opportunities for retirement homes and for retirement communities.

**Gareth Lyon:** That is a very good way of putting it.

**Tom Kenny:** If things are working well and local authorities have prescriptive targets for, say, older people's housing in their plans, and they have the resources and powers to be able to hold developers to those targets, it will make projects such as retirement communities more competitive in purchasing land. At the moment, the sad truth is that some developers know that they will be able to drive down their contributions, so they can afford to pay more for land, making it more difficult for projects that are based on delivering community benefits to be viable.

**The Chairman:** Some people believe that part of the problem is non-developers, the public authorities that sit on land, which you have alluded to. The Government are beginning to edge towards giving local authorities more power to intervene where land is not developed, which might be able to come with a prescriptive approach. Would you welcome that? Is that a practical approach? A local authority could say to a public sector body that was sitting on land, "We're going to give ourselves a plan here. We'll develop it unless you do, and we'll proceed".

**Tom Kenny:** RTPI would certainly welcome local authorities taking a bigger role in proactively planning to meet the needs in their areas. That could be by assembling sites on land that they own. It could be working with other parts of government to develop land that they own; indeed, there are already joint vehicles between local authorities and other parts of government.

I am not exactly sure about the specific circumstances you are suggesting, but in general we would certainly like to see local authorities taking a more active role in developing and preparing sites for housing to meet the needs in their area.

**Gareth Lyon:** We would argue that part of the burden is on us as a sector to help local authorities to understand the full benefits of delivering these kinds of housing with care schemes and retirement communities. We also think that there is a disconnect in the system that needs to be addressed inasmuch as planning tends to sit at a district or borough level, whereas most of the benefits that our communities deliver are at a county level, where they deliver benefits to the social care health systems.

We would welcome far greater co-ordination within government so that the second-tier authorities have a say and have input into decisions either not to develop land or to prioritise other uses.

**The Chairman:** Can we stick to the question of the existing stock and bring in Baroness Crawley?



Q126 **Baroness Crawley:** As you can imagine, we have had evidence from a number of people in the sector. The Intergenerational Foundation's evidence put forward a proposal to increase downsizing by making planning permission easier for people who seek to subdivide their property. Could you talk about the existing housing sector that people currently occupy? What role could planning play in downsizing? You talked, Tom Kenny, about better use of supplementary planning documents. Perhaps you could say a little more about that.

**Tom Kenny:** I am sure you have heard the evidence that there are more bedrooms per person than ever before, so clearly we should be looking at downsizing. There are interesting innovative new models that could encourage downsizing. One of our members came up with an idea called custom splitting, for example. It is not something that we have developed, but it is the idea that you could look for an opportunity to break up existing units and to use the opportunity to insulate them and bring them up to energy standards, and help to tackle climate change that way. There are certainly innovative ways, and planning policy could support ideas like that.

Again, this is probably best done at a local level, at least for now. People do not want to downsize because there is no suitable accommodation for them. Planning could probably most help here by doing what it should be doing anyway, and what it can do best, which is ensuring that there are adequate numbers of suitable houses in the places where people want to live. Stopping urban sprawl would prevent people having to move away from their families, their social networks and the services they are going to rely on. We need suitable one to two-bedroomed homes in the right locations, with access to public transport. All the stuff that the planning system should do to benefit everyone should also make it more attractive for older people, or anyone else who wants to do it, to downsize.

I might sound like a broken record, but it is not all about planning. Planning is not the silver bullet here. There are other things that councils can do to make it easier for people to move. We need to do more research in order to understand the aspirations of home owners who have spare rooms. What do they want? What would make it desirable for them to move? Our evidence suggests that most people do not want to leave their homes. Hopefully, that would change if more suitable accommodation was available. That is another thing that we really need to look at.

**Baroness Crawley:** Has there been much polling in these areas? Has much research been done asking people why they do not want to downsize?

**Tom Kenny:** I am aware of some things. People want to be near their families and existing networks. This is an under-researched area, though.

**Gareth Lyon:** From our perspective, when people move in later life they certainly want to move into accommodation that will be long term. They talk about a last move, something that will be able to provide care and give them security. Security comes through an awful lot. We do not represent downsizing, we represent retirement communities, but there is a role for all these platforms of provision to play.

There are perhaps a couple of considerations. One advantage of people moving into retirement communities is that it frees up larger homes that can be made available to younger generations. Obviously, there is a scarcity of larger family homes across the country. That should enter into the thinking, we would argue. We would also argue that the advantage of moving into specialist housing with a care scheme, such as a retirement community, is that they are adapted, and if you start to lose mobility or need more care over time there are facilities in place that can support you. That should be a consideration when downsizing or subdividing a property: seeing what adaptations should be put in place to make it sustainable and secure for the long term.

**Tom Kenny:** May I add one caveat? The overall figures on the underoccupation of housing can be a bit misleading, because it is not that the underoccupied bedrooms are necessarily in the areas of high housing demand. It should be taken with a pinch of salt when figuring out how much benefit it could have. We assume that downsizing is in areas with high land values and high housing demand, which means that there is both a financial incentive to downsize and the need for extra bedrooms, whereas it is not always as simple as that.

Q127 **Lord Bichard:** Do you think the planning system should encourage more specialist housing, or should we emphasise encouraging general housing to be more adaptable, perhaps via some kind of new national space design and construction standards? Your answer is almost certainly going to be “both”, so let me invite you to extemporise.

**Gareth Lyon:** Your Lordship is absolutely right that it is not an either/or situation. We think there is definitely a place for far more specialist housing for older people. As I mentioned, internationally we are lagging far behind. As a sector, we are committed to significantly increasing the supply of that, and by doing that we will free up many of the adaptable general-use houses for other generations. Absolutely, more general housing should also be built. A big advantage of retirement communities is that they have much higher density than general housing, so more land is available for general-use housing.

**Lord Bichard:** There are cost implications for higher standards of general housing.

**Gareth Lyon:** Yes, indeed.

**Lord Bichard:** Therefore, there may be a danger to the overall target. Again, do you think that is a problem?

**Gareth Lyon:** That is much more area Mr Kenny’s area.

**Tom Kenny:** We would always say that investment in design, if seen as a long-term investment, can save money and translate into house prices for the private sector. Local authorities are going to be building more and they can afford to think in a long-term way and look at investment in quality house-building as an investment in their assets rather than as a cost in the short term. We would need both, to start off with. We certainly need some more appropriate and specialist housing for older people. As Gareth has pointed out, we have a low level compared to most

countries, and we have an ageing population, so we will certainly need some more.

In general, I would encourage more of a focus on creating places that are good for everyone. I would avoid the view that there is necessarily going to be a conflict. A colleague of mine has just published some practice advice on planning for dementia so that planners can help to create places that are suitable for people who are suffering with dementia. One of the main findings, or main messages, of that is that if you create places that work for people with dementia they also work for people with young children, for disabled people, for everyone. They make for far more pleasant communities and places where people like to live.

If we are going to create compact, appropriate-density mixed-use developments with good links to public transport, we need to make them adaptable so that they can be converted if need be. If we are going to build this type of housing, we should try to build it everywhere, and for everyone, because it is just better.

**Lord Bichard:** Do minimum standards have a part to play in that? Are they effective? Would you recommend them?

**Tom Kenny:** I would fudge that and just say that it needs to be looked at. National policy change always implies difficulties for local areas. There may be some national standards that we can improve, but, equally, a lot of it might be able to be done at a local level through design codes or other mechanisms.

**Gareth Lyon:** Our experience is that our members find that investment in quality delivers for the long term. If your proposals, or those of others, lead to a significant increase in all forms of housing, including specialist housing and care for older people, we may see a rise in standards as more alternatives and better provision is available across the board.

**Lord Bichard:** I am trying to get you to suggest the most effective mechanisms for achieving this. We all talk about investing in design as a good thing to do, et cetera, but that does not mean people will, so what other mechanisms could the system employ to make it more likely that general housing is constructed to these sorts of standards?

**Tom Kenny:** I am also a co-investigator at the UK Collaborative Centre for Housing Evidence, where universities and other partners undertake research on housing. One thing we have looked at is evidence on design value and the ways in which it can influence decision-making. There is a range, from national policy and national guidance to local policy and local guidance.

We can also make sure that councillors, developers and the public are more aware of what good design is and the benefits of good design. I would not necessarily say that standards are the best solution; they are certainly not the only solution that we should look at. We need to bring evidence together on good design and show why good design and good place-making are good for everyone, and try to engrain that kind of thinking into all sectors, both public and private.

**Gareth Lyon:** One area that might nudge developers in the right direction, without having to impose standards but getting them to want

to provide higher standards, would be by having far more transparency of data on the re-sale value of houses. In the retirement communities sector, we track the wider house price index, and they tend to be very good long-term investments. In some sectors that may not be the case. If consumers were aware, that might influence consumer behaviour, and if it influences consumer behaviour one would hope that it would influence developers, too.

**The Chairman:** We need to move on. I know that Baroness Blackstone wants to come in on that. On that, every school that I ever proposed when I was in local government was bitterly opposed, but as soon as the school opened the same people came forward and said, "Isn't it marvellous our house prices have gone up?" I should not be too cynical.

Q128 **Baroness Blackstone:** There is a lot of debate about whether we should have more specialist housing for older people, but we very rarely hear any discussion about whether we should have specialist housing for younger people. We have a completely different demographic position from that of 50 years ago. When young people left home, it was usually for marriage and children, at a much earlier age than now. Now they leave home needing 10 or perhaps 15 years of accommodation that does not have to accommodate children or families.

Ought we to be thinking about studio flats, particularly in big cities, where there is a larger number of young people in employment, particularly among the graduate population, as a good way of accommodating young people so that they are not in lousy private sector accommodation or hanging on living with their parents in a way that for them is not very satisfactory?

**Gareth Lyon:** It certainly sounds like we should. As mentioned before, the objectively assessed housing need approach takes a much broader measure of housing need into account. Many of those younger people will be working at the local schools, hospitals and retirement communities that we talked about, and if you cannot get those young people living nearby you will struggle to keep those things operating.

The needs of social care, education and health should be taken into account in the assessment of housing need. Coming from the retirement community sector, of course I would say that is very important, and delivering benefits to the social care system would tick a box for us. Given that we are going to see a doubling in the number of over-75s over the next 30 years—

**Baroness Blackstone:** I am sorry, I want to get away from older people. I am asking about young people. What about the people between the ages of 22 and 35? Many young people do not start families until their mid-30s now.

**Gareth Lyon:** I would go back to the assessment of housing needs to take a broader perspective into account. We would hope that would help.

**Tom Kenny:** I agree that local planning authorities should be looking to balance the needs of everyone—the needs of all the different parts of their community. Students, for example, are expressly listed in national policy now. The needs of young people should certainly be met. Again,

what young people want is very often what older people and middle-aged people want. There is a high degree of agreement on what is desirable.

In some ways, integrated communities are really important. There are some interesting models going through planning at the moment on creating units with shared communal spaces and smaller bedrooms, for example. There is some really interesting stuff going on there. Equally, there is a risk that sometimes it is almost an excuse to get around existing standards, although there are certainly some good examples.

Build to Rent is obviously another planning model that is coming through a lot right now. In general, I would probably encourage less of a focus on housing for sale. It is perfectly reasonable not to aspire to own a house. We do not need to have a situation in which owning a house is such an economically sensible decision that everyone needs to do it. This is slightly outside planning, but this could benefit from reform of the private rented sector and ultimately more social housing to meet that need.

**The Chairman:** One or two colleagues are interested in coming in, but we have a round-up at the end and I will bear them in mind. We should keep young people always in mind. Baroness Blackstone is absolutely right that we in this Committee are looking at all generations. Baroness Thornhill wants to come in on this area.

Q129 **Baroness Thornhill:** My planned question was about the role that planning can play in building more active and integrated communities, but, quite rightly, you have brought us to that much earlier.

Bearing that in mind, can I ask for your views on the conflict between the Government's emphasis on delivery of numbers versus public opinion, which we have touched on? We have turned the NIMBYs into BANANAs—"Build absolutely nothing anywhere near anything". We certainly have geographical separation happening nationally, where the urban centres are for young people and the suburbs for the oldies.

What you are saying is absolutely right, but how do we square the circle? It feels as though government policy is very number led at the moment. You have both said to let councils have a lot of freedom. Like the Chairman, I have run a local authority, and I absolutely know and I get that, but the truth is that when you let a local authority and councillors have total freedom you end up with an authority that might have in it women's refuges, bail hostels and provision for the homeless, and adjacent councils with none, and this brings other problems.

There is almost a conflict between how much it is our responsibility, councils' responsibility or the Government's responsibility to say that all areas should take their share of an integrated community. How can we change the mood music? I have sat in meetings where the leader of St Albans has said, "I'm sick of developers wanting just to build four-bedroomed executive houses", whereas I could say, "I'm sick of studios and one-bedroomed houses". Who has the upper hand, and who should have the upper hand? Local authorities would say that it is developers, it sometimes feels as though it is the Government, and the public are certainly having none of it.

**Tom Kenny:** That is a big question.

**Baroness Thornhill:** It is a good one to end on, because we have to take people with us. If we do not take people with us, all our good ideas come to naught. “Should government be more prescriptive?” I guess is at the root of this question.

**Tom Kenny:** I will give one answer to that. I am sure there are lots of things I could talk about. When you talk about who should have the power or who should be forced to deliver, I would like to think about how we could make new development more attractive to local communities. To a degree, opposition to development is often rational, in the sense that people have seen poorly-designed previous development that has not come with adequate infrastructure—new schools and hospitals—and has added to the traffic and challenged local areas.

We should look at ways to make development more popular. One way to do that would be to give local authorities greater power to capture uplifts in land value that come with development. If local authorities were empowered to negotiate and drive a harder bargain with developers, and could capture more of the uplifts in land value, that could be spent on improving local communities, on new schools and all the other things that people want. It would make development more popular.

While some local authorities should certainly have ambitious targets, and the Government clearly have a role in pushing people to deliver more in areas of high need, a win for most people would be making sure that development is of a higher quality and that it delivers what people want from it. That would result in less opposition to it.

**Gareth Lyon:** We would agree, and would argue that there are carrots and sticks here. As the Chairman alluded to, once the school in his area opened, land values went up, but people had not understood that was going to happen. We find that when a retirement community opens it brings with it facilities that significantly benefit the wider community. People are generally happy that it has opened and it tends to have a net positive benefit. It is a question of helping other communities to understand that. There is a challenge for local government and the sectors to work in partnership to help consumers and local residents to understand that.

In terms of the stick, as I said before, there is a requirement on local authorities to publish the level of provision that is being permitted in a range of priority areas, and we would argue that retirement communities should be one of those. It certainly could be argued that younger people’s housing should be another. If they failed to deliver that, one hopes that you would see significant local pressure building up on them.

**Baroness Thornhill:** As a quick rider to that, two things that are controversial at the moment, of course, are the viability test, which has deprived local authorities of the money to build the infrastructure and the things that are needed to make an integrated community, and the housing delivery test, which is yet to come on stream. There is an element of carrot and stick in what councils can do. Do you have any views on either of those?

**Tom Kenny:** Both these things have the potential to make local authorities struggle to deliver what they want to deliver in their areas essentially by strengthening developers who can point to the high targets

and who can engage in viability negotiations to get around planning policy. We welcome the changes in the new National Planning Policy Guidance to strengthen that viability, and we hope that will have an effect.

Generally if local planning authorities had more resources, or more expertise to take into these negotiations, they would be able to get more out of them as well. We welcome the policy changes, but we are going to need an increase in resourcing to enable them to not just lose by attrition but by not being able to compete in the viability negotiations.

**The Chairman:** In part, that means planning fee reform, but that is an observation not a question.

**Baroness Blackstone:** I know you said there are no silver bullets, but if there was one thing that the Government could do to improve intergenerational fairness via the planning process, what would it be?

**The Chairman:** We need to think of young people as well.

**Tom Kenny:** I have noticed lots of encouraging nods around the room when I have talked about the good places that planning can deliver. Hopefully, I am speaking to an audience that agrees with that. Planning has the ability to balance the needs not just of different generations but of all different groups in society. That is kind of what it is set up to do: to guide land uses towards things that work for everyone.

At the moment, it simply does not have the resource in the system, and developers and everyone will agree with this, that planning is so poorly resourced at the moment. Local planning authorities do amazing work, but they struggle to consider on an application-by-application basis quite how to implement decisions and drive policy in a way that is beneficial to everyone.

If there was one thing that I would encourage, it would be more resourcing for local authorities, whether through fee-setting or additional grant, more powers, allowing local authorities to capture uplifts in value and giving them strength in negotiations—anything to empower planners to do what planners want to do, which is to create great places that work for everyone.

**Gareth Lyon:** From our perspective, we would certainly argue for a more integrated, holistic and granular approach to assessing housing need. At the moment, local authorities, in our view, are not given sufficient guidance on the different types of specialist housing with care for older people, although we note that ministerial guidance is forthcoming.

That is true of our sector and it is probably the case across the board. We would argue that if the Government were far clearer about these expectations and published what they expect from local authorities based on a set of priorities, you would see a significant increase across the board.

**The Chairman:** Baroness Greengross and Baroness Jenkin wanted to come in earlier, but we are running up against time a bit. Is there a burning point that either would like to make while we have these witnesses here?

**Baroness Greengross:** I agree completely that what we are trying to do

in this is to be fair across the generations, and the main worry at the moment is young people's housing. Should we not include in our considerations the fact that there are huge delays in getting places in a hospital for people who are very sick and getting them out of hospital, which blocks beds? Planning should include, should it not, health and social services, as well as the local hospitals, and look across the board? One reason for wanting this type of housing for older people is that it releases housing and it releases hospitals and social services from some of the burden of providing care. Do you agree? Should they not be part of the planning process?

**Gareth Lyon:** Absolutely, yes. You have made our argument very clearly indeed there. Of course, with social care sitting separately to planning at the moment, the full social care and health benefits of these developments are not taken into account, and they ought to be.

**Tom Kenny:** Health is already a part of planning. We have done research on this, and, yes, it could play a bigger role; there could be more integration of health departments, local planning authorities and other planning structures. This is something that planners think about, whether it is through encouraging active transport to tackle obesity and diabetes or other means. For the Royal Town Planning Institute, it is very much on the agenda of what planning should be doing, so yes.

**The Chairman:** I am allowed one short wild card. Is the sacred cow of all politicians, the green belt, an irrelevance to this argument, or should we be saying that there is a lot of brown land and bad land in those areas that we could use to provide more housing for all generations? Is that relevant or irrelevant?

**Tom Kenny:** We want to see a strategic approach to housing delivery. Green belt is very important, but it is one consideration among lots of others. I would reject the idea that there is poor-quality green belt and that therefore it should be developed. We should be talking about what the green belt could deliver for us and whether we could improve poor-quality green belt. Equally, if there are opportunities to deliver some housing in a strategic way using the green belt as one of many considerations, we should look at that.

**The Chairman:** Thank you very much for coming in. I am sorry that we have kept you for three minutes over. We are very grateful for your evidence. You have given us a lot to think about, and thank you again for coming in.

**Gareth Lyon:** Thank you very much.

**Tom Kenny:** Thank you.



British Youth Council, Dr Eliza Filby and Age UK – Oral evidence (QQ 160–168)

**British Youth Council, Dr Eliza Filby and Age UK – Oral evidence (QQ 160–168)**

[Transcript to be found under Age UK](#)

## **Building Societies Association, Centre for Economics and Business, Professor Sue Heath and Social Market Foundation – Oral evidence (QQ 151–159)**

Tuesday 20 November 2018

[Watch the meeting](#)

Members present: Lord True (The Chairman); Lord Bichard; Baroness Blackstone; Lord Chandos; Baroness Crawley; Baroness Greengross; Lord Hollick; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 16

Heard in Public

Questions 151 -159

### Witnesses

Paul Broadhead, Head of Mortgage Policy, Building Societies Association; Professor Sue Heath, Professor of Sociology, University of Manchester; Douglas McWilliams, Deputy Chairman, Centre for Economics and Business (Cebr); Nigel Keohane, Director of Research, Social Market Foundation.

Q151 **The Chairman:** Good morning, lady and gentlemen. We are very grateful to you for coming. My name is Nicholas True, I am Chair of the Committee, but we will not all introduce ourselves. Our names are up in lights—or the 19th century equivalent of lights. This session is open to the public and a webcast is going out live on the parliamentary website and will be subsequently accessible there. We take a verbatim transcript of the evidence. You will have an opportunity to make minor corrections for accuracy or clarification. Please could you introduce yourselves for the record, and then we will begin questions.

**Paul Broadhead:** I am head of mortgage and housing policy at the Building Societies Association.

**Professor Sue Heath:** I am Sue Heath. I am professor of sociology and co-director of the Morgan Centre for Research into Everyday Lives at the University of Manchester.

**Douglas McWilliams:** I am the founder and deputy chairman of the Centre for Economics and Business Research—CEBR.

**Nigel Keohane:** I am the research director at the think tank, the Social Market Foundation.

Q152 **The Chairman:** Thank you very much. The remit of the Committee is to look at issues of so-called intergenerational fairness. We are all well aware that within generations there are issues, but our starting point is the contention that one generation is doing better than the other—or not. I will begin with a sighting question. What role do older generations play in financing the housing of their relatives? What is the nature of that help? Is it mainly helping with deposits? To what extent does it extend to meeting

regular rent or mortgage payments?

**Douglas McWilliams:** CEBR carries out the survey called the Bank of Mum and Dad for our client, Legal & General. We have done it three times in the UK and are currently doing the same in the United States for it. The figures for the survey that we released in April this year show that 316,000 properties were purchased with assistance from an older generation. That represented 27%. The average contribution was between £5,000 and £6,000. The proportion seems just to be edging up very slightly. Those are the basic statistics. There is plenty more I can tell you, but I think that gives you enough to get going.

**The Chairman:** That is very clear. What about the nature of the help? That is with a deposit, I take it?

**Douglas McWilliams:** It is almost entirely help for deposits. There is a very tiny amount of assistance but it is not really significant. It is mainly help with deposits.

**Nigel Keohane:** We have done work looking at broader financial assistance provided from the older generation to the younger generation. There definitely seems to have been a significant growth in the use of the bank of mum and dad for first-time buyers. If you look at English Housing Survey data, that shows about 20 years ago 21% had that assistance and now about 35% are getting assistance from family or friends for their deposit. There is definitely growth in support from parents for getting on the housing ladder. It is important to recognise that a lot of other financial transfers go on.

That is important for two reasons. One is because it is a much more complex world than just thinking the bank of mum and dad may be handing down a £10,000 deposit. Most of the assistance is for helping people cope day to day. Some of that would be paying the rent, some would be paying the bills, some of it would be cash payments to the younger generation to help them get by. The second reason why that is important is because when we think about the bank of mum and dad we tend to think of quite affluent older people helping potentially reasonably affluent younger people. That is going on, but there is a lot of activity going on right across the socioeconomic spectrum. Looking at people in lower-skilled occupations, we did some analysis of government surveys and found about a third of those people there are giving regular financial support to the younger generation, to their children. There is a lot of it going on beneath the surface, but what is mainly going on among lower-income households is smaller payments to help people get by, whereas if you go up the income spectrum you have what might be called investments—investment in housing and maybe in skills or university training.

**The Chairman:** This is a very broad range. I will bring you in, Professor, in a second. We have your research before us from the Social Market Foundation and obviously that bears out what you have said. There is a very wide range of modes of support given. I take it that your research would include grandma giving a £10 note to the youngsters when they went to visit her—would that have been caught by this research?

**Nigel Keohane:** Yes and no. We did two things. One was our own survey where we excluded birthday, Christmas presents, but it would include small gifts, and we did analysis of the government data which asked specifically about regular financial support, so it is not just £10 a year; this is regular financial support. That found a similar proportion of people handing that support down. I think it was around three in 10. The three in 10 figure seems to be about the proportion giving help, but a small number of those are giving very big sums of money and a large number seem to be giving the smaller ongoing payments.

**Professor Sue Heath:** I endorse what the previous two speakers have said. I have been researching young people's experiences and expectations of housing from a more qualitative approach for the best part of 25 years, and it is striking how expectations around levels of support have changed during that period. When I first started talking to young adults about their housing expectations it was very much an emphasis on self-reliance and perhaps very small forms of assistance. From more recent studies, where we have focused very specifically on this issue, it has been clear that even very small sums of money can be very significant for young people on relatively modest incomes. Certainly, some of those bigger exchanges are going on, which are very significant for families who are able to afford that, but even for families with more modest means there are all sorts of exchanges going on which may not always be directly targeted at housing costs but which offset the general costs of living. Of course, housing is one of the biggest costs there. So I certainly endorse what has been said: it is not just about the big sums for mortgage deposits, it is helping out with rental deposits, helping out with rental payments in a month when someone's means may be more limited than in another month. It is very widespread but a lot of it goes under the radar because it is not captured by the surveys which focus specifically on owner-occupation.

**Paul Broadhead:** To add some context on what first-time buyers face, we research what the barriers to home ownership are. We found that for about 65% of buyers the largest barrier is actually raising that deposit, so it is not surprising to see that that is where the majority of this funding is targeted. There is also an expectation now: close to 60% of first-time buyers expect to need some help from parents, grandparents, siblings, other family members, to support them in one way or another. I will not repeat what has been said about what is going on in terms of those deposits and small sums, but something else that is increasingly talked about is this "boomerang generation". For those families that are not so wealthy or cash-rich, and do not have those assets to pass down, one way that they are helping borrowers to save is they are coming home to live back in their parental home, back in their family home, at either a subsidised rent or no rent at all. Some research done this year showed that that accounted for around about £3.6 billion per year in foregone rent which is purely to enable people to save that deposit, whether it is a deposit for a house they wish to buy or a deposit for the first couple of months if they wish to rent.

**The Chairman:** You are coming close to the home life of some Members of this Committee. We will narrow in on housing, but Baroness Thornhill wants

to come in with a supplementary.

**Baroness Thornhill:** I wanted to ask Nigel this, and possibly Sue. I suppose the key thing for us is: how is this different? Thinking of my background, it has always been the case. If somebody could not pay their electricity bill, somebody pitched in and helped. How much has that changed? Do we have any sense of that?

**Nigel Keohane:** There is data on inheritance and how that has changed over time, which suggests that that has become more prevalent. There is some evidence on gifts which is not as strong, so I would not want to try to reach a conclusion on gifts. I would not dispute the fact that it has always been there. I think it is very important. When we think about welfare we obviously think about the state but the family has a role in welfare, and always has done and has always sat alongside government welfare. Your approach to thinking about it always being there is the first point.

We do know of some instances, especially with housing. I mentioned earlier that there is government data from the English Housing Survey, which asks people each year how they have put their deposit down. We know from that that first-time buyers are relying more now than they were in the past on gifts. Reliance on inheritance has gone up. It used to be 3% in the mid-1990s and now it is up to 10%. We can tell from that. For housing, it has definitely changed, and possibly for other forms of assistance which are smaller and ongoing. Maybe that has always been the case.

**Lord Hollick:** Is there any data on support travelling in the opposite direction: adult children who look after their parents, maybe house their parents, which certainly seems to be quite widespread?

**Professor Sue Heath:** In my more qualitative studies I have certainly come across examples of that. At the lower end of the housing market, for poorer families, a young person may well be in a position to assist the parents. I do not have any survey-based data to back that up, but I have certainly come across that and I believe there was some research published at the weekend which suggested something very similar.

**Nigel Keohane:** In our research we did identify some of that going on. It is much rarer than the transfers down, but there are some people giving the financial support upwards as well. We tend to think about practical support when we think about families helping each other, but there is some financial support. I do not know how much of that might be towards housing.

**The Chairman:** If you look at the 1939 Census, before the war, it was quite a common phenomenon at that time. We have heard some evidence of the problem potentially for older generations, particularly poorer people, in helping. I want to bring in Baroness Crawley at this stage.

Q153 **Baroness Crawley:** We have heard evidence that while middle-class families are often in a position to assist younger members of the family and can draw down savings or equity to do that, working-class families often have to take out loans or sell possessions. It is far more visceral for a lot of poorer families to help younger family members. Could you say

something about that and whether you think that it will continue to be the case that both poorer and better-off families will continue along that pattern, or do you think that there will be a time when we are beyond the financial crash by, say, 20 years and there will be less reliance on families for this kind of assistance? How common is equity release among the bank of mum and dad?

**Paul Broadhead:** It has ever been the case that wealthier families are in a position to better help their family, obviously. In terms of equity release, we have seen quite a lot of innovation in that market. The data on equity release is quite difficult because what is captured is the range. If somebody draws equity down from a property, it is not always for a single purpose. The equity release market in 2017 was about £3 billion taken out of housing wealth. Around a quarter of that was to help family to either get on the housing ladder or pay rent. That is increasingly common. That had risen from about 16% not long before. There are also some innovations now in the market with retirement interest-only mortgages, which is not equity release in terms of that roll-up of interest, which has often been the challenge, but you can release equity from your property and effectively ring-fence it and service the interest on that. That also is increasing and often that is drawn down to help family members.

For those who are less wealthy, it is much more difficult. If you have housing equity there are ways that you can enable family members to get on to the housing ladder without necessarily releasing that equity. For example, if you have a home that is mortgage-free or you have a lot of equity in that home, you can leverage that equity. You can enable your son/daughter or grandson/granddaughter, to get on to the housing ladder with quite a high loan-to-value product, but you do not need to give them the cash. In effect, you would provide a collateral guarantee over some of that equity and at a point in the future when that loan has amortised down to, say, 80%, that guarantee is released, enabling you to recycle it for daughter or son number 2 or number 3. Whether this problem will ever go away largely depends on housing supply. Clearly, we have been severely underbuilt for decades. Since the turn of the 20th century we have seen the house price versus earnings ratio increase exponentially. Until we sort out the supply conundrum—across all tenures, not just owner-occupation—this challenge is going to persist.

**Douglas McWilliams:** We have got some figures on that, if that is of any assistance to you.

**The Chairman:** It is indeed. We love figures.

**Douglas McWilliams:** The survey shows that only 14% of the funding from the bank of mum and dad is funded through equity release, which is a relatively small proportion, certainly smaller than I would have expected; 7% is from re-mortgaging, the point that we have just heard, and 6%—these categories certainly overlap, because the total adds up to much more than 100—from taking out a loan.

**Baroness Crawley:** Sorry. Did you say 7%?

**Douglas McWilliams:** I said 7% from re-mortgaging a home and 6% from taking out a loan. These seem to be two separate categories. You

would expect they might overlap a bit. This is consistent with a pattern that says it is essentially a middle-class phenomenon and not one that has spread throughout the entirety of the population.

**Professor Sue Heath:** The most recent evidence from the English Housing Survey about first-time buyers has noted that there is a very clear shift towards the profile of first-time buyers being in the higher earning brackets over that period, quite significantly, and also very little movement out of social housing into first-time ownership. That has almost stagnated.

**The Chairman:** Lord Bichard, you were interested in this area.

Q154 **Lord Bichard:** You have touched upon this question. Do you think that intergenerational mortgage products are a way of helping people who can buy to pay more or do you see some way in which intergenerational mortgage products could increase the number of people who can buy? It does not have to be just Mr Broadhead, but do any of you have imaginative, innovative ideas about how the market could evolve to make that possible?

**Paul Broadhead:** Thank you, Lord Bichard. We are starting to see a lot of innovation in the mortgage space in terms of intergenerational lending over the last few years. If we wind the clock back much less than a decade, many mortgage lenders would limit the age you could borrow to 65, or for some it was 70. We are now seeing that change, in the age of no forced retirement date. Retirement now is very much a process rather than a point in time event. There are 34 building societies now that will lend up till the age of 80 or do not have a limit at all. Some of the examples that we are starting to see now are family-offset mortgages. For example, if a parent has £10,000 worth of savings, that can be deposited in an account with a lender and they receive no interest on that, but it reduces which means the borrower does not pay interest on that £10,000 on their mortgage and that makes it better for them.

We are also seeing joint purchases with the family members as well. On the joint purchases with family members where you have, in effect, a joint mortgage but a sole proprietor—the sole proprietor being that first-time buyer—that is enabling people not necessarily to get on to the housing ladder when they would not have been able to, but perhaps to get on to the housing ladder much earlier than they would have otherwise been able. We are seeing guarantor mortgages as well. They are helping those people get on to the ladder earlier rather than necessarily increasing the amount that they could borrow. It is starting to make an impact, but we still need much more innovation in the mortgage space to deal with some of these, almost perennial, challenges that we are facing until we sort out the supply conundrum.

**Lord Bichard:** We are constantly hearing that young people find it more difficult to own their own home. Does the mortgage industry see itself as having a role to address that national policy issue?

**Paul Broadhead:** I think it does. I can speak only for the building society sector rather than the banking sector. We did some research with our building societies very recently and found that 90% of them felt it was part of their social purpose to enable people to get on to the housing ladder, which is precisely where the sector was born in the 18th century.

We very much see that as a role in terms of enabling people to do that. We are trying to innovate to allow that to happen within the regulatory constraints, and, of course, the social constraints that we now face with affordability. We absolutely see it as part of our DNA. What we do not see is home ownership at all costs. We need to recognise that home ownership is not right for absolutely everybody. We need to make sure that there are safeguards in place, because the last thing we want to do is to enable people to get on to the housing ladder with support if it makes it more difficult for them later on. We need to do that with a keen eye on the future as to what some of challenges might be and make sure that we have products that are fit for purpose. We are starting to see innovation. We believe we have a very key role to play in that market to help people.

**Lord Bichard:** I would like to invite other members of the panel to help you with their ideas for innovation. Innovation has been quite slow, has it not? Do you think one might have expected a bit more by now from the industry?

**Paul Broadhead:** Innovation is very challenging.

**Lord Bichard:** Yes, always.

**Paul Broadhead:** Not just in terms of challenging with the ideas, but challenging with the landscape that we have had. I was a mortgage lender before I did this policy role. When we looked at our lending plans for the following year, we had two pots of money. One was what we called non-discretionary funding. That was what we needed to implement in terms of IT changes, process changes, to make sure we could keep the doors of the business open. That was driven from regulation. We had a discretionary pot of funding, which was effectively our research and product development.

What we have seen since the crisis is with the amount of regulation that has come, though those two pots have almost been subsumed into one. The industry has been spending most of the money that it has for development on regulation. We are now entering, from a regulatory perspective, a more benign period. We are starting to see some innovation come to the fore. It has been very slow, you are absolutely correct, but since 2015, when our sector started to look at some of the solutions, we have moved quite a long way. It used to be the traditional mortgage market was over here and equity release with rolled-up interest was over here and never the twain would meet. We are now seeing those two products come much closer together: innovation where people can start out by paying the mortgage, then flip to an interest-only situation later on when they do not have the money perhaps for the repayments, with the trigger to flip to roll-up much later down the line. We are starting to see that innovation. It has not gone far enough but we are starting to see that.

**Lord Bichard:** We have concentrated so far on younger people owning homes. The industry was very slow to extend lending beyond 65 and that has had an impact on older people being able to stay in their homes, buy homes, finance changes to their homes.



**Paul Broadhead:** Yes, it has. That is moving on. Most of our sector now will lend beyond that, subject to affordability being demonstrated. The last thing we want to do is to advance those funds if people cannot repay them. We have taken away that limit. I challenged my board in 2015 and said, “We really need to get a grip on this situation because it’s changing. The whole market is changing, the way people live their lives is changing, the way people spend their working lives is also changing, so we need to make sure that we react”. We are starting to do that now. We have now got those products available much later in life, but we need more innovation and that will take time.

We are at a point now where there is a real recognition, not just from the lending community but from the regulator, that this is a challenge that we need to work on together. Quite often the regulator talks to me about the problem of an ageing population. I do not see it as a problem; I think it is something to celebrate that people are living longer and fitter lives. We do need to make sure that financial services do not lock those people out of access to whatever kind of product they need, just by virtue of their age.

**Nigel Keohane:** I was just going to comment on where product development might focus. It seems to me from a societal perspective we are not worried about people who do not own homes because they do not have that equity to release; we are not really worried about the people who have got a lot of financial wealth because they can give cash. We are worried about the middle section of the population who may have housing wealth, but only a modest amount of financial wealth. It probably would not be in their interests for them to dispense with all their financial wealth because that would potentially cause them problems further down the line. That seems to be the target group. This guarantor product, where you use some of the equity in your own property as collateral for someone of the younger generation, seems to be quite compelling, as compared to, say, a pure equity release product. I am not an expert on equity release, but if you look at the interest rates charged on equity release, they have come down quite a bit in the last five years because there has been more competition, but they are still a long way above the rates that you would pay if you had a mortgage. If we look at the loan-to-value rates, they tend to be quite low on equity release compared to reasonably high loan-to-value when you take out a mortgage. It is not clear to me why the cost of capital is so high.

We may need to do two things. One is to think about how we make the equity release market more competitive to drive down interest rates, and the other is to think about what products would enable an older person, instead of going for a pure equity release product, to go into some other product where they can use the equity in their house to underwrite the equity in the house of a younger generation.

**Lord Richard:** Just to interpret what you have said, you said you cannot understand why the cost of capital is so high but what you are actually saying is you cannot understand why the interest rates on equity release are as high as they are.

**Nigel Keohane:** Yes.

**Lord Bichard:** Are you saying that older people are being ripped off by equity release?

**Nigel Keohane:** I said that I am not an expert on equity release. I want to make that clear. I am just drawing attention to the difference in the interest rates. If you had another way of acquiring the equity, you would not do it through equity release if you could do it through mortgaging. That is my point. I do think we should look at the equity release market. I also think we should look at other products that might enable someone to do something different.

Can I just mention one idea which I have not developed but we have thought about a bit at the SMF, which is around crowdfunding? This is thinking about people who potentially do not have an adult, normally a parent, who can help them. Are there ways in which other people of the older generation can get an equity share or contribute to an equity share of someone's property? I am not sure if that product is out there. There are all sorts of crowdfunding products. Some of the innovation might happen in the mortgage market; some of it might happen in other bits of the market, the fintech world.

**Paul Broadhead:** There are some fintech organisations that are looking at that type of thing. There are many people who have got money to invest who want some exposure to the housing market but do not want the volatility of a single product or a small buy-to-let portfolio. There is something that could work—again, this is not fully thought through—that allows an investor to invest in the housing market where they get their return based on house price appreciation and that funding can then be recycled to do some type of private sector equity loan. That gives support to those individuals who do not necessarily have the bank of mum and dad and it gives a better return to those who wish to invest in the market, but also benefits that younger generation with those equity products. That is something that should be pursued to see if we can bring that to the market.

Q155 **Lord Hollick:** Certainly, innovation would be helpful but is there not a fundamental problem, which has been touched upon by Lord Bichard, that these are very, very expensive products? What baffles me is why they need to be so expensive. Why is the margin, which essentially is borrowing money secured on property, twice as much over here as it is over there? Is there a different capital requirement? Is it the unknown longevity of the person who is living in the security? What stands in the way of a reasonably competitively priced market?

**Paul Broadhead:** I am no expert in the equity release market. We do not have building societies that do equity release in the way we have just talked about because the Prudential Regulation Authority will not permit them to do that because of the way that the funding works. I just want to make that point. There are challenges. There is the unknown longevity. Equity release has hitherto always been provided by the insurance sector or the pensions sector rather than the traditional mortgage lending sector. There are also additional guarantees that are embedded in that product. For example, there is a no negative equity guarantee, which I

understand means an increased premium to pay for that. That is a question for the equity release providers.

What we are starting to see in the mainstream mortgage lending market is retirement interest-only mortgages, which do not work on the same basis. They work on the basis that you can draw down equity, so if you want to draw down 20% you service the interest on that 20%; therefore that 20% will never grow to 25%, 30% or 35%. You are effectively ring-fencing that. That is priced in line with the traditional mortgage market as well. That is not higher, it is lower than the equity release market. What is very attractive about that is it enables people to give their children almost a living inheritance. Rather than thinking, "I'm going to live much, much longer now, and my child's going to be in their 40s or 50s, I can release that equity now to enable them to have that", but it is ring-fenced as well, so it does not erode equity if they have other children or they wanted to draw it down for things such as social care, holidays, home improvements, to supplement pension income or whatever it might be in the future. Those mortgages have come to the market only this year, because we required a regulatory change. We have been working with the Financial Conduct Authority on it since 2015. That does provide that attractive alternative. The only thing it does not give is the opportunity to switch to roll up that interest in future. It has not got that, but it does the same thing on everything else, enabling you to ring-fence that.

**The Chairman:** Thank you. Anybody else who wants to come in at any time, please do. Lady Blackstone wanted to continue.

Q156 **Baroness Blackstone:** How far are government subsidies to first-time buyers helping those who would otherwise not have any kind of financial support from their families?

**Paul Broadhead:** There is a difference between the government schemes and the government subsidies. If we start with the government schemes, the flagship one is Help to Buy.

**Baroness Blackstone:** That is a subsidy.

**Paul Broadhead:** Equity loan. Whether that has enabled people to get on to the housing ladder when they otherwise would not is questionable. It has provided people the opportunity to perhaps buy a larger property with that extra bedroom to future-proof their living conditions. Typically a first-time buyer property is a one-bedroom flat or something like that but the equity loan the Government are providing may enable them to buy a two-bedroom house. That has made a difference. There is lots of commentary about who has been the main beneficiary of that. Is that families who otherwise would not have got on to the housing market or is it the housing developers that have taken that?

In terms of direct subsidy, what we have seen from the Government recently is the stamp duty concession for first-time buyers, which clearly has helped many people get on to the housing ladder. What is not yet clear is whether that has just been absorbed in the price of a property or whether that has enabled people to get on to the housing ladder. The research I referred to earlier about the barriers to home purchase, about 65% being the deposit, only about 16% of people have found stamp duty the barrier.

**Baroness Blackstone:** Can you say that again?

**Paul Broadhead:** About 16% felt that stamp duty was a barrier, as opposed to 65% finding the deposit being a barrier. What I suspect has happened is that for those who were already saving for a deposit that has probably enabled them to buy earlier, but it would not have been the difference between buying and not buying. The other intervention that we have seen to help people save for that deposit is the help-to-buy ISA and the lifetime ISA. Both are very useful additions, particularly the lifetime ISA that we have seen more recently, which has had a relatively slow burn to take up. Three building societies now offer that and over 100,000 people have taken that product out. I think that is helping people. I make no apologies for coming back to the point about supply. Until we get the supply correct, I think we will continue to need some sort of government intervention to enable people to get on to the housing ladder.

**Baroness Blackstone:** In other words, you are saying that supply is the real issue.

**Paul Broadhead:** Yes.

**Baroness Blackstone:** Had the Government concentrated on that rather than inventing these other ways of helping young people become owner-occupiers, it would have been a more sensible route, and you would not have one of the consequences of Help to Buy, in particular, where developers were simply able to ratchet up the prices.

**Paul Broadhead:** Yes.

**Baroness Blackstone:** I suppose it must be a sign that the Government have finally understood this that the Help to Buy scheme is changing so that it is more targeted, although I do not know what that means, in 2021 and they are going to abandon it all together in 2023. Would it not be more sensible just to abandon it all together in 2021?

**Paul Broadhead:** You are absolutely right about the supply issue and the challenge that the Government face. At the moment we are so far behind on supply that it is going to take us a long time. We are going to need both supply-side intervention and demand-side intervention for a period of time. It is how you create that balance. The targeting of the Help to Buy post 2021 to first-time buyers only, perhaps with some regional caps, is quite a sensible move. The point about supply is that any government scheme that is being implemented at the moment, or has been over the last decade or so, has been treating a symptom rather than the root cause of the problem. We need to get to the root cause.

**Baroness Blackstone:** Can I press you on this? If, as you said at the beginning, most of those who are benefiting from Help to Buy would already have been able to get in to the housing market and it is just allowing them to buy bigger houses, is that not a complete distortion of priorities? Why would you continue with that if that is the case? Why not let their parents help them and they start on a smaller property and later on, as they earn more or the housing market changes, they can buy a bigger one? I cannot see why we should go on with it given what you have just said.

**Paul Broadhead:** There are two challenges here. I do not disagree with what you are saying about that distortion of the market, but that is where

we are today. If housing developers are purchasing land for development in 2021, 2022, 2023, just pulling the rug to say, “There won’t be something after 2021” will not do anything to help supply; it will reverse that impact. Narrowing it gives confidence to housing developers that that scheme is there. Targeting that only at first-time buyers—and nobody knows this, it is down to the developers themselves—means that developers will probably build more first-time buyer/starter-type homes, because it is not available to second- and third-time buyers. We need to continue the increase in supply to make that more targeted, but if we pulled the rug from under the developers to say there will be no government support when they have been used to it for a number of years, and for first-time buyers as well, I think we will end up going backward. On balance, tapering it out is probably the right approach.

**Douglas McWilliams:** I think you need to add in the fact that the housing market is weakening quite sharply at the moment and it probably is not the time to make a dramatic move one way or the other because you could easily destabilise the whole market.

**Lord Hollick:** Is that not what is needed?

**Douglas McWilliams:** Not in a dramatic way. The wealth effects would be fairly considerable.

Q157 **Baroness Thornhill:** Can I broaden this out to what Baroness Blackstone terms political choices and political direction? I just want to get other people’s views on that given that there are levers and barriers and policy shifts. In your view, which are the ones that really reinforce intergenerational unfairness? Where does the real unfairness lie? Is it, in fact, intergenerational or something else?

**Douglas McWilliams:** Shall I have a quick go at answering? This is more opinion than fact. I am slightly encouraged by my book—if I may be allowed to do a bit of advertising—*The Inequality Paradox*, which is published in New York today and deals specifically with issues of inequality and the causes of them. We are depending much more on the transfer of wealth as a general way of supporting lifestyles of all kinds, whether it is housing or other things. It is part of the development of longevity, et cetera, and part of the accumulation of capital. The capital is unevenly distributed and so when it gets redistributed it is unevenly redistributed.

What can we do to deal with it? The biggest single thing we can do is try to use two different techniques. The first, and most important, is to try to compensate through the educational system. There is absolutely no doubt that if people get the difficult end of the stick when they are being educated, everything else will build up and go against them. We have to lean a long way into the wind to try to handle the educational issue.

The second is to try to even out inheritance in some way and make it less concentrated than it might otherwise be. We have a tendency in this country of taxing income much more than taxing wealth. We ought to be looking much more at ways in which we can tax to redistribute wealth, rather than concentrating simply on redistributing income, on which we may have even gone as far as we can, given the rates of tax that we have now. I think there is a role for voluntary taxation of wealth as well.

Westminster Council is starting to have an impact doing that, and this is something we need to look for. We could incentivise it in various ways. I am not saying make people Members of your House, but find other ways of incentivising people to want to redistribute wealth and make sure that the wealth they have is better distributed as it goes on into the next generation. These are more prejudice than evidence-based, I should say.

**The Chairman:** To follow on from that, in the evidence that the Building Societies Association gave, you say there is a case for “improved fiscal incentives for intergenerational wealth transfer, including targeted inheritance tax exemptions”, which is distribution of wealth. Perhaps I am allowed a personal moment. I declare no interest because the estate is already liable to duty, but my brother, who died recently, never earned more than the average wage and nonetheless there is a six-figure inheritance tax bill. I am sure if he had known he was going to die he would have been very happy to help younger members of the family to buy a property. Is that the kind of thing that you are suggesting, that one should allow an exemption? It would need to be capped and it would need to be targeted, but is that the kind of thing you were thinking of in your report?

**Paul Broadhead:** The report we have just published is an independent report and we were looking for radical thinking about how we can do that. Looking at the inheritance tax situation is something that the authors felt would be of benefit and it would be, I guess, as you have just described. The other area they talked about, which does polarise views somewhat, is the stamp duty for those who wish to downsize and whether we can have a stamp duty exemption.

**The Chairman:** We have heard a lot of evidence on that.

**Paul Broadhead:** What the authors were trying to do, and will be working these up a little bit more over the coming months or year or so, was in terms of policy positions on which we need to work with our members. The report was published only a week or so ago, so I do not have a great deal of detail in terms of, “Here’s a policy suggestion/recommendation for the Government” at this point.

**The Chairman:** I just noticed it in your evidence. Lord Holmes wanted to come in.

Q158 **Lord Holmes of Richmond:** To what extent have restrictions on mortgages since the financial crisis suppressed home ownership? What should be done?

**Paul Broadhead:** I can certainly take that one. A number of regulatory changes were implemented in 2014 around the way we assess affordability. That has resulted in first-time buyers facing not only the prospect of buying later, which we had already seen happening because of the deposit barrier that we have discussed at length, but taking mortgage terms that are much longer. If you look at first-time buyers taking mortgages out today, a little over half of those are taking out mortgage terms of in excess of 30 years. That has been one impact. We are also seeing that since the crisis home ownership among 20 to 29 year-olds has fallen from 53% to 38%. We worked with the International Longevity Centre to ask: if this continues, where will we be in 11 years’ time? That is expected to halve again to only 14%. We are seeing quite a

marked reduction in people, particularly young people, being able to get on to the housing ladder.

One additional change of scene with regard to affordability is the stress test that has been implemented by the Financial Policy Committee. Originally, that was designed in 2014 to say, “Okay, we’re in a very low interest rate environment. As a lender you need to stress-test that the borrower can afford that in line with interest rates rising along with market expectations over a period of five years”. That has since changed from the Financial Policy Committee. It is now a macroprudential tool, and the impact of that is making mortgage lenders stress-test that people can afford mortgages at around 7% to 8% over five years. I cannot speak for everybody in this Room, but I certainly do not think the majority of people in the market, nor the Governor of the Bank of England, expect mortgage rates to get anywhere near that in the next five years. Effectively, that could have the impact of having somebody who is in rented accommodation today paying perhaps £1,000 per month, which they can afford, who is being turned down for a mortgage that would be £800 a month because they cannot afford it because of the way the mechanism is set and the way that stress test is done. That needs to be reviewed. On any other metric, in market expectations in terms of interest rate trajectories, if somebody can afford it, why should they be locked out because of an arbitrary stress test?

**The Chairman:** That is an important point.

**Professor Sue Heath:** I mentioned earlier that the English Housing Survey suggested that there has been a shift upward among higher earners in the first-time buyer group, which is one of the consequences. It is very striking that, if you look at the profile of first-time buyers, three-quarters of them are buying as a couple. As an aside, in the remaining quarter, young men are buying at twice the rate as young women, which is quite a shift. There is a gendered effect here as well. That has shifted over a 10-year period.

It is increasingly difficult to buy on a single income. There has been assistance for many young adults via parental support, as we have heard. One product which has been experimented with by some providers, which is not particularly popular but perhaps could be made more so, is mortgages between friends—this idea of mates mortgages. There are not that many products available, as far as I am aware. Paul will be able to say more about that. Young people are very reluctant to enter into those sorts of relationships with their peers. But it is a product which, when it works, can work very well and give young people a foothold on the housing market, whereas they might not otherwise have been able to afford that. There are issues around how many people can enter into that sort of relationship.

The other point I wanted to make is that I know a lot of discussion around the effect of the delayed ability of young adults to enter into home ownership is how that might relate to family formation. There is a lot of anecdotal evidence of people putting off having children until they move into their own home. Interestingly, the English Housing Survey suggests that that is not necessarily the case and there has been a

growing proportion of young adults as first-time buyers who do have dependent children. The point is that they are having their children in the private rented sector for the most part, which, as we know, is not necessarily always the best place, given the insecurities, to be raising a young family. Those are some of the restrictions, and the consequences of the restrictions on owner-occupation.

**Nigel Keohane:** On the regulation of mortgages, you hear now and then people proposing that we should be more generous in terms of loan-to-value ratio going up to 100% or even beyond. That does not seem to be the right answer. As we described earlier, there are fundamental underlying reasons why housing is difficult. It is often unaffordable and it is very difficult for people to get on the housing ladder. That is to do partly with earnings and partly with housing costs, and there are some other factors we have discussed, such as some of the subsidies the Government put in. The answer cannot be that we go back to 100% mortgages, especially when you think about what the housing market might well do in the future, irrespective of uncertainties about Brexit. We know that the market is softening a lot. It might just be a charter for negative equity if we were to go back to 100% mortgages.

Q159 **Viscount Chandos:** We have talked almost exclusively about ownership with a couple of glancing references to the rental market. What changes to not just the financing of housing but ownership and ownership structures might you like to see? If there was just one recommendation coming from this Committee in this sort of area what would you like to see?

**The Chairman:** Who is going to have a go at that?

**Douglas McWilliams:** People want flexibility when they are renting. That is one of the reasons they do rent. People want flexibility on both sides—the landlord and the tenant. I think the biggest fear of young people, certainly the ones I work with, is about the uncertainty of tenure. Anything that could be done that would give them a reasonable improvement in the certainty of tenure, while not abrogating the landlord's rights—because obviously landlords cannot adjust the tenure long term as that has implications for the marketability of the property and everything else, and the ability to invest in it—would be a good thing. Some fair balance between the two would be seen as something that would improve conditions considerably.

**The Chairman:** Anyone else? You have got one chance to tell the Government what to do, apart from the general comments.

**Nigel Keohane:** There is a case potentially for regulation because reforming the default could have an impact, and thinking very carefully about how that default is interpreted. At the moment the default is for short-term tenancies. Could we change the default for longer-term tenancies, including renewals? The Government may not want to take lots of legislation through at the moment, but potentially they could get something like that under way.

Our main argument is trying to democratise some of these issues to do with housing finance. If you are very wealthy you probably have higher awareness of some of these quite complex products, but they are probably of most value to people in the middle of the market. As a



society, we do not really talk about family finances. There is a number of underlying reasons for that. For instance, building more houses is one of the things you are not meant to mention at these events, and social care funding is probably the other one. I am not talking about resolving that. I am saying that uncertainty about social care funding means that the older generation find it very hard to plan for their future costs as well as the future costs of the generations below them. When we find a solution to that, that will help. More generally, money is a taboo topic.

When we surveyed the public they thought the same. Families do not really talk about this because people do not like the idea of putting an imposition on another family member. That is deeply engrained culturally. In fact, some countries are less reticent about talking about it than we are. Mediterranean countries have a stronger intergenerational family culture. It is not an easy nut to crack, but it is ultimately probably the job of the political class to start that debate. Obviously, you have to use the media carefully. We need to try to get that across, providing as much certainty where we can—in terms of the liabilities individuals face; for instance, for care—but at the same time trying to find mechanisms for people to have those discussions, so that ultimately maybe there is more demand for some of these products that we are talking about.

**Professor Sue Heath:** My personal view would be very similar to Douglas McWilliams' and is about the reform of the PRS in some ways. Given the conditions of insecurity that are experienced by younger adults, there is increasing pressure to move into owner-occupation for that reason. There is so much that needs to be done in terms of reforming the market. Looking at the private rented sector is probably a good place to start, to take the pressure off that sector so that it becomes a more desirable sector for a longer period of time.

If you might indulge me, I teach a group of third-year sociology students on housing and home and I had a session with them yesterday based specifically on the topics we are discussing today. I told them I was going to be addressing the Committee today and I asked them what they thought the single issue was. They mentioned some of the things that have been said about reform of the private rented sector and rent caps, but one of the things they spoke about very eloquently was the fact they just do not know about these sorts of issues. It ties back to the point that you have just made. They made a very strong case for education around housing to be included as part of personal social education in schools.

**The Chairman:** The last word?

**Paul Broadhead:** I agree. My last word is reform of the private rented sector. We will not go into detail about interest-only mortgages, but, of course, you cannot do interest-only mortgages without a valid repayment strategy although in the past they could be done. The reason many people took interest-only mortgages out without that repayment vehicle ready at the end of it was because it was the only way they could get security of tenure. In effect, they were renting, but with a mortgage, knowing they had no means of repaying that capital. Now that has gone, we need to reform our private rented sector. It houses about one-fifth of households in the country. It is larger than the social rented sector—it

Building Societies Association, Centre for Economics and Business, Professor Sue Heath and Social Market Foundation – Oral evidence (QQ 151–159)

has overtaken that in the last couple of years—and needs some serious looking at.

**The Chairman:** Near-unanimity. Thank you very much. We are very grateful to you for coming in and your forthright and very thought-provoking evidence.

The Cares Family, The Challenge and Dr Libby Drury – Oral evidence (QQ 144–150)

## **The Cares Family, The Challenge and Dr Libby Drury – Oral evidence (QQ 144–150)**

Tuesday 13 November 2018

[Watch the meeting](#)

Members present: Lord True (The Chairman); Lord Bichard; Baroness Blackstone; Viscount Chandos; Baroness Crawley; Baroness Greengross; Lord Hollick; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 15

Heard in Public

Questions 144 -150

### Witnesses

I: Rebecca Carter, Director of Organisational Strategy, Planning and Communications, The Challenge; Iona Lawrence, The Cares Family; Dr Libby Drury, Lecturer in Organisational Psychology, Birkbeck University of London.

Q144 **The Chairman:** We are very grateful to you for coming, particularly to Rebecca Carter, who is standing in for Oliver Lee because he is unable to attend. We will proceed swiftly because the previous session overran a little, but I must go through the preamble to remind you that this is open to the public. It is going out live on the parliamentary webcast at the moment and will remain on the parliamentary website, so this is absolutely on the record. There will be a verbatim transcript, and you will have an opportunity to check and make minor corrections, but for the purpose of clarification and accuracy rather than changing 180 degrees what you have told the Committee. Perhaps you would like to introduce yourselves for the record and we will begin the questions.

**Iona Lawrence:** I am Iona Lawrence and six weeks ago I started working for The Cares Family. I am working with Alex Smith, the CEO and founder, who sends his apologies but has this morning flown to America for the next iteration of the Obama Foundation Fellowship. My background is in campaigning and advocacy. I set up the Jo Cox Foundation in memory of the late MP, Jo Cox, who I am sure many of you are aware campaigned very closely on lots of these issues, including loneliness. Thank you very much for having me.

**Dr Libby Drury:** I am a doctor in social and organisational psychology. I am at Birkbeck at the moment but most of my work on ageism has been done with a group of well-known researchers from the University of Kent. Primarily, we look at ageism and age stereotypes of older people and, specifically, my research looks at intergenerational connections. I work very closely with Age UK in that respect.

**Rebecca Carter:** I am a director of The Challenge, which is an organisation that exists to build a more integrated society, where there is greater understanding and connection between those who are different. We run operational programmes for about 200,000 people to date. We

are really grateful to be invited here because we do two things that might be relevant. First, we support the secretariat for the APPG on Social Integration chaired by Chuka Umunna. Our current inquiry is on intergenerational connectedness, so it is really relevant to today. Secondly, we run the National Citizen Service programme. We deliver about 40,000 places per year and a significant minority of young people on those programmes take part in intergenerational or social action programmes, so we have some lived experience from that. Thank you very much for inviting us.

**Q145 The Chairman:** You have divined correctly that we are looking at loneliness and isolation and stereotyping between age groups in this session. My first question is: how common, from your perception, are loneliness and stereotyping about other age groups in Britain today, and which age groups, thinking of the intergenerational aspect, are particularly affected?

**Dr Libby Drury:** My research focuses mainly on stereotypes so I can speak from that perspective. A review that we have done in the UK shows that ageism is experienced more commonly than racism or sexism, and it is experienced more by younger adults than older adults. An issue to note here, though, is that age stereotypes for younger adults may not be of such a concern because they (younger adults) are able to migrate out of that age group that is stereotyped, whereas for older adults there is no escape from those negative age stereotypes. Stereotypes can be positive or negative and they can have a good and a bad influence. It is worth remembering those points.

Another thought to do with unfair treatment, or the perception of unfair treatment, is that where there is more awareness of age stereotypes, this translates into a feeling of unfairness. This particularly affects younger adults. Age stereotypes in the workplace are a concern. Research that we have done has shown that merely having traits typical of older people on your CV (so without a name or an age) that indicates that you are older or is considered an older stereotype—perhaps being good at communication and arbitration and that kind of thing, versus being good at something that is viewed as typically youthful, such as being innovative or creative—can lead to a negative impact on whether that person is hired. Even though those skills are viewed as equally valuable, once the inference is made that that CV belongs to an older person, it is devalued. Obviously that is an issue.

One other point that I wanted to make is that stereotypes and perceptions of age are very complex because people's perceptions of "older" and "younger" varies according to their own age. Younger people will think people are older when they are in their early 50s whereas middle-aged people will think that people are older when they are in their 60s or 70s. We can quite often be talking at cross-purposes about these things when we use these generalisations of older, younger and middle-aged. The stereotypes and experiences of ageism vary depending on the contexts, and whether you are looking at a health and social care context and talking about older people there, or you are looking at industry and the workplace and talking about older workers there, where people aged over 50 are considered older workers. Yes, it is a very complex issue.

**The Chairman:** Thank you. That was a very comprehensive answer. Do either of the other witnesses want to comment on that?

**Rebecca Carter:** I can speak very briefly because it is not our area of expertise to gather the evidence, but there may be a couple of points to note. The first is that we saw with interest that an ONS report published earlier this year said that it was a younger age group that exhibited the greatest degree of loneliness followed by an older age group, so both young and old experience loneliness to the greatest effects.

The second piece to add is that we have our lived experience of running programmes where younger and older people connect, and we know that those forge really meaningful connections that transcend different points of view and places of living. For example, a few weeks ago, one of the programmes we run was televised on ITV showing the interaction between young people and an older group in a care home. The bonds those young people made with old people were really meaningful. Both parties really connected and the young people continued to visit their older friends after the programme ceased to operate. We know that once you bring those people together, the concept of loneliness changes a bit and it is those two age groups who experience loneliness the most who may gain the most from it.

**Iona Lawrence:** The definition of loneliness as it stands right now is—feel free to correct me if you disagree—the gap between the social connections you have and the social connections you want or need. It is that space that results in a feeling of loneliness. As Rebecca said, the recent ONS report was a brilliant start to a journey we are all going on, both inside and outside government, to better understand what loneliness is and how it articulates itself.

I neglected to tell you when I introduced myself that The Cares Family is a group of community networks in London, Liverpool and Manchester that brings together older and younger neighbours to hang out, have fun and help each other. We run one-to-one services, but they are not befriending services as such, because this is not about younger people or volunteers helping older people. We are about building mutual relationships. This is connected because the way that I see it, and the way that I know Jo Cox saw it, and The Cares Family more broadly sees it, is that we have a crisis of connection. There seems to be, as a result of a huge number of macro issues—be it globalisation or gentrification or the ageing population, and we could go into all the macro trends—at an individual level, the way that we connect, live, work and play, has radically shifted in the last 50 years or so, in particular, leaving us less able to connect, I suppose, in the way that we connect and seek support, particularly at times of challenge.

We have done a lot of work on the language of stereotypes. That is so important because stereotypes are conveyed in so much of the language that we all take for granted. I have written articles about all types of loneliness that I send to editorial desks which end up with an image at the top of an older person slumped on a bench looking at a grey, bleak outlook. We have done a lot of work on this at The Cares Family. We know, because it is demonstrated in the impact we have and in the

perceptions of others, that, as between older and younger neighbours, it is important to use more positive and inclusive imagery and language. We talk about neighbours; we do not talk about old and young people specifically. It is all about building this mutuality, and that is expressed in the images and language used. There is a lot of work to be done to see who else could adopt that language. I think it helps break down a lot of the stereotypes that, in turn, perpetuate loneliness.

**The Chairman:** Thank you very much. Those are all very stimulating comments. I am constantly being told I use too many long words on my CV so that may be stereotyping. Having lived through the 50 years that you have referred to, one has seen this change. When I was young, place made a community; I know Baroness Crawley wants to come in on this.

Q146 **Baroness Crawley:** Yes, the Chairman is absolutely right; we continue to hear about the importance of having a sense of place for people, and that addresses your point about connectivity. How do you think that the decline of the high street has affected loneliness? You might think it has affected older people more than younger people because they are less likely to shop online and more likely to go out to shop, and the high street has, for a long time, been a source of connectivity for people. According to recent analysis, in the first six months of this year we have lost 1,200 shops on the high street. Do you think the community can generate new opportunities for contact as against those that have been lost and are being lost?

**Rebecca Carter:** I can be quite brief. The experience we have had through supporting the APPG on Social Integration and through our programmes has not brought us specific evidence that the decline of the high street has directly affected it, but undoubtedly it will have a role. The research we have done and feedback and evidence we have received talks much more about the decline in shared public spaces—in libraries, community groups and areas where different people can come together for mutual benefit—which seems to have a more detrimental impact. That is all I can say about the high street-specific question.

**Baroness Crawley** I will give you an example. I was in the Co-op on Essex Road a couple of days ago, and there was an elderly lady there and she was having a chat with one of the shop assistants. She said to him, "This is the only time in the day that I talk to anybody; I do love coming here". It made me think, yes, it is an important part of some people's lives, maybe many people's lives.

**Rebecca Carter:** That is why we feel meaningful interactions are so important so that people are not dependent on just having a conversation when buying a cup of coffee or buying their daily groceries. How can we have these regular interactions in public life, whether through organisations such as The Cares Family, stimulated by the research that Libby does, that create meaningful mixing? That is what our organisation seeks to do. It is less around the high street and more around government interventions, funding, local grass-roots organisations, more local or more national organisations, and having specific activities that deliberately bring different people together who otherwise may not meet.

We have published a set of design principles that are broadly aligned with some of the academic evidence you have brought up, Libby, which shows

that if you can make those interactions really meaningful, in shared spaces, based on an equal standing of those different people, and there are shared goals and longer-term opportunities for people to interact, those are the things that break down the barriers and bring people together and overcome things such as loneliness. While we would say the decline of the high street is terribly sad because it reduces the probability of people having those daily interactions, we would argue those daily interactions in and of themselves just are not enough to forge meaningful connections which build trust and understanding. You can break down the usual stereotypes that occur because you do not understand and connect with people in different groups and you rely on stereotypes as a shorthand to group people and separate them out. We want to promote institutions that bring people together to have those really meaningful interactions to break down stereotypes and find areas of common ground, but we recognise that the decline of the high street really does not help in any of this.

**Dr Libby Drury:** We did some research in Canterbury and some of the findings spoke not only about the decline of the high street but access to the high street. One of the things that came out was that older people wanted to have more access and be able to get there—that was an issue or barrier for them—and access to activities once they were in community areas that were affordable for them to have meaningful contact with people from other generations.

**Iona Lawrence:** I am reminded in your question of Lil, one of the older neighbours we work with in north London, who spends all her time in her flat, as so many older people do. She talks very compellingly about getting in her car and going for a drive to the chip shop. She likes that because she gets her food and a chat. Sometimes she will get in her car and do that a number of times a day. That serves to underpin what you suggest in your question, which is that we have to think seriously about where people are, what people do every day and the chances they have of surface-level connection as much as the deeper stuff that The Challenge is so brilliant at in its programmes.

There are two things here. The first is a question of where it is being done well. In Jo Cox's constituency in Batley, the Tesco Extra superstore is the hub of the community. Their community manager is an absolute force of nature and does brilliant work at shaping an extremely welcoming supermarket culture. Zoe Ferguson from the Carnegie UK Trust has done similar work in a Tesco in north Ayrshire. What is happening in those spaces is really important and we can learn from it. Although the decline of the high street has absolutely reduced the scope and space and place for connection, there are opportunities out there. I would love to see greater leadership from the business and private sector community, to have national strategies that promote the sorts of values and culture that we can see in Co-op stores such as you mentioned at the beginning.

The second and final very brief point is the economic incentive here.

Loneliness costs the economy £32 billion a year according to the Co-op<sup>2</sup>. That is for everything from staff all the way through to consumer-facing behaviours. This is not just the right thing to do because, in my opinion, this is the society and communities we want to live in, but it is the financially correct decision to invest in these new strategies.

Q147 **Baroness Blackstone:** To what extent does age segregation increase levels of loneliness? If you could focus especially on young people, I think that would be interesting, because you said at the beginning there is more loneliness than people realise among young people.

**Iona Lawrence:** I have a nice statistic to kick off with. The Intergenerational Foundation has found that 5% of older people in England and Wales now live near someone under 18; 25 years ago that was 15%. To start, there is definitely a segregation problem and that is across the board. The Challenge has done brilliant work on segregation in the earlier stages of education. I just wanted to set the scene.

**Rebecca Carter:** This talks a bit more broadly, but I have a couple of statistics to build on Iona's. We find that it is less around geographical separation and more around ideological separation. The very rough statistics from the 2016 referendum and the 2017 general election—I know these are really well-known—showed a polarisation between the younger and older voting patterns. Very roughly, about 70% of younger people said remain and 70% of older people said exit. In the general election a year later, roughly 25% of young people voted Conservative and about 65% of older people did. Those statistics were reversed when you looked at who voted Labour. It is both the geographical and ideological separation, which means that not only are you less likely to bump into somebody else, but when you do, you are more likely to go back to the stereotypes of people who think differently from you, and are less likely to get that level of interaction. The evidence suggests it is the lack of that interaction that builds loneliness, whether actual or perceived. It is what people feel; it is a feeling of separation from others.

**Dr Libby Drury:** There are also psychological processes at play here. People not coming together is to do with a fear of interacting with somebody from a different social group. There is the idea that you do not know how to behave or a concern that they may perceive you as prejudiced towards that group, or a general fear of the unknown. This can create a psychological barrier between younger and older people, and the more segregation that develops, the fewer skills that younger and older people have at interacting together.

**Baroness Blackstone:** Do you think this has a lot to do with loneliness? There are a lot of other things in what you have just said and I am not terribly convinced you are able to show that loneliness is greater because of this segregation.

**Rebecca Carter:** We do not have any evidence that proves that, but the hypothesis is that if people feel separate, and there is a lot of evidence that shows people are increasingly feeling separate from those they

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<sup>2</sup> Note from witness: The research was carried out by The Big Lunch, a project of the Eden Project, not the Co-op.



perceive to be different from them, one would argue that is an element of loneliness in and of itself. An increasing number of people do not seem to connect with each other, but we do not have specific evidence, I am afraid.

**Dr Libby Drury:** There is some international evidence from Age UK saying that the more family connectedness you have, the less loneliness you have, but in my review of the research I did not find anything.

**Iona Lawrence:** To add to Rebecca's hypothesis, if The Cares Family facilitates intergenerational community interaction which leaves 73% of our older people saying they feel less isolated after interacting with our programmes, that would suggest that the integration or lack of segregation in our programmes breaks down stereotypes, gives people connections and company and the composite result is a reduction in isolation and loneliness.

Q148 **Baroness Tyler of Enfield:** We have heard quite a lot in our proceedings and, indeed, in our earlier session this morning, about how different activities aim to bring different generations together. I am interested in your take on how effective some of these activities really are at reducing loneliness and changing some of the negative attitudes and the stereotypes that you talked about. I think it was Rebecca who mentioned the TV programme about the care home. I saw that and was quite moved by it. I am interested in any evidence you have about how effective those programmes are at increasing empathy and understanding among the generations that lasts after those things finish. I am also conscious that the academic literature we have heard about often talks about the benefits for older people in terms of attitudes, behaviour, how they feel and self-esteem. I am not so aware of academic literature that talks about the benefits for younger people, which seems to me rather relevant. It felt rather counterintuitive to me that it is younger people who are experiencing greater feelings of loneliness. I would be interested in your take and perspective on those issues.

**Dr Libby Drury:** One thing that counts towards younger people reporting—and I do not know so much about loneliness—more age discrimination is the trend to be happier as you get older. These things may cross over and that has to be considered. In terms of the effectiveness of different activities, I wrote a report for Age UK looking at intergenerational connections called *Making Intergenerational Connections*, in which I reviewed all the academic literature. That looked at different contexts—everyday contact, contact in families, contact in the workplace and contact in health and social care settings—and tried to understand the psychological processes that occur in contact in those domains, and how that affects ageism and age stereotypes. I also looked at how that is communicated to programmes and initiatives and how learnings from academia and social science are mirrored within the design and execution of such programmes. I found that while lots of points from academia are picked up, there are more that could be. A lot of what Rebecca said echoes the academic literature and what we know is important in the processes of bringing people together, but we could benefit from more learning, particularly around management (of contact).

This could work not only in activities but in other environments, particularly in health and social care settings. We need to be aware of and manage the pitfalls and barriers that can occur during intergenerational contact. If you are organising contact in a care home, this might confirm negative stereotypes of older people being dependent and infirm, and you could build something into an activity that will refute that stereotype. There are other issues such as sometimes when older people share too much personal information, it makes younger people feel uncomfortable. Knowing those nuances helps, as does having very well-designed activities so we have some evidence. From my review of the evaluation of programmes, it varies so greatly that, from an academic perspective, it is very difficult to generalise the findings and distil what really works.

Your point about younger people is very important. Most of the literature is skewed towards older people and the effects and outcomes for them. All that we talk about regarding younger people is how they feel about older people. There is some research that I reviewed on some programmes in the States that have looked at benefits for younger people, but that is part of the literature that is missing.

**Rebecca Carter:** Perhaps I can speak to our experience of The Challenge of doing exactly as you say, where we have looked at how we can measure the impact of these interventions. Do they reduce loneliness or do they merely make us feel good about ourselves? Do they change perceptions and negative attitudes? How long do those impacts, if indeed there are any, last? The Challenge gets a lot of funding from the Government for the National Citizen Service. It is particularly important for us to be able to say, "We use taxpayers' money to good effect and we know the impact", or, if it does not have impact, "We know what to do to make it have impact".

Last year we launched our first full impact survey of several thousand young people on our NCS programmes. We published the report just a few weeks ago, to show what exactly the difference is for young people who started the NCS programme and finished it four weeks later, with respect to their understanding of those who are different, empathy with those who are different and respect for and trust in those who are different. It could be somebody who went to a different school or somebody of a different ethnicity or preference set. It could be an older person you met at your social action project or a younger person or a person with different needs from yours. There is a lot of information, but one of the more interesting findings is that between 70% and 80% of the people surveyed said, "I feel better able to understand the viewpoint of those who are different after the programme", or, "I feel better able to put myself in the shoes of those who are different", or, "I have made proper friendships with those who are not in my friendship group outside the NCS programme". We know that these changes really happen and we can measure them.

We did the impact survey in collaboration with an academic group to ensure we measured impact properly and robustly. What we had not asked and what we think we will add to our next survey is about the impact on loneliness. It is such an important question to be answered.

Not only will we understand the baseline level of loneliness but whether these interventions aimed at bringing people together for prolonged periods for meaningful interactions changed the perceptions of loneliness or the actual levels of loneliness. We would like to add to that, and it is very much to your point, whether that impact has longevity. We cannot answer that question at the moment. All we know is that they have meaningful impact at the end of the four-week programme. It matters whether that benefit extends beyond the four-week programme and in our next impact survey we will be measuring that long-term longitudinal impact. To me, what is really important, as both Iona and Libby have said—and it seems to be the view of the Committee—is how we can measure that mutual benefit. The Cares Family does this particularly well. Both parties really gain. It is not, “Oh, the poor young person; somebody needs to help them” or, “The poor old person ...” It is about how you get that mutual benefit. If we are thinking about fundamental changes in society, it will really work only if everybody wins and people feel that direct benefit. We could not support more the need to measure impact and to know when you are not having impact as much as knowing when you are.

**Iona Lawrence:** Thank you for saying that because that is what we try to do. It is a journey but we definitely try to do that. For the majority of people, young and old, who come to a Cares Family social club for an activity, it is never bingo or anything that might be deemed a stereotyped activity. It is all designed to provide an open and welcoming platform for everyone to engage. It could be quizzes. There is an amazing map game where you share stories of the local area and you realise you all grew up in the same street, and various other things. Thus people often come into The Cares Family for the activity, particularly the older people, but they leave—and return—with full connections. We have a 10% uptick in people who identify themselves as wanting to come to us not for the activities but for the people there. It is therefore extremely valuable to acknowledge that activities, whether they are ours or all the other stuff that goes on in communities up and down country, provide people with meaningful connections that shape their perceptions and the well-being of that individual as it relates to loneliness. A lot of this work goes on, whether it is in Tesco, other supermarkets, or the Songs & Smiles group of an amazing organisation called the Together Project in Walthamstow, which holds new parent and baby groups in care homes for mutual benefit. It might be the table tennis club in Brighton that brings together lots of different groups and ages to play table tennis and build relationships through that. We lack a common understanding and a narrative. Some of it is about metrics, but a lot of it is about language and stories and a national conversation about what all that adds up to.

If I return to my opening point of us being in a crisis of disconnection, part of the solution lies in taking a half a step backwards and looking at where people are connecting every day, finding brilliant best practice, and seeing what we can learn from that. It is relevant for the Committee because a lot of that work is being pioneered by people such as the Loneliness Minister, who, with the leadership of the Prime Minister right now, is doing brilliant things to try to crack open some of this conversation and convene people around acknowledging where best

practice is and pulling other stakeholders into this space, be it businesses or community groups.

Coming back to the Carnegie UK Trust, Julia Unwin's recent report on kindness in public policy had some really interesting things to say about the language we use in valuing impact. Empirical quantitative statistical data is incredibly important, but loneliness is a feeling or an emotion—a way we relate to one another. We spend a lot of time thinking about how you remove the taboo from talking about emotions and feelings in terms of measuring impact rather than dealing in statistics alone.

**The Chairman:** Lord Hollick wants to come in.

**Lord Hollick:** Many of us connect with most people most days through the internet and social media, and there is quite a lot of evidence that for older people—for staying in touch with their children, their grandchildren and one another—it has been an absolute boon to addressing connectivity and understanding between generations. Equally, there is some evidence that use of social media can lead to depression and a sense of loneliness. Dr Drury, is there any academic evidence that sheds light on the role of social media and digital communications in this field?

**Dr Libby Drury:** I do not know of any specific evidence. In the broader literature, which looks at intergroup contact between different social groups, be they ethnic or age related, there is definitely evidence that says that the beneficial effects of reducing stereotypes and prejudice can be achieved through internet and social media contact as well as direct contact. There are different kinds of contact, apart from direct contact, that can be beneficial, but I do not know of any email studies specifically on age.

One type that I have looked at myself, which is not a direct kind of contact, is extended contact, which is when you are aware that somebody from your own social group has a friend from another social group. I looked particularly at adolescents and asked them about the degree to which they had any friends who were friends with older people. The more friends they had who had older friends, the less prejudiced they were towards older people. This was because it made it more normal to them to be friends with older people. It reduces that stigma of intergenerational contact and friendship. I know that is speaking a bit more broadly than you were asking, but being able to tap into other types of contact, which may be economically more achievable than actual (direct contact) intervention, is important.

**The Chairman:** Does anybody else want to comment on social media and then I will bring in Lord Bichard?

**Baroness Crawley:** Just to follow up on Lord Hollick's point, surely within families there has to be a revolution in how they keep in contact. That must go across millions of families in this country. Is your work completely without that or do you take it into account in looking at attitudinal change between the generations?

**Dr Libby Drury:** Within the academic reviews and reports that I have done, we look at family contact as well. I mentioned work contact and everyday contact, et cetera, and we also look at family contact. I do not know of any research that has looked at family and social media contact,

but that is really important. As you say, it must be hugely prevalent and probably the area where older people are having more social contact and learning the skills and gaining the confidence to be able to interact with other people on those kinds of levels.

**The Chairman:** Obviously, in the intergenerational family context that is important, but keeping in touch with your grandchildren does not necessarily help with the wider community. Lord Bichard, you wanted to come in.

Q149 **Lord Bichard:** What are the main barriers to greater community activity which might bring generations together and what might we do about it as a society?

**Rebecca Carter:** We could talk for ages about some of the macro trends that Iona mentioned and there are a few that are particularly relevant to us as we try to figure it out. If we understand the barriers, we will more be more able to figure out what the solutions are. It is exactly the point Lord Hollick originally made: technology can have a very positive impact and a very segregating and polarising impact, where people have fewer face-to-face interactions and much more is done online. At shops you do not need to speak to anybody; you just stick your card on a payment machine. Technology can, if not used in the right way, become a barrier—absolutely.

The second piece is around increasing geographical separation, and Iona shared a statistic on that earlier. Increasingly, younger people live in urban areas and older people more typically live in rural areas. There is a practical separation. People do not bump into each quite so often. It is perhaps less relevant now because it has been and gone, but the decline of industries means that multiple generations working in the same big industry or big sector does not tend to happen any more, so you do not have those natural commonalities or reference points for conversations.

Lastly—we have talked about it a little already—is the decline in public spaces where people can come together, either because fewer public spaces exist or because it is not seen as the good or cool thing to do. Fewer people go to church. There are fewer interactions at public libraries. The institutions that used to bring people together are not as popular or well attended as they used to be. Those kinds of barriers are important. Either practically or psychologically, they stop people connecting with those who are different, and that exacerbates loneliness and stereotyping. We think those barriers are really important and, whether it is at policy level around housing, or at a local level around local action to bring people together. For example, it could be an older person's unit with a younger person's unit where there can be mutual benefits, or around national or local organisations bringing interventions to help tackle some of these barriers. These are the kind of things that need to happen because of these psychological and practical barriers that exist.

**Dr Libby Drury:** I can speak a little about psychological barriers. As I mentioned, anxiety about interacting with the other group creates a fear that can hold people back. The less experience you have, the less likely it is that you will interact with somebody from the other group. From a

young person's perspective, there is also a process called “ageing anxiety”, where they are concerned about their own ageing, and this distances them from older people because perhaps it makes it (ageing) more of a reality for them.

There is also a very interesting idea called “stereotype embodiment”, which is the idea that the more negative age stereotypes there are in society, the more liable you are to internalise these stereotypes. Becca Levy, an academic in America, has done some interesting research which has shown that the more you internalise negative stereotypes, ageing and being older, the more likely it is to impact your mortality and health.

From a psychologist's point of view, it is really important to attack those stereotypes, especially, as Iona was saying, how the media reports ageing, et cetera, to reduce the stereotypes that perpetuate those psychological gaps between age groups.

**Iona Lawrence:** Perhaps the only thing I would add, which has been touched on in both answers, is that because of the shifts in everything, from membership organisation sign-up—whether it is the WI or the infrastructure that used to stick us together such as working men's clubs—there is a crisis of opportunity, so people do not have the number of opportunities they might once have had as members of a church or from knowing one's neighbours. Segregation and a lack of a broader set of opportunities to connect have prevented our being able to behave and connect in the ways that perhaps we once did.

**The Chairman:** We are running a bit short of time. I know Baroness Jenkin wants to come back but may I bring Baroness Thornhill in at this point on the role of central and local government?

Q150 **Baroness Thornhill:** As we are short of time, let us cut to the chase. You have challenged our thinking today in lots of ways and thank you for that. We have to make recommendations and we have to focus, and I am very conscious of what Iona said: in a sense, there is almost a culture in government, be it local or central, to monitor and collect data on what you can measure. What we are looking at here is quite different from that but, none the less, we would still like to be able to make some specific recommendations. Is there anything that either local or national government can do in supporting this kind of activity and the breaking down of loneliness stereotypes?

**Dr Libby Drury:** From my perspective, it is really very important not only to think about organised activities but to manage naturally occurring intergenerational contact. I did some research looking at contact within health and social care settings. From my review, we can see there is much more potential for negative outcomes—confirming negative stereotypes—in this kind of situation, as I mentioned. Some of the research I did looked at the dehumanising attitudes of care workers and how, when they experienced negative contact with the older adults they were caring for—albeit that there was very little—this had quite an impact on their attitudes, and to a greater extent than the large amount of positive contact that they were experiencing.

More qualitative work needs to be done to understand and pick out the definition of positive and negative contact in these situations. It

demonstrates that contact in these contexts needs to be managed. We have talked about meaningful contact. There can also be negative contact. Within psychology, there is this idea of negative bias, where a very small amount of negative can be more powerful than a lot of positive. From my perspective, more understanding is required in that context.

**The Chairman:** Do you have any comments on central and local government?

**Iona Lawrence:** There are three things from me. The first concerns a national conversation on relationships and connection. We have seen from the Government in the last two years, in particular, and before that with leadership on projects such as NCS, the carving out of a national conversation and the creation of a common language around connection and relationships, essentially inviting action from communities, businesses, local government as well as national government. That has opened up the space for action around these things. To see continued leadership from the highest levels of government would be essential because where government goes, people follow. I would caveat that by saying that government is not necessarily the only entity. We do not want to see government being the only leading voice in this space, so giving space to others, including business, is essential.

The second concerns funding. It is always funding, is it not? The Building Communities fund launched in June this year is a brilliant start to investing in very small-scale, often community-based activities that are bringing people together to connect and build relationships. That, we hope, is just the beginning of the journey because it is through big funding initiatives such as that that you can catalyse further action, harness what works, find good ideas and help spread them.

The second piece of the funding is, obviously, as I said, not just about creating new work but acknowledging where connection work could be done better. There is brilliant work going on in Bromley by Bow by Sir Sam Everington on social prescribing and the link between community activities and connection work and local health. GP practices can provide connections for people who might otherwise seek a doctor's appointment when, instead of a medical prescription, all they require is a conversation. That is a brilliant example of best practice in the way small amounts of funding have been invested in existing channels, unlocked huge amounts of social connection and had brilliant results.

The third is around celebrating success. When good ideas are found and things go well, having the Government lead the charge on celebrating that success goes a long way to telling the stories that are so important and using the language that is so important. Whether that is the work and support of things such as NCS, all the way through to the Great Get Together, held in memory of Jo Cox, having the Government welcome such initiatives is essential because it helps spread positive stories that serve to help the relationship we have gone over today between stereotypes and loneliness and how they feed into each other.

**Rebecca Carter:** The first thing to say is that I hope we can share the brilliant work of the APPG on Social Integration, and specifically the

intergenerational connectedness piece, when it is put together. We are hoping to launch the interim report at the end of January. We hope to be able to share that with you because it will contain a lot of recommendations for local government, central government and a whole host of other players. We would be happy to share any early evidence we have from the many different academics, local community groups, and people on the street we spoke to. There is a huge amount of evidence-based information and recommendations there.

Specifically, in terms of local government, we are aware that there is not much money to go round. So perhaps a very practical example is, rather than having a young person pot and an old person pot, why is there not a pot for activities that have mutual benefit across generations? It is about stimulating a different way of doing things. It is also about having local autonomy and celebrating success, a bit like Iona said. When we had the most recent hearing for the APPG, Lorraine George from Torbay Council talked movingly about a brilliant initiative that is being trialled in Torbay to bring together a co-located older care facility and younger care facility. It has had really incredible effects and has been rolled out across multiple facilities. That was based on some research she had done in the US about all the work they do there. It was a grass-roots change. She said the cost impact was negligible. There is something around encouraging those pots of money to be across the generations and not for individual generations.

Lastly, on what can happen at the central government level, we were really pleased when the loneliness strategy was launched and, earlier this year, when the integrated community strategy was launched. It suggests a recognition that bringing people together is really important, whether through policy changes to do with housing and joint housing projects, or whether through increasing funding streams or reallocating funding streams at a grass-roots level or to national charities, those things are really important. We must start to measure it because, while one should not live and die by numbers, ultimately, unless you know these things are having an impact, how can you justify longer, ongoing funding? We definitely think there is a role for central and local government.

**The Chairman:** You have given some terrific and encouraging examples. Any supplementary thoughts or specific points that you want to put to the Committee will be gratefully received. I should clarify that I strongly agree with what Lord Hollick said: social media contact across the generations is a great boon, and I enjoy it myself. What I meant when using the phrase “does not necessarily” is that the task that you have been articulating—the need to move that natural affection between the generations that is demonstrated by that into being practised laterally in society as a whole—does not necessarily follow. However, you have brought that to us today, and we are very grateful. Thank you very much for your evidence and for the work you do. I will conclude the session at this point.



## CBI – Oral evidence (QQ 183–190)

Tuesday 4 December 2018

[Watch the meeting](#)

Members present: Lord True (The Chairman); Lord Bichard; Baroness Blackstone; Viscount Chandos; Baroness Crawley; Baroness Greengross; Lord Hollick; Baroness Jenkin of Kennington; Lord Price; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 20

Heard in Public

Questions 183 - 190

### Witness

Matthew Percival, Head of Group, Employment and Employee Relations, CBI.

Q183 **The Chairman:** Good morning. This session is open to the public, as you know, in the physical sense, as well as in the virtual sense, because we are now going out live on the parliamentary webcast and these words will remain on the cloud for all time—I hope not because they are unclear, because I know your evidence is going to be very clear. There will be a verbatim transcript, which you can correct for accuracy and clarification, although not to unsay something that you actually said. We will not introduce ourselves, because we are all identified, but could you introduce yourself for the record and we will proceed with the questioning?

**Matthew Percival:** I am from the CBI—the Confederation of British Industry—and I lead the employment policy team.

**The Chairman:** From the chair, I get to ask the first, sighting question to enable you to say what you want to say. How has the relationship between employer and employee changed in recent decades? One of the things we are looking at is the gig economy. To what extent do employers accept—or expect, not accept—more flexibility from their employees and vice versa? Is there a difference, in your experience, between different age groups? There are several strands there and I will hand over to you to address them.

**Matthew Percival:** You are probably right with both “accept” and “expect”, because it is a driver in both directions, to some extent. In recent decades, employment relationships have been characterised by two changes in the context of a lot of stability in other ways. The two changes would be a fair degree more flexibility generally and quite a bit more flexibility individually. Employers have always needed an element of flexibility to be able to conduct their business and to respond to the ebbs and flows in demand. There are some good news stories for employees where that is done well—say, by helping to keep people in work during a recession. Some of our members have talked about losing a key customer, but explained that, because they had some overtime earlier in the year, it meant that they could send the staff home and still pay them for two weeks and were able to get back on their feet. There is that bit of flexibility that can be beneficial to both parties at times.

Where business needs for flexibility have changed a little is in responding to the demands of customers, be it domestic consumers or the fact that globalisation allows the service of a global marketplace 24/7 from a business perspective rather than an individual perspective. To illustrate the point about customers' expectations, technology has embedded in us all an expectation of receiving a response five minutes after we first send an inquiry or for a product or service to be provided very quickly. Business requires to have a bit more of flexibility to respond to those customer demands. It is also driven by societal changes and employee expectations, and I see that flexibility coming through in the changes we have seen. You have put it in the context of decades, and, over decades, we have seen a shift towards dual-earner households where both parents work, and in an environment where both parents work there is a real need for flexibility for those parents. Increasingly, we are seeing elderly care responsibilities becoming another driver for flexibility among workers. There are a number of employers who will think that they need to offer greater levels of flexibility to be able to attract the workers they need. Sometimes they need to do it and sometimes it is a bit of a concession, but what separates when it is done well from when it is done badly is dialogue and an understanding of each other's perspectives.

**The Chairman:** We will look at various age-related issues, but is the perception or approach different at one end of the age spectrum from the other? Is that what you are implying by your answer? Do younger people expect more flexibility than older folk or vice versa? You referred to the situation of couples working.

**Matthew Percival:** I am a little sceptical about the argument that millennials want fundamentally different things from other workers. They are at a different stage in their life. If we look at the popularity of zero-hours contracts, students who are not dependent on that income at that time, but are doing it as a second priority to their studies, might want that extra flexibility to turn down work, but if you are the primary earner in a household, with a mortgage and bills to pay, you probably do not want that same degree of flexibility. It is dependent on circumstances, and those circumstances will be more individual, rather than our putting people in brackets that say between 30 to 35 people want least flexibility. I am not sure that is a helpful distinction. I would default again to saying that the way you do it best is by focusing on a dialogue with the worker individually and the workers collectively, perhaps where they are represented by a trade union.

**The Chairman:** We want to pursue this flexibility issue a little further and I think Baroness Crawley wants to come in on that.

Q184 **Baroness Crawley:** You have set out how in certain circumstances it is possible to be flexible for both employers and employees. Could you say a little more about the extent of employers being aware of the benefits of flexibility, as well as the costs to them? How much more could employers do to support employees who are requesting flexibility? We have heard in evidence that perhaps it should be a case of more reporting whereby employers should be required to report on the uptake of flexibility in their workplace or even denial of flexibility. Is that harsh or would that be a good motivation for people? Finally, on the caring aspect, you were saying that

people at either end of the age spectrum do not necessarily want different things from their workplace, but, of course, young people, especially young women, may need to be able to request flexibility as far as children are concerned, and older people as far as older relatives are concerned.

**Matthew Percival:** Employers will also experience—for instance, in a tight labour market, as we are in at the moment—a growing number of workers who, for preference rather than need, will express a desire for greater flexibility. A lot of people manage to match what they want from work with what is on offer, but there is both underemployment at times, where people want to work more, and overemployment, where people want to work less. Trying to facilitate the conversations so that you best understand what both parties want from an employment relationship is a prerequisite to them being able to put those sorts of things in place. The CBI has recommended to government before, through Matthew Taylor’s review, the right to request to fix your hours more than you are able to at the moment—to undo flexibility, if you like, in the hope that that will be a mechanism that gives people greater confidence to ask for more certainty and fixed hours where they want to.

**Baroness Crawley:** Should employers be recording the number of times they have been asked about flexible working and the number of times they have denied it? Would that help to create a better culture for people coming forward with confidence to ask for flexible working?

**Matthew Percival:** There was one other aspect of your question that I have not responded to yet, about the extent of employer understanding of the benefits of flexible working, and I will take that first. There is more awareness now of flexible working than before, but for many employers it remains quite scary. It is the assumption, “If I talk about flexibility and almost allow my employees to determine what they want from work, are they all going to want to work two days a week or do job shares?” which are the more complicated and significant changes that result from different forms of flexible working. One of the reasons why it is difficult to define flexible working is that there are so many variations. It is difficult to create legal rights to a concept rather than a practice. There is a bit of myth-busting to do. I heard Emma Stewart from Timewise giving evidence to you and I have seen some of its research, which suggests that the vast quantity of requests for flexible working are along the lines of, “Can I start an hour early and finish an hour early?”—flexing an hour here and there, rather than a big fundamental shift in work. There is a bit of myth-busting and awareness-raising about what flexibility employees are looking for, and there is still more to do around helping to get the business case for flexibility out to people for them to understand it.

I spend much of my time talking to our members. You can imagine that if you are a member of the CBI and you self-select to come to an event about making workplaces more inclusive, you are probably at the more advanced end of workplace practices, and when you spend a lot of your time listening to those examples, you risk being in a bit of a bubble for where we are up to and perhaps thinking that we are a bit more advanced overall than we are. Whenever we are speaking to our broader membership, when people come with good evidence about a business case for inclusion and flexibility, I still see lots of people pick their pens

up, which suggests that the message has not completely got out there yet about the benefits and there is probably more we could do. There is a role for the CBI and we take seriously getting that out to our membership and trying to reach a broader community as well.

The bit that gives me cause for concern about reporting is that it is a lever that is reached for in a lot of different issues at the moment. You have gender pay reporting. The CBI is collecting evidence that suggests that a lot of our members are saying that they are taking new and different actions as a direct consequence of gender pay reporting, which suggests transparency and reporting is a measure that can help to drive change. What gives me a little cause for concern is that, when we reach for reporting on so many different issues at the same time, it can sometimes be a little bewildering to the employer, who might receive lots of reporting requirements at the same time and ends up dedicating more of the resource to ensuring compliance with the reporting mechanism rather than investing that time and resource into delivering the change in the workplace.

**Baroness Crawley:** I disagree on your last point, but thank you very much.

**The Chairman:** We have heard a lot of people say that all jobs should be advertised as flexible. Would that get your members worried?

**Matthew Percival:** The CBI has previously recommended to our members that they should be considering for all their jobs whether flexibility is possible.

**The Chairman:** Have they stampeded to agree with that recommendation?

**Matthew Percival:** It would be difficult to say that all jobs should be flexible, because flexibility is not possible with some jobs in the particular form wanted by the employee. In most jobs flexibility of some sort is possible, but there is a real risk, I think, of creating misaligned expectations of employers and employees. You might send out a broad message that all jobs are flexible and it might turn out that a particular form of flexibility—working from home in that job or a job share—is not possible. In some jobs working from home or job sharing are perfectly possible, but job shares often depend on there being a second person to do the job share, and that can make it quite difficult to offer in isolation. Because flexible working is so many different things to so many different people, I find it difficult to aim to do more than always try to facilitate a proper dialogue about these things. We see increasing interest among a lot of our members in trying to make their workplaces more inclusive, and for so many different groups flexibility is an important part of it, and that is the reason the CBI is recommending that employers should be considering flexible working.

**The Chairman:** We have talked about people's experience in work and we are going to move on to keeping people in work in the broadest sense. We have heard a lot of evidence on training, not all of it positive, and I think Viscount Chandos wants to pursue this.

Q185 **Viscount Chandos:** Are employers doing enough to provide in-work training to their employees, particularly to those at the beginning of their

careers? How has the introduction of the apprenticeship scheme and levy affected that? How do you see the success of that to date and what has the CBI been doing to encourage its members to utilise the levy?

**Matthew Percival:** It is important to always start this conversation by recognising the amount that employers do on training. The last estimate was of about £44.2 billion a year of employer investment in training in its broadest sense, not just apprenticeships. Every year the CBI does an education and skills survey and one of the questions is: "Do you want to do less, the same or more investment in your training?" This year's result shows 85% of employers saying they want to do the same or more. You have a willingness from employers, who are saying they are doing a lot already and that they should and can do more. The CBI's policy focus on skills is how we create a skills system that helps to unlock that willingness to invest in training, and the apprenticeship levy is an important case study in that because its first iteration has not worked. The strongest feedback that I heard from our members were the stories saying, "Because this budget has gone here, and I don't have this or that flexibility, it means at an individual level I am hiring fewer apprentices than I was". That is being seen in some of the apprenticeship start figures. However, positively on this, the recent announcement in the Budget for some short-term reform is a recognition from the Government that the apprenticeship levy is not currently working as it was intended. We have had our members say to us, "We are willing to pay for a system as long as it is a system that works and delivers quality training and positive outcomes and not just the quantity of training". I am optimistic that we can continue to reform the apprenticeship levy into a more flexible skills fund that increases the amount that employers are investing in training and unlocks their willingness to do so.

**Viscount Chandos:** What is that optimism based on?

**Matthew Percival:** It is based on the fact that we have seen short-term changes made in the Budget and a willingness from the Government to discuss how to make further changes in the future to continue to better unlock that willingness from those 85% of employers who say they want to do as much as they do or more.

**Viscount Chandos:** To pick up on the £44 billion being spent, £44 billion is a lot of money to any of us, but it conceals the fact that the number of under-25s who have received on-the-job training has fallen cohort against cohort from the 1976 to 1980 period to the 1986 to 1990 period. I am always wary when a large absolute amount of money is talked of to say, "Look at what we are doing", because it usually indicates anything that is a better comparison is not a good story.

**Matthew Percival:** That is where it is important that the second half of what we hear from members is not, "We do a lot already", but, "We are ready and willing to do more. We want to work with the Government to create systems that allow us to do so". That could be through the apprenticeship levy or working better with government and it could be through helping to improve the links between businesses and education providers, whether that is colleges or universities, and improving business links with schools. I know you are talking about in-work

training, but recently we did a survey of young people aged 17 to 23; almost half of them said they did not feel their education prepared them for work. You have other powerful statistics, such as if you have four interactions with an employer as a young person you are five times less likely to be unemployed as an adult. There is a lot to do on unlocking business engagement with schools and business collaborations with colleges and universities as well as thinking about the Government's role in this. There is a lot for employers to be getting on with independent of government.

**The Chairman:** Picking up on that, we have heard some people say there have been so many changes in this area we should let things calm down. I do not think the Committee has heard universal hymns of praise for the way the apprenticeship scheme is working. I understand what you are saying is that the CBI would be ready to see further modification and change to make things work better and that you would not be with those who say, "Leave it all alone". Do I understand you correctly?

**Matthew Percival:** At the current time, and this is before the changes announced in the Budget have had a chance to have an effect, the system is not working properly, and, in particular, employers are looking to the IFA—the Institute for Apprenticeships—to help to unblock some of the bottlenecks that employers are finding where they are trying to create apprenticeship standards. One of the reforms in the Budget is more funding, and that is hugely helpful. We are hopeful that the changes that have been announced in the Budget will make a positive impact, but we think there is more we can do to continue to reform it in the future, so we would be looking for further changes, yes.

**Baroness Thornhill:** May I come in on this one, Matthew, and take advantage of having someone such as yourself to enlighten me? We hear a lot about British workers being among the least productive. Productivity seems to be a real issue. Who are the unproductive workers, if we have the evidence base to see that? Is it generational or is it sector led? How is this worked out and, perhaps much more importantly for us, what policy aspects could we look at to help to get us in the top 10 or up there?

**Matthew Percival:** I will talk mostly about two particular aspects of improving productivity that the CBI has focused on in the last couple of years, one of which my team is currently delivering—I will be happy to share the final output of that work when we publish it in the new year—and another which another team at the CBI published last year. First, it is most helpful to think about structural productivity problems rather than to think about person A or person B. The work we did last year was a report that we called *From Ostrich to Magpie*. Everyone asks what that means. It is all about adopting technology. We were using it as a device to get people talking. The ostriches are the companies that are late adopters of technology and they are waiting until it is proven beyond all doubt before investing in it. The magpies are the companies that see the shiny new technology and grab it straightaway, even though it might not work. I do not think we are saying that we need to make every company high-risk-taking investors in technology that is completely unproven. It is a question of how we get more companies investing in more proven technologies. We found a real potential in the UK economy to help get

more of our ostrich-like companies, when it comes to technology, to be a bit more like magpies. Helping companies to adopt technology is an important part of helping to improve productivity. One reason why it has been so difficult for people to progress their real pay while remaining in the same job is that productivity growth has been so sluggish since the financial crisis.

My team is currently working on not the technology adoption but the equivalent for people practices. It is how we help more companies to adopt the more advanced and cutting-edge ideas people are coming up with in terms of how to get the best out of your people through better management, leadership engagement, best-in-class recruitment practices and these sorts of things, to help businesses learn from each other and adopt some of those practices to help drive productivity forward, because technology and people are two of the levers that employers have complete control over that can help the most to unlock productivity growth.

**The Chairman:** We want to move on shortly to look at the different sections of the workforce—young people, older people and the fat or squeezed middle, whichever way you look at them—but I know that Baroness Blackstone wants to follow on from this question before we go on to that.

Q186 **Baroness Blackstone:** I want to know whether the CBI is addressing the fact that, apparently, lower-skilled workers are getting a lot less training than higher-skilled workers. It obviously relates to the question about productivity and to issues about young people who have left school without terribly high academic achievement and who have not gone into some formal post-school education and training. It seems to me that there is an important role for employers here in helping younger people, in particular, but it also applies to older people, to acquire greater skills, because only with those skills are they going to be able to fulfil their potential.

**Matthew Percival:** I will start by saying I will follow up on this question with the Committee afterwards, because skills is not an aspect that I lead on for the CBI. You will probably get a more specialist response from our head of education and skills afterwards.

**The Chairman:** We would be grateful.

**Matthew Percival:** In the broadest sense, there is an important structural change going on that has made it more difficult for people to progress from lower-skilled entry roles up through the pay distribution. It is a negative by-product of what is otherwise a positive trend. The UK economy is creating more highly skilled and higher-paid jobs. That is a good news story and it has led to median wages increasing in recent decades. That has dragged the skills requirement up from, say, level 2 or level 3 skills to level 4 skills. We have a forecast that half of all jobs are going to require level 4 skills by 2022. If you enter the workforce with very low-level skills, it is a more significant jump for you to get to average earnings than it would have been 20 years ago.

Where we see a real gap is in the routes to acquire progressively higher-level skills in a technical form. You have quite a strong ladder up through academic qualifications, and it is quite easy to see the path through to a

graduate degree linearly, but you do not necessarily have the same strength of ladder on the technical side. We are optimistic and feel that things such as T-levels are an important step in delivering that, and a lot of the employer collaborations with colleges and universities are a very important part of delivering that, too. That is where we would see the main gap. One of the main things that makes it difficult for people to progress and move up in the labour market is the absence of a ladder of the same strength on technical education as there is on academic qualifications.

**The Chairman:** I think you are pushing at an open door with the Committee on that. I want to focus on young people particularly. The Intergenerational Commission found that millennials were 20% to 25% less likely to move jobs voluntarily. This progression issue is important and I want to bring in Baroness Tyler on that point.

Q187 **Baroness Tyler of Enfield:** As the Lord Chairman said, we have received interesting but quite nuanced evidence about young people moving between jobs and on this issue about the millennials being less likely to move jobs voluntarily than members of what is sometimes called Generation X. I am interested in your take on what could and should be done to increase progression, which, in a way, is rewarding people for staying with the same employer. Is that the sort of approach we should be looking for? Should young people be encouraged to move between different organisations more often? My personal concern is the lack of pay and progression opportunities for young people who come in at the bottom end of the ladder, as you were just talking about, and what can be done for them.

**Matthew Percival:** I will start by looking back slightly. A few years ago we did research on this, and a number of people have done similar research on people's pay progression. When we looked at it, we found that one in three workers who were in the bottom pay group were still in the bottom pay group 14 years later. Some of these people may have voluntarily chosen that, for whatever reason. They may be one of those people fortunate enough to be not dependent on that income and content with their current wage, but you would assume that a number of those people would have wanted to move up if they could. There is definitely a question about how we better unlock progression through from lower-paying roles in the economy. I have said that improved routes for gaining on-the-job and technical education are an important part of that, but there is emerging good practice among employers, who are finding innovative ways of talking about progression with staff and opening up routes for progression within their business. Some stories are least told in public and one is about a person who starts working at a leisure park in the bar and ends up being the MD of a million-pound site by the end of their career. That is a clear success story in a low-paying sector but, where you have a pyramid structure, not everybody who starts in that role is going to be able to be the MD of that company.

The question is how you still have progression for those people. That takes two forms. The first is helping people map their way through the labour market, and that will involve changing jobs at times. I would find it difficult to find a way of telling people when they should or should not



change jobs, because it is such a personal decision. I would not want to suggest that somebody changes jobs after a fixed period, say, because if they are in a good job and making progress, moving could slow them down. We can help people map careers through the labour market. A bit of structural change in our economy might make that a bit more normal and helpful as technology cycles are shortening and lifelong learning is becoming increasingly important. Almost all of us are going to have to retrain for a second vocation, or a third or fourth, at some point during our careers, and the more lifelong learning becomes the norm rather than it being a case of we learn and then we work, the more it will become normal to be having those everyday conversations about progression and development.

In terms of what employers can do, previously we have recommended that employers need to be sending a clear signal that they have a board-level commitment to helping their staff progress. If it does not come from the top, it will not be effective. There are the tactical things we have seen before. If good practice among employers is around telling your manager that progression is important for first-line managers and developing staff, and all their performance metrics are financial measures, what you tell them is important but so is what you pay them to do. Aligning those expectations is a way that a number of employers have helped to try to go beyond just having good HR policies to making them real in the way that they are delivered through first-line managers. That is important, too. There is the point about progression for people who stay in their current roles, and not just with their current employer. How do you help someone doing exactly the same job increase their pay over time? It is heavily dependent on how much we manage to turbocharge productivity growth, which, as I said, has been incredibly sluggish for a decade or more.

**Baroness Tyler of Enfield:** That is helpful. Do the employers you talk to feel that, in general terms, younger people have different attitudes to moving around from older workers, or is that far too generalised a statement?

**Matthew Percival:** I think it might be too generalised. If anything, I am pleased that the question you have asked is whether young people stay where they are more than previous generations, because the labour market data has shown that people are moving a bit less often, although not dramatically so, than in the past. In the public conversation there is an assumption that young people are moving around every five minutes and are not sticking to a job, but that is not borne out in the data. That is one of the reasons why I say that I am a little sceptical about the idea that millennials are radically new in terms of what they want. A lot of what they want from work is consistent with previous generations at that stage in their working lives.

**The Chairman:** We want to come back to mid-life training and so on in the final bit of questioning, but perhaps we can go to the other end of the age spectrum and the perception that if you rock up for an interview with hair my colour you perhaps do not have the best chance in life. I know that Baroness Blackstone wants to pursue that.

Q188 **Baroness Blackstone:** How far do you think age discrimination is a barrier to people having longer working lives?

**Matthew Percival:** I do not have any independent data on prevalence of age discrimination, but it is an important starting point to recognise that it happens.

**Baroness Blackstone:** Certainly the perception on the part of many people is that they are discriminated against when they are older and apply for jobs, or, possibly, even when they want to stay longer in their current role.

**Matthew Percival:** It is important to recognise that all forms of discrimination can happen in any workplace, even in workplaces where the CEO intends and makes every effort to ensure there is not, because at times it can be interactions between individuals that lead to that discrimination, so employers have to be aware of the risk. At the moment one of the key challenges regarding people's confidence in their rights is enforcement through the employment tribunal system. We are hearing from our members that the resourcing of that system is such a challenge that if you feel your rights have been impeded or, from an employer's perspective, perhaps you feel you have been falsely accused of something, it will be a year or more before you can get that case heard. I have heard examples of employers who have received claims and sent some follow-up questions to try to assist the development of that claim, and the employment tribunals service has not had the resources to respond, so everyone has arrived at the court date that has been set and gone home quite quickly afterwards because the preliminary work has not been done. At the moment there are some fundamental problems with that system that undermine people's confidence in their rights and fairness at work. That is an important area for investment.

In terms of whether there is more or less discrimination going on in the workplace currently, it is difficult for me to do a macro-assessment of that, but I certainly see from our members a growing interest in the agenda, in the broadest possible sense, of how you make your workplaces more inclusive. If I compare the CBI now to the CBI eight years ago when I started, we are doing much more now in B2B with our members, helping them learn and share examples and stories with each other on this agenda. We are responding to employers' demand for it. The events sell out quickly and we have to organise another one soon afterwards.

Age is an important aspect of that inclusion. We have been able to profile some of our members doing good things, whether it is companies such as Aviva, whose CEO is the business champion for older workers, whether it is facilitating those sorts of stories or talking about mid-life MOTs, as they are called sometimes, or whether it is how employers respond to the fact that, increasingly, people do not work and retire but have some degree of phased retirement in the middle. It is a question of how we give people the confidence to have conversations about flexibility without worrying that talking about phased retirement might mean they will be written off as on the way out because they have said they are looking to scale back a little. That is partly because of the situation we are in currently with employers facing skills shortages. Most of the employers we speak to see

keeping older workers in the workforce for longer as a real benefit and a way to retain skills. There is a positive upside to it. That is why they are looking to improve practices that help to get the best out of older workers, and learning to manage health in the workplace is an important aspect of that.

**Baroness Blackstone:** It is interesting to hear that there are employers, and possibly large numbers of them, who recognise the advantages of keeping people in the workplace for longer because they have experience and skills. Are there people at the other end of the spectrum among your members who are resistant to allowing more older people to stay on in work, certainly throughout their 60s and even into the first half of their 70s? Do you hear those views being expressed?

**Matthew Percival:** No, I do not. Where I sometimes hear concern is about people's ability to retire when they want to, at a certain age, but they are not able to because they have not saved sufficiently into their pension. That can be a slightly separate issue and that is where I hear the concern. Individuals have said to me they do not want to be here and they want to have retired by now but they need the income. I hear that more from our members. It is a question of how we help those people to save earlier through discussing pension saving with them earlier in their careers, to help them prepare for their finances in retirement, rather than anybody suggesting that they just do not want to hire older people. I always like it when I hear stories such as, "We have just hired a new oldest apprentice", because it is a reminder that, if we are genuinely embracing the concept of lifelong learning, you are never too old to learn a new skill or to contribute something to a workplace. More and more employers are taking more and more steps to try to unlock that cohort.

**The Chairman:** Baroness Greengross, I am going to bring you in a little later because we are now moving on to this critical area of mid-life training and support and looking forward, which obviously is of huge relevance to those who are younger in the workforce, as it is to those who are in the middle. I will bring in Lord Price first.

Q189 **Lord Price:** The question that I want to ask is around mid-career MOTs and mid-career training. To give that some context, going back to your point about productivity, productivity normally is driven by three buckets: infrastructure, the Government's ability to give us road, rail, telecommunications or whatever that eases flows of communication and people; the work that you are doing on engagement and driving the highest levels of engagement, which have been proven to drive productivity; and, of course, as you have discussed, technology. We know that at the moment there is 50% more automation in France than in the UK and 300% more in Germany than in the UK. We have heard lots of evidence at this Committee about the new technology in AI and the impact it will have on jobs with people losing their jobs mid-career. Rather worryingly as well, we have heard that the number of people in mid-career and mature people going into education is falling, so retraining is falling. What I would like to understand from you, and get a view from the CBI on, is how you size this issue and what you think is going to happen to people mid-career being out of work because of technology over the next five years. How should that be addressed? What should the Government be doing with the MOT?

Do they have the scale and capacity to do that? To what extent should it be an employer responsibility?

**Matthew Percival:** I see retraining, in the context of technological developments and skills becoming outdated and less useful in the future, and mid-career MOTs as quite separate subjects, but I am happy to address both of them. There is a lot of skills provision out there, but there is more that business can do and government can do too to help people navigate the provision that exists. It is quite complicated and fragmented. The CBI, with the TUC, is involved in the National Retraining Partnership, which is trying to develop a national retraining scheme that begins to get to a lot of this. One of our ambitions for that scheme as it is developed is to help people navigate the provision that exists and support them in making informed decisions about retraining, which will be part of a broader culture around lifelong learning that I think we will all have to engage with a bit more.

**Lord Price:** Have you sized the potential requirement? We have heard from the British Retail Consortium that up to 900,000 jobs could go in retailing over the next seven years and hundreds of thousands of jobs in the Civil Service because of AI, et cetera. Does the CBI have a view on the impact of this on the workforce over the next five or 10 years?

**Matthew Percival:** I will get back to you on that one. Because skills is led by my colleague, I will check whether he would prefer to cite a different number. I am aware of the work that has gone into developing the National Retraining Scheme in making estimates and forecasts of the proportion of people who are likely to be affected and whether they will be able to navigate to existing provision, and whether there is a smaller core of people for whom additional and extra provision is required—there probably is. I would not want to give you the incorrect numbers on the quantum of that, so I am happy to clarify afterwards.

You asked about mid-career MOTs. There are a few prominent examples of people in business who do this and who try to combine career development with conversations about health and wealth. I understand those to be the three aspects that are combined in a number of employers' programmes in this regard. Those employers who do it and have spoken to me about it have said that it is among the highest take-up of programmes that they have run. Some people do it together and call it a mid-life MOT, but I think you will find that a lot more employers do something that looks like it but it is more fragmented. They may have conversations with their staff trying to engage them in pension saving and emphasising the importance of discussing finances and wealth in retirement. They might have separate regular conversations about career development, hopefully far more regularly than once in the middle of one's career, and they might have separate conversations about health at work. They might not be brought together into a single coherent package for an intervention at a particular stage of one's life. Different employers have taken different approaches. If one employer does something and it proves to be popular and has a big impact, other employers often follow it, and if organisations such as the CBI can help to give it some profile within those networks of employers to adopt it, I think we will see that picking up in the future.

**Lord Price:** Let me ask you to imagine the scenario that somebody in their early 40s has lost their job because of technology: who do you think should take responsibility for offering that individual retraining to a new skill to be able to prolong their working life?

**Matthew Percival:** I think there will be a mix, because there will be some individuals for whom an employer can envisage a different job within their workplace that that individual can be retrained to be moved to. Lots of employers are helping employees to change roles within their business as part of their normal career development paths. In other situations the entire business might be at threat from that technological development and the advancement in skills and, therefore, that employer will be in a difficult position in trying to retrain somebody when the business is fundamentally at threat from that development. You will get a mix of employers, some of whom can step in and do more in helping people to retrain and to stay within the business.

One of the striking conversations I have had is in speaking to an employer who has quite a flat structure. They might worry and think, "I have quite a flat structure and a large proportion of my workforce is relatively low skilled and lower paid, so what is my role in helping people to progress and develop?" However, recognising that they give people lots of transferrable skills that allow them to move to a different employer and step up is an important part of that. Some of the skills employers will be helping people to gain will help them to have future careers with different employers, and sometimes they will have a different career with them, but there will be a group of people whom government provision will be better placed to support. Hopefully, the National Retraining Scheme helps to navigate people towards that provision and helps them make informed decisions about retraining.

**The Chairman:** Baroness Greengross, I think you wanted to ask more broadly about that.

**Baroness Greengross:** Lord Price has already looked at some of this, but do you have examples where the CBI member is the largest employer in an area but it takes a lead role with some smaller companies? I know this has happened in the retail trade. Do you have any examples of good practice where people get together and the CBI member takes this sort of lead? It would be a good example because it is bringing smaller companies into the same good practice, particularly with mid-life career MOT-type things, or joining up to do some preparation so that when the person retires, they retire gradually because they have already been given opportunities locally to get involved. Do you have any other examples of good practice? I always think that your members can take the lead, and I know of some who do, but if you have some good examples, that would be interesting.

**Matthew Percival:** It is definitely going on in a whole host of areas. One of the areas of flexibility that employers were looking for in the apprenticeship levy was, "How can I use some of my levy fund within my supply chain?" Sometimes those networks are through your supply chain and sometimes they are geographically based in your area, and it is a question of how you work together on some of these things. The CBI has an important role in helping to facilitate the creation of those networks

where they do not exist through the supply chain but are, instead, in geographical areas. How do you help businesses to learn, share and collaborate with each other? One of our three selling points to our members is access, and that is access to a network of your peers in your area or sector to help to learn from each other.

I am not aware of a particular example of an employer who has extended a mid-life review throughout their supply chain. I am aware of conversations that a few of our members are having, who are thinking that they might, but they are more at the stage of questioning how they would roll out that sort of programme with their supply chain rather than having done it for two or three years, where I could bring you a statistic on its impact and breadth. We are more at the stage, in that particular example, of willingness rather than evidence, at least in so far as I am aware.

**The Chairman:** A last shout to Lord Bichard and then we must bring the session to an end.

**Lord Bichard:** Before I come on to the set-piece question, can I explore this a little more? I am quite sceptical about this mid-life MOT, for lots of reasons, and one of them is that it seems to me that any worthwhile employer, certainly any employer I have been involved with, in the public and private sector, takes a responsibility for the development of their people on an ongoing basis. They do not have to wait for a mid-life MOT. Indeed, the danger of a mid-life MOT is that it marginalises that whole process. Would you agree that employers should be taking this as a responsibility continually rather than at a particular point in someone's life?

**Matthew Percival:** Yes. I agree that employers need to be thinking about things such as someone's development far more frequently than once in the middle of their career. The reason I will not be critical of a mid-career review is that I hear from our members that the uptake and response from their staff is overwhelmingly positive. If they are offering this to their staff and their staff are responding to it positively and giving positive feedback about it, I am not going to be critical about that intervention. The businesses I know which are doing it are not saying, "We will talk about your career development once in your 40s or 50s, and for the rest of the time we won't talk to you about it". It needs to be a far more ongoing dialogue. I would struggle to put the right frequency of discussions about someone's career development, but if I think about our teams at the CBI, we are encouraged to do it multiple times a year, talking about people's ambitions and development, and lots of employers are doing the same. It is a little different with the health and wealth aspects of the MOT. I do not think employers are talking about health and pension saving/finances in retirement as frequently with their staff as they will be talking about career development. In part, that is responding to employee demand, and a conversation about pensions every other week is probably not what workers are looking for, but I see a role for both.

Q190 **Lord Bichard:** That is helpful. This is your chance to rule the world. If there was one thing you could do to improve intergenerational fairness through employment policy and practice, what would it be?

**Matthew Percival:** I am a big believer in good employer/employee relations and the single thing I would pick is fostering better workplace conversations. I do not think you can respond to a diverse range of needs and preferences within your workforce without having conversations to better understand them. A number of employers would admit that in the past they have overinvested in policies and underinvested in the people who deliver them. Where I see the employers making the greatest progress is where those employers have invested heavily in making sure the delivery of the policies is followed through rather than just the creation of them in a way that is compliant with the law and legislation. I would pick better workplace conversations on an individual and collective level.

**Lord Bichard:** Do you mean at both ends of the age continuum?

**Matthew Percival:** Throughout the whole workforce.

**The Chairman:** We are pleased that we have invested in the time for hearing from you. Thank you very much for coming in and giving your clear answers. We will now declare this part of the session closed.

## **Centre for Ageing Better, International Longevity Centre – UK and Professor Jacqueline O'Reilly – Oral evidence (QQ 65–72)**

Tuesday 9 October 2018

[Watch the meeting](#)

Members present: Lord True (The Chairman); Lord Bichard; Baroness Blackstone; Viscount Chandos; Baroness Crawley; Baroness Greengross; Lord Hollick; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Lord Price; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 6

Heard in Public

Questions 65 - 72

### **Witnesses**

**I:** Dr Anna Dixon, Chief Executive, Centre for Ageing Better; Dr Brian Beach, Senior Research Fellow, International Longevity Centre—UK; Professor Jacqueline O'Reilly, Professor of Comparative Human Resource Management, University of Sussex.

Q65 **The Chairman:** We will move into public session again. Lady Greengross wanted to make a declaration of interest.

**Baroness Greengross:** I just wanted to emphasise again that I am chief executive of the International Longevity Centre, so Brian Beach works with me.

**The Chairman:** Thank you very much. Good morning. I never know existentially whether it really is a morning at 12.36 pm, although those who judge it by their stomachs consider it to be a morning, even though it is after noon. Thank you so much for coming. As you know, this session is open to the public, and a webcast of the session is going out live and will remain on the parliamentary website. We are going to take a verbatim record of what you say, and that will also be put on the website. You will have a chance to make minor corrections for the purpose of clarification or accuracy. I am Nicholas True. I am the Chairman. We will not introduce ourselves, because you can see the names, but perhaps for the record it would be helpful if you introduced yourselves briefly.

**Dr Anna Dixon:** I am the chief executive of the Centre for Ageing Better. We are a charitable foundation that works to make changes in society so we can all have a good later life.

**Dr Brian Beach:** I am a senior research fellow at the International Longevity Centre UK, a specialist think tank looking at longevity and demographic change.

**Professor Jacqueline O'Reilly:** I am from the University of Sussex Business School. I have been a co-ordinator of a large-scale European-funded project on youth employment in Europe. I have brought you a



copy of one of our books, as Christmas is on the horizon. It summarises a €5 million project in 300 pages, so it is quite concise. Another European project was funded to look at young people who have had a precarious experience and what happens to them in later life. More recently, we have produced a new book, another one for the Christmas tree, looking at work in the digital age, what the big debates are in the fourth industrial revolution, how these are being discussed in different European and North American countries, what the policy issues are, who is doing well, who is doing badly, and why.

**The Chairman:** I do not know at what level the audience outside is, but they will have seen the advertisement. We are very grateful and we will certainly be following it up.

**Professor Jacqueline O'Reilly:** It is for the Christmas tree, or the Library.

Q66 **The Chairman:** The first question follows on from the very interesting session we have just held: are government and employers equipped to support longer working lives? We have been led to believe they may not be, from what we have heard so far. I do not want to lead you but, if not, what needs to change to make sure that government and employers support longer working lives better?

**Dr Anna Dixon:** We know that some leading employers have woken up to not only the profound changes in our population, with many more people living much longer, but the changing composition of their workforce. Those leading employers recognise, for a number of reasons, that it makes sense for them both to look at retaining the skills and talent that they have in their older workforce and to recognise that they cannot simply expect to replace the number of people they are losing through retirement by bringing in younger workers. Some have recognised the potential skills and labour shortage that they might already be facing or might soon face, and are taking steps to develop workforce strategies and adapt their workplaces so they can retain and recruit older workers. We have published some work around what employers should be doing, and I am very happy to answer any more detailed questions about the employment practices that we think could make a difference.

You also asked about government. We know that there are a number of reasons why people fall out of work, particularly in their 50s and 60s, including health conditions and caring responsibilities. Again, while some employers are doing things, I believe it is not enough. There are actions that government could take; for example, bringing in stronger rights for carers with regard to short periods of paid leave or longer periods of unpaid leave, and the right to return to work, and similarly for people who are managing health conditions at work, whether through the NHS and occupational health, or by giving stronger incentives around requests for reasonable adjustments, and tightening up the business reasons for which people can refuse these things or not do them.

There is definitely more for both government and employers to do, to make this significant shift in the economic activity rate of people in their 50s and 60s.

**Professor Jacqueline O'Reilly:** As an academic, I think there is support for this from government, but maybe it is more word of mouth than action. The first question you need to ask is: who works longer and why? We know from the research that you have to be healthy, wealthy and wise. Older workers are predominantly in good health, they are usually reasonably well-educated and they are financially in not too bad a situation. As Anna just said, the ones below 65 or 55 who have already dropped out of the labour market are people who are ill, poorly educated and financially not very well off. Before we talk about older workers as a homogenous group, we really need to differentiate between who they are, and it comes down to a lot of the classical elements of social class. First, we need to ask: who is there, who is not and why?

Secondly, we need to ask: why do you want them to work longer? Do you want them to work longer because they are on a low income and insecure, and they therefore need to work in order to gain financial resources? Is it because they are on welfare benefits and they have to continuously apply for jobs in order to meet conditionality of welfare to work? Is it because these people have certain skillsets and they are capable, wanting and willing to work? Are these the reasons, or do you want them to work longer because you want to tax them more on their income? It is not just about getting everybody in there. Who do you want in there and why do you want them in there? As the academic, I pose these questions. I have some other things to say, but I do not want to take too much time now and I can add them later. The first question is: who is working longer and why do you want them there? Once you answer that question, it really focuses your mind on what types of policies you are implementing and who they affect.

**Dr Brian Beach:** I would like to underscore a couple of things here. I have been working on issues of employment in later life, in America and here, in one capacity or another for 12 years. One of the very positive things I have seen in the UK has been government using its policy levers to impact later-life employment, including looking to equalise and increase the state pension age, or the removal of the default retirement age. I describe those as positive developments, but I should add the caveat that those have not been without their own issues and perhaps unintended negative consequences.

For example, research we did with a consortium of universities called the Uncertain Futures programme, by interviewing people, found out that, after the removal of the default retirement age, employers stopped having conversations with their employees about retirement. A lot of the recommendations that you might hear from us today, and that you have probably read elsewhere, underscore this idea of needing to provide advice and guidance and, in general, to think about succession planning in that transition to retirement. While removing default retirement age is good conceptually, it has had some unintended negative consequences.

This use of policy levers by government has meant, to an extent, that a lot of the room for manoeuvre and development moving forward has to come from employers. They are the ones providing jobs. If we are talking about work, employers are going to be crucial here. Again, we have some really great work, and Anna has just mentioned some of it, around

age-friendly standards. You will also hear more about things such as the career review and midlife MOTs throughout this session, I am sure.

I want to end this bit by reiterating Jacqueline's idea of why we want people to work longer. In this capacity, it is much better for us to think about fuller working lives than it is to think simply about longer working lives. That has, indeed, been reflected in the naming of DWP's own Fuller Working Lives strategy.

**The Chairman:** That is very helpful. By the way, I should have thanked you and the centre for your written evidence, which we found very valuable and interesting.

Q67 **Baroness Jenkin of Kennington:** To what extent do you feel that flexible working is a prerequisite for the longer working life? Do you think people are aware of their right to request? What could be done to encourage and support more employers to offer it?

**Dr Anna Dixon:** One of the main things that could benefit not only older workers but many workers is flexibility. We really want employers to think about flexibility in all its diversity: not only hours but location and other aspects, perhaps personalising it to what individuals need and recognising that, particularly for people with caring responsibilities and health conditions, that might change over time. It cannot just be a one-off request for flexibility and not then be reviewed, because it may need to change.

Certainly, there is an issue, particularly among older workers, of awareness that there is a right to request. It is not linked to just parenting or caring. There is more to do to raise awareness of the right to request.

The other major barrier is the fact that jobs are not advertised as flexible. A relatively small percentage—11%—of some 6 million job vacancies are advertised as suitable for flexible working, so there needs to be a real sea change there. The other change that we think the Government could potentially make is that the right to request flexible working could be from the date of hire, rather than having this requirement for 26 weeks of continuous service to qualify. Many people, unless they have the guarantee that they can commence the work with that flexibility, will not be able to take the job. This will benefit people of all ages; although caring responsibilities are more common among people who are working in their 50s and 60s, there are carers and people managing health conditions of all ages in the workforce.

**Dr Brian Beach:** I second a lot of what Anna has just said, particularly this notion that flexibility is very much desired by older workers. For many older people who are out of work, re-entering employment will require flexibility. I gave evidence on employment among older people to the Women and Equalities Select Committee last year. It made the recommendation that government should "legislate now to ensure that all new jobs are advertised as flexible from day one, unless the employer can demonstrate an immediate and continuing business case against doing so".

We also have to think in a more nuanced way about what we mean by flexibility. Lots of people consider part-time work to be a form of flexible working, but part-time work creates a number of further concerns because, as many of us know, in particular for older workers and their pathways, experiences in the labour market are gendered. The experiences of women are very different from those of men, and many women, particularly older women, are already engaged in part-time work.

The Uncertain Futures research that I mentioned earlier has also looked into whether flexibility and flexible working are being used to achieve this dream of a smoother transition into retirement; sometimes this is called bridge retirement, bridge employment, gradual retirement or phased retirement. It found that, in the UK, using flexible working to downsize a job is not very widespread at all. We have seen certain increases in the labour force participation of older workers during this time, where we have not seen this transition, so it raises a question as to what further underlying dynamics are happening here.

**Professor Jacqueline O'Reilly:** There were some really interesting points made there and in the session before. To make it brief, if you need a policy output, I would suggest pulling up some of the ideas from the previous session. A good policy target would be some kind of learning account or flexible working account that people have over the life cycle, whether they are younger, older or in the mid-phase, so they are able to take time out of the labour market, either for caring or educational needs, or for some of the learning needs that we have talked about here. It could be a goal to achieve that.

Why would you come up with that type of policy? The underlying assumption when looking at older-worker transitions is that 65 comes and, woof, you are out. Somehow or other, you then turn up in some type of part-time flexible job. That is the underlying assumption. The truth that we know from the empirical research we have done in the UK, the US and Germany is that older workers who stay on in work tend to be people who continue working with the employer they have worked with in the past, and those workers stay on and reduce their hours. They are what you might consider good later-life transitions to extended working lives. In terms of bridge employment, there are people who come back but, when they come back, if they pick up a part-time flexible job, it will be at a lower level to the one that they were employed in when they were a core prime-age worker up to 65.

One goal that has not been mentioned is encouraging firms to allow the retention of older workers and phasing out their retirement over a longer period. One way to do that might be through these accounts that allow people to have different flexibility at different times over the life cycle.

The second point is about when people make key transitions in their careers. The most significant transitions happen in midlife, in the 40s and 50s. That is when people make the real, key transitions between one career and another. Once past 45, they tend to stay more or less in those types of occupations or working-time arrangements. By focusing only on the transition at 65-plus, you are missing the point. You have missed the bus because it already happened about 20 years ago for those

individuals. An account framework that allows people to be flexible over the lifetime and get a 'midlife MOT' to assess: "Where do you need to go and what do you need to help you?"—is where we need to focus. If you want to know what is happening at 65, you need to see what is happening at 45.

**Dr Brian Beach:** To add to what you have said, we have to continue to recognise that the benefits of flexibility in the workplace are for all ages. Older workers in particular have reasons that they need the flexibility but, equally, younger people have reasons that they want it and need it. Therefore, it feeds back into the concept of thinking about fuller working lives and thinking about employment across the life course.

**Professor Jacqueline O'Reilly:** There are interesting issues around this whole concept of intergenerational fairness. The whole concept is problematic in itself because, as your previous speaker said, it pits the old against the young. Have the older generations—me and others included—run off with the family silver and left the youth impoverished, or do young people just not know they have it so good compared to the hard old times we had? Maybe this is conceptualising it in the wrong way. If we want to talk about intergenerational fairness, maybe we need something that captures the whole concept of the life cycle and not this idea that somebody is doing better than somebody else.

You asked a question earlier: who is benefiting and is it older or younger generations? What exactly are the older generations getting that is to the disadvantage of the youth? The popular press tells us it is housing, which is clear on one level, but on training, employment, education and skills, it is not clear that older people have done better than younger people. In one sense, for young people today, you could say it has never been so good. There is a massive expansion of educational opportunities. Young people have access to a wealth of resources that a lot of older people just do not have. We need to think about how we bring in older people who are not connected to the new digital economy and make them part of it.

Q68 **Lord Bichard:** In a way, this is following up on that last point and expanding it. We are moving towards a situation where over 40% of the workforce is going to be over 50, the majority of whom have not had any experience of education since their first episode. In terms of productivity as well as their quality of life, we should be concerned. They are working in a period when everyone tells us technology is changing at pace, but so is the structure of work and expectations in the workforce. In that environment and context, do you think government and employers are doing enough to support retraining and reskilling? Just in case your answer to that is no, what do you think they could be doing or doing differently? Frankly, over the last hour, I have had a Groundhog Day experience. I am hearing the same discussion and debate that I heard 20 years ago when we were addressing this. I am looking for new solutions and I wondered if you had any creative thoughts.

The second part of the question is about these MOT reviews. I would be interested in your thoughts on this. Frankly, as a former Permanent Secretary, if Smith had come to me with this great idea for an MOT review, I would have said, "It is a brilliant idea and, intellectually, really

commanding. How on earth do you think we are going to make people take advantage of these reviews when they need to?" My question is this: what do you think about MOT reviews and how are you going to market the product? How are we going to make sure that people take advantage of it, if we think it is a good idea?

**Professor Jacqueline O'Reilly:** I totally agree with you. It is interesting that we are sitting here in 2018 talking about lifelong learning. In my life, I can remember discussing it in the 1980s, so why are we still talking about it today? In itself, that is a good question, given that we should have known about it in the 1980s. Why are we incapable of doing something about it today? One problem is the nature of the institutional arrangements in the UK. One of the problems that employers, parents and students face is what you study. Governments love touching education policy. There have been so many policies that people just do not know what the latest one is and what it means. It would be really great if government could implement something and just make sure it stays in place long enough for people to know what it means. If apprenticeships in Germany are recognised as valuable, it is because they are very well embedded. Here, we have trailblazers and so many policies coming out that that is a problem.

There is a fragmentation of the market. Employers are somewhat opportunistic in some ways: why should they have to pay for these skills? What do they recognise? Employers will invest in it if they see self-interest in supporting it. We need to identify ways that we could encourage employers to invest in policies.

Some of the issues that were brought up in the previous session include why it is so difficult to engage employers and why they take these skills up in a very partial way. The structure of employment has changed quite a lot. In the 1970s, you had swathes of apprentices going into factories: 200 by the dozen. If you had a 20% dropout rate, you still had quite a lot of young people. Recruitment today is much more individualised and partialised in some organisations, or the skills required are not seen as career-type skills, so organisations do not invest in that in the same way.

We have been talking about it for a long time, we have a very fragmented system, and the third point is productivity—the hot topic. Where is the answer to that one? If you look, for example, at the new digital firms that are generating some of the greatest wealth in the economy in both the UK and North America, these firms recruit relatively small amounts of people but generate enormous amounts of wealth. We have increasingly a structure of economy where the companies that are making enormous contributions to GDP do not employ a lot of people—even Amazon, for example. Organisations that employ a lot of people do not always require the same level of digital skills or platforms business models—the care sector or education—and sometimes we are blinded by the light of how this digital transformation is happening while forgetting that we need to look at how productivity is happening in sectors that involve face-to-face intensive care. You cannot automate all those types of services, so you may have an economy that is polarised in that way.

To answer your question, we are still talking about it because we have not found the solution that we discussed 30 years ago. We have a new economy that is quite polarised in terms of where job growth is or is not happening. We need to identify how we get employers on board, so that they see self-interest in the policies being offered. Sorry, that was long but I tried to be as concise as an academic can be.

**Dr Anna Dixon:** It is really clear that this is going to benefit future generations more than the current older-worker generation because, as well as lives getting longer, working lives are going to need to get longer. I agree with the points that Brian made: that needs to be good work, to be secure work, to be fairly paid and to have progression. The nature of work is really important for ensuring that there are good outcomes for people in later life, whether that is financial security or health. There is a real need to make sure that we enable people to progress, and that means continuing to update their skills.

It is critical, though, for us to realise—and this is part of what you were discussing in the last session—that people will have multiple careers and will need different opportunities. It means that, in all the entry-level training that we have, such as apprenticeships, we need to think about people restarting or starting new careers in their 40s and 50s, when they have another 20 years left, and yet so much of the way that these are promoted, talked about and designed is geared towards young people. I do not know why still today over 80% of the adult education spend in this country is on people under 25. Moving this into the Department for Education and having a department responsible not just for schools but for lifelong learning would seem to be a good starting point, but we need to see action on things such as apprenticeships. There is lots to do on apprenticeships beyond this, but we should at least think about how to design apprenticeships for people in midlife—the sorts of people you were talking about—who, if they are going to sustain work for another 30 years, need to be given advice, support and access to new training opportunities.

We might be able to signpost people into that, if we could build the infrastructure for appropriate education. We know that a lot of what further education colleges are offering at the moment is not seen to be relevant or attractive to more mature students. We need to get the supply side in terms of what the training offer is. We need to get the money spent in the right place. But the issue you were coming to is how we get people to consider their lives and this idea of a midlife MOT or a midlife career review.

We have just published some very early case studies. The majority were large employers, with a number of financial services companies. There will not be any shortage of those sorts of organisations thinking that they might want to offer their employees or customers some more holistic support to think differently about how long they are going to live, how long they will need to work for, how much they will have to save and how they can keep healthy. Those seem to be the key building blocks: health, career and finance. They will reach those people but the question is how we ensure that the people who are most likely to benefit from that sort of conversation get access to it.

We have done some other research looking at what we know about planning and preparation and, from the existing evidence, we know that poorer people are much less focused on the future, because they have challenges that they are very focused on today, so we have to find ways to engage with people. It might be talking to Citizens Advice and thinking about a different employment support offer. It may be through GPs and the NHS health check, or debt advice. We have to think about engaging people with where they are and then helping build out from that to tackle the problems they face today, but using those to help them build towards thinking, "How might I begin to think about a longer working life and moving from paying off debt to saving?" How do we help shift people into opportunities that may exist in terms of training and careers?

There is a real need; otherwise, people's progression stalls. We need to make sure that there are ways of connecting, through a midlife check or something else, with people across the broader spectrum, including people who are in low-income, low-skill work. We need innovation in that area and we need partnerships with the people they are already in touch with, because we cannot rely on financial services and large employers to reach them.

**Lord Richard:** Are you seeing signs of that innovation in the way in which the Government are approaching the idea of MOT reviews? What you have said is absolutely spot-on and really interesting, and I should declare an interest that my wife runs Citizens Advice, so I shall immediately go and talk to her about that, but it is about getting to the people who are on low pay and with low skills, with help that they trust, which is unlikely to come from the statutory services.

**Dr Anna Dixon:** We are at the beginning of this. We have engaged and written up the case studies of the first experiments with the midlife MOT. As an organisation, we are very interested in how we might work with other partners to innovate further and to test whether these things work in practice to really help people get better outcomes. We are also talking to different partners to make sure that it addresses the inequality issue that I mentioned.

**The Chairman:** Do you want to add to this? I am conscious of time but I do not want to miss any valuable evidence.

**Dr Brian Beach:** I would point again to the Women and Equalities Committee and its recommendation that "the Department for Business, Energy and Industrial Strategy develop a national skills strategy, with a focus on lifelong learning, as part of taking forward the industrial strategy. This must include specific consideration of the needs of older workers, explicitly challenging assumptions that certain forms of training are only for young people, and must look at ways to make access to training and skills development a truly lifelong opportunity".

That fits into a broader re-evaluation of the life course, moving away from the idea that people have one career from leaving education until retirement. There are lots more transitions going on in people's lives now, and one of those could be thinking about moves in and out of education opportunities.

**Professor Jacqueline O'Reilly:** May I briefly add something?



**The Chairman:** Briefly, yes.

**Professor Jacqueline O'Reilly:** To come back to that point on why we are still discussing this 20 and 30 years later, in terms of education and training policies, we are not going to be Germany, Sweden or the Netherlands. We need to think about what we did in the past that was good and that we could emulate again. For example, if we think back to the 1980s, there were a lot of people about 40 years old in the labour market who had left school at 15 with no qualifications. One of the really outstanding characteristics of the British higher education system was the introduction of access courses for people with no qualifications, which allowed them to subsequently move into higher education. That was really quite distinctive. If you look at any universities in Europe, you will not find the same proportion of mature students in higher education as you will find in the UK. European students are quite shocked, when they come to British universities: "Some of them are a bit old, aren't they?" It is because, in their culture, it is very much a youth thing.

If we look back at this as something to learn from, that was a really good policy. It addressed the issue that people left school with no qualifications. Some people were not literate or numerate. It had a big, notable success in getting those types of people into higher education. We need something similar to that today, but it needs to be around digital literacy and numeracy, and about how we attract the people we have mentioned so they feel that these things are accessible. Included with these courses were things such as childcare provision, so that people could attend the courses. This is the type of policy that opens up doorways to let people in. If you want to learn something, let us learn from what we did well in the past that we could emulate and reproduce in a good way today.

**The Chairman:** Thank you. What other barriers are there? Baroness Crawley wanted to come in.

Q69 **Baroness Crawley:** I want to talk about age discrimination. I am interested that the Centre for Ageing Better, in its written evidence, said that there is less official age discrimination because we have had the Equality Act and the removal of the default retirement age, but that there is still widespread bias. What can or should employers be doing and what practices can they bring about to make a difference and try to cut through that bias?

**Dr Anna Dixon:** One of the primary things is to look at data to really understand who is applying for jobs, how many of them are seen at interview and how many are appointed. We have made a lot of progress on gender equality, for example, by having greater transparency requirements around gender pay, and it would be very interesting to have similar transparency around age data, to understand not only some of the intersections between, say, gender and age pay, where we know that, for older women, there is a larger pay gap than there is at younger ages, but also things such as age bias in recruitment.

In our recent report, which I mentioned before, there is lots of practical advice about how to remove age bias from recruitment materials, and a number of firms have taken active steps in looking at language, imagery

and where and how they recruit. Partly picking up the issue of the digital divide that still exists, with more older workers who do not regularly use digital technology, as more jobs are advertised online and applications are online, this presents a barrier. Even if the job itself does not require digital skills, finding and getting the job does. There are a number of things there around the recruitment process that could be addressed.

The other is about creating an age-positive culture. There are a lot of issues around managing age-diverse teams. A lot of this comes down to good people management, getting the most out of a diverse workforce, and recognising that age is one of the diversity and inclusion characteristics. Often, firms have perhaps paid more attention to gender and ethnicity and thought less about age inclusivity and giving managers age-diversity training. Very few employers are doing that. There is more to do to empower and train line managers to feel confident in having those conversations with older workers.

In particular, and Brian has alluded to this, we know that there is a real fear about mentioning the word "retirement" since the abolition of the default retirement age. More could be done to give guidance and advice to employers, particularly line managers, so that they feel much more confident about having ongoing conversations about people's future plans, which can include reducing hours in transitioning to retirement, and that that should not be something that people are afraid to raise.

There are a number of areas but, even with age discrimination, it is not to say that, just because of those legal changes, everything is fine. Cases have not been brought up and it is not an equality characteristic that has been the focus of many cases yet for the EHRC.

**Dr Brian Beach:** I would second much of what Anna said. In the interests of time, I will not read them out but will refer you to the first section of the conclusions and recommendations of the Women and Equalities Committee report, because those really highlighted that ageism and age discrimination impact in numerous ways, but there are some concrete steps that government departments and government legislation can take to alleviate this.

**Professor Jacqueline O'Reilly:** I do not have anything to add. They have covered it.

Q70 **Lord Holmes of Richmond:** Good afternoon. How can employers use technology to help facilitate longer working lives? What could government do to help support this?

**Professor Jacqueline O'Reilly:** It is a good question.

Lord Holmes of Richmond: Thank you.

**Professor Jacqueline O'Reilly:** First, as an academic, what do we mean by "technology to help facilitate longer lives"? Anna touched on some of it. If we think about the way technology is currently used, it is used in the way that organisations recruit people, so it is impossible to get a job as a Christmas helper in any major retail store without spending at least 20 minutes completing various surveys and questionnaires, on your mobile phone or computer. You cannot get a job like that, so, first, you need to be able to fill in all these electronic forms. Once you have spent 20 to 90

minutes filling in these assessments, you may then get an invitation to apply for a job—congratulations. By the time you click on that button, it says, “The job has gone”.

The first part of how technology can be used to extend working lives is for the people who are trying to get a job. It is characterised in the *I, Daniel Blake* film: you run the mouse up the side of the computer, but not physically. It might sound like a stereotype but, for some people, even getting there is a major challenge. Having access to wi-fi is also a major challenge, whether they are younger people or older people. Colleagues from both Sussex and Aberdeen—I have worked with Claire Wallace and Becky Faith—have looked at how these people cannot even apply for jobs because they do not have a wi-fi connection. They have to go to a relative's house, for example, to get it.

The first place is this remedial digital education. I am sorry to bang on about it, but the disconnected workers are older, less educated and live in rural areas. The big issue about how you bring people in is what you do about those groups of people. What do you do if Nissan moves out of Sunderland and large groups of people in those regions do not have access to jobs? The Nissan workers are probably quite well qualified. We need to think about how DWP's digital by default programme affects people looking for jobs. Also, lots of the employers who are receiving applications from jobseekers through this new digital system do not like it. They are bombarded with emails and applications from people, which they think are irrelevant to what they need, and they are really frustrated.

They would like a bit of old-fashioned face-to-face contact. That is what research by my colleagues at Leeds University, Jo Ingold and others, have found. In our book *Work in the Digital Age*, we looked at where the UK sits in terms of digital skills, using the European Digital Economy and Society Index. In terms of skills, the UK comes fourth in Europe. Skills are measured in terms of people who say they have basic digital literacy—they can buy things on the internet and pay for things—and the proportion of the labour market who are STEM-qualified graduates. The UK comes in fourth, which is pretty high among all the EU countries. If you look at the indicators for the take-up of digital technologies by employers, the UK is hovering around or below the EU average.

What does that tell us? In really simple terms, British employers are not using digital technology to the degree that they can employ people with digital skills, so there is a big mismatch going on there. We are producing quite well-qualified people, maybe not enough of them or exactly right where you want them, but from a relative perspective in the European Union we are quite high up. But our firms are not adopting these technologies in ways that facilitate that integration.

There is a lot you could say. Just on the point of recruitment, there is a really big problem to solve about how you encourage and help firms to implement some of these technologies in the way that we used to 20 or 30 years ago. “Do you have a personal computer?” Some firms did not know why we needed one: “Is it just for playing games?” We did that research back in the 1980s and early 1990s. How do you encourage

small, self-employed companies to buy a PC? Today we need to think about what we need to help these firms understand the plethora and anarchy of apps and programs. It is really, really difficult for them. "Which system do I buy into? I really do not know". I do not have the answer, but that is where we need to help.

**Dr Anna Dixon:** I have already spoken about digital, but I would like to take another aspect of technology, which is to do with workplace adjustment and the extent to which technology can be utilised to help people with health conditions or other disabilities. I can see Lord Holmes is using technology today to assist with that. This is about using existing technologies, whether that is large-print screens or text readers. It is about making adjustments to the workplace, whether that is to temperature, noise or light. It is also about manual lifting and the extent to which robotics, augmented suits and other things will be able to reduce the problems we have with musculoskeletal conditions, which is one of the major reasons that older people leave the workforce prematurely, before state pension age.

There are examples of companies doing this. BMW is the one that is held up. It recognised that it had quite a lot of older workers on its production line and it made some physical adjustments that reduced damage to the hips and knees of its workers. It actually increased the productivity of the whole production line. There is a whole lot of technology—some existing, some to be developed—that could make a huge difference in enabling us to have healthier, longer working lives, enabling more and more people to participate, and increasing productivity at the same time.

Q71 **Baroness Tyler of Enfield:** I would like to ask you about how longer working lives, which have been such a feature of our discussions this morning, affect different generations, and in particular how younger workers are affected by the increasing numbers of older workers, although I very much take the point made earlier that older workers are not a homogenous group. Could I ask that, in your replies, you specifically address the issue of the so-called lump of labour fallacy? I am quite struck that in the written evidence we have received people are still saying different things to us. Some people are still saying that having more older people staying in work would take jobs from younger people, while most people have been saying to us, "No, that is not the case. Actually, it is very good for everyone". There is still debate in this area.

**Dr Brian Beach:** The lump of labour fallacy was applied on a policy level back in the 1970s in Europe, in response to the oil crisis and high levels of unemployment. The idea was to institutionalise early retirement pathways for older people in order to make room for young people to get jobs. That has had another knock-on effect of culturally institutionalising the concept of retirement and this idea that we stop work in our 60s at some point. With the reshaping and change in the age structure of the population, we see that our economies are going to need a greater and greater proportion of people in their 50s and 60s in employment.

To me, the lump of labour has been quite thoroughly recognised as a fallacy through some simple and some more advanced economic analysis. One example that we did was basically taking the employment rate of

young people and the employment rate of older people by local authority across England. It is very clear that, where you have high levels of older employment, you have high levels of young employment. Part of this is because it is about your geographic area and about the job opportunities that are there. There might well be a cultural phenomenon where older people, as individuals, feel a certain responsibility to make room. That factors into raising greater cultural awareness of the opportunity for a fuller working life and working longer, which can come through the other mechanisms we have talked about, whether that is making sure people know about training opportunities or making sure they are aware of the flexibility and the right to request flexible working.

**Dr Anna Dixon:** The evidence at the moment is that, particularly with the baby boomers retiring over the decade we are in, many more people are leaving the labour market. If every young person got a job, we would still be down, net. Up until now, the response of most employers to that has been to say, "We will hire people, potentially, from abroad". With tighter immigration controls, that is no longer the easy option. There is no doubt that, if we continue to see the employment levels that we have now, we will need to have older workers and younger workers. I totally agree with the macroeconomic analysis of labour that Brian has given.

The point is that barriers to work are barriers to work at every age. The reasons that we have low economic activity rates and higher unemployment rates are to do with health and disability at every age. They are to do with people who have caring responsibilities at every age. They are to do with people who have a low level of education. We know that there are at least a million people in the 50-64 age group who want to be working and are not, but there are many more who are economically inactive.

There is a whole group of those people, some of whom we did some qualitative research with, and it was very clear that they have to make trade-offs, due to factors such as the lack of social care. They have to be the unpaid family carer. The trade-off between paying for care and taking a low-paid job means there is no choice for them, unless we have a revolution like we had for women's participation in the labour force due to things like free childcare. Until that is there in terms of social care, with good, free care for our older relatives, we will still have a large number of people who could be and would want to be economically active but are unable to be. Across all ages, the message has to be that this is about tackling the barriers to work and creating economic growth across the whole country. The geographical inequality needs to be addressed, because where there are more jobs, there are more jobs for young people and for older workers.

**Professor Jacqueline O'Reilly:** I agree. You have expressed it very eloquently. A similar issue came up when we started our big European project on youth unemployment. Were the old people stealing the jobs from the young people? A lot of economists on our project across Europe did some analysis of that, and the answer is that old people and young people do not do the same jobs. Older people work in different sectors and different types of occupations from those that young people are more likely to find employment in.

In the UK, during the great recession, a lot of Americans came over and asked, "Why do you not have more unemployment?" The reason for that was that a lot of firms did not know how long the great recession was going to last, so rather than sacking people they moved them to working two or three days per week with reduced pay, because the recession might be over by the next year or the one after that. It is cheaper to keep them than it is to recruit them. That was quite hard for a lot of men in low-skilled occupations, but we had lower levels of unemployment among those groups of workers.

The older labour market is quite distinctive from the youth labour market. There is an underlying assumption, a bit like with the youth, that they are all the same and are all facing the same challenges, which they are clearly not. Young people get jobs in very specific sectors; they get jobs in hospitality and retail. In some countries, construction is very, very important; the effect of the recession in Spain and Ireland decimated jobs for young men in construction. In some eastern European countries, manufacturing remains an important area for recruitment.

From our analysis, we saw that there was to some extent an employer hiring freeze. Why have employers stopped employing young people in the way they used to? This analysis has been done by other American economists, such as Friedman. You would expect there to be a growth of jobs for young people, but we were seeing shrinkage of those jobs. Secondly, looking at the conditions of employment being offered, there was a decline in full-time, permanent jobs. Any new jobs that were being offered were in part-time and temporary work. The point is that it is not either/or; they are very distinct labour markets. If there are jobs for old people, there must be jobs for young people because it is an indicator of what is happening in the economy. It is important to bear those two things in mind, because they are distinct.

**Q72 The Chairman:** Thank you so much. The last question was going to be about how longer working lives can improve fairness between generations. In a sense, you have argued that a longer working life is part of a fairness to which today's young generation should be able to look forward. I think I am broadly summarising what you have said. That is not taking away from the Committee's intention and resolve to look at specific issues that affect the young people of today. Let us make that clear.

Very briefly, if the Government could choose only one thing to focus on—this is a sharp question—what should it be? Give a quick response, please.

**Professor Jacqueline O'Reilly:** It would be remedial education to improve and extend digital skills for people who are disconnected in various ways, and improved access to higher education for older people, which we have not had. They are related.

**Dr Brian Beach:** The Uncertain Futures research that I mentioned earlier, as well as another consortium we work with called renEWL, using different datasets, both found that experiences of adversity or trauma in childhood and early adulthood increased the likelihood of early exit from the labour force before state pension age. Mental health, housing, the environment, geography and caring all impact the experience of a fuller

working life at whatever age. It is really complicated to pick out one specific area that needs to be focused on.

This interrelationship might lead to the recommendation of creating something like a Minister for Longevity. A number of European countries have ministries and departments that incorporate older people with younger people, families and suchlike, so that things are looked at a bit more holistically. Again, this was noted to an extent by the Women and Equalities Committee, which suggested that, "If these policies are not more clearly connected, the Government risks a plethora of unconnected, unco-ordinated micro-initiatives that can alienate, rather than engage, business".

**The Chairman:** Okay, that was a long one.

**Dr Anna Dixon:** I will try to be more brief. In terms of age-friendly employers, the Government could do much more to have stronger levers and incentives, or transparency requirements at a minimum. We know what we want employers to be doing, but there needs to be a much stronger push, which needs to come from government, on all employers. The number one thing on that list should be flexibility. That will benefit all generations.

**The Chairman:** Thank you very much. You have been addressing a Committee of flexible workers, quite a few of whom have gone on working after the age of 60. Thank for very much your time and your compelling evidence. We are very grateful to you. Thank you for coming.

Centre for Economics and Business, Professor Sue Heath, Social Market Foundation and Building Societies Association – Oral evidence (QQ 151–159)

**Centre for Economics and Business, Professor Sue Heath,  
Social Market Foundation and Building Societies  
Association – Oral evidence (QQ 151–159)**

[Transcript to be found under Building Societies Association](#)



The Challenge, Dr Libby Drury and The Cares Family – Oral evidence (QQ 144–150)

**The Challenge, Dr Libby Drury and The Cares Family – Oral evidence (QQ 144–150)**

[Transcript to be found under the Cares Family](#)

## **CIPD, Timewise and Professor Athina Vlachantoni – Oral evidence (QQ 73–83)**

Tuesday 16 October 2018

[Watch the meeting](#)

Members present: Lord True (Chairman); Lord Bichard; Viscount Chandos; Baroness Crawley; Baroness Greengross; Lord Hollick; Baroness Jenkin of Kennington; Lord Price; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 7

Heard in Public

Questions 73 - 83

### **Witnesses**

I: Ian Brinkley, Interim Chief Economist, CIPD; Emma Stewart, CEO and Co-Founder, Timewise; Professor Athina Vlachantoni, Professor of Gerontology and Social Policy, University of Southampton.

**Q73 The Chairman:** Good morning and welcome to our witnesses today. Thank you so much for giving up your time to come and advise us. As you know, and some of you will have given evidence before, the session is open to the public, who this morning have not yet appeared, although we have had people in the gallery before in the other sessions. Do not take that as any comment on you. A webcast of the session goes out, and that will be subsequently available on parliamentary website. There will be a verbatim transcript of the evidence, and that will be put on the parliamentary website as well, but you will have a chance to make minor corrections to the reading of it for the purpose of clarification or accuracy.

I should introduce myself. I am Lord True, the Chairman of the inquiry. The other names you can see. But, for the record, I would be grateful if you would introduce yourselves, and then we will proceed to questioning.

**Professor Athina Vlachantoni:** Good morning. I am based at the University of Southampton at the Centre for Research on Ageing and the Centre for Population Change. I specialise in ageing, care provision and intergenerational support. I am very, very pleased to be here today.

**Emma Stewart:** Good morning. I am co-founder and chief exec of the Timewise Foundation. We focus, as a social business, on creating a fairer, flexible jobs market. We do three things: we do lots of research and campaigning work to champion the benefits of flexibility; we work with employers to help them change their approach towards flexible working; and we also run our own job site. We represent about 90,000 people in the market who are looking for flexible work, and we have about 3,000 business clients. We have been specialising in the sphere of flexible working for about 15 years.

**Ian Brinkley:** I am the interim chief economist at the CIPD, which is a fancy name for the temporary help. Most of you know what the CIPD is. I have been looking at the labour market and various aspects of it for about 30 or 40 years. I have come to the conclusion that I know rather

less about it now than I did when started, but I suspect that is the case for many people.

**Q74 The Chairman:** Thank you very much. Thank you also to CIPD for the very interesting written evidence that we have had. I am grateful for that. Perhaps I should start off with a siting question, because we want to look at the world as it is. The purpose of the Committee is to make recommendations for the future. But, to set the background, how have employment conditions changed from your perspective in recent decades? Has this been different for different age groups, as is asserted? Perhaps you would like to comment on those broad questions: the change over time and the difference between age groups.

**Ian Brinkley:** Change over time is always harder, because most of the evidence we have is cross-sectional, particularly when you are looking at attitudes. We have some longitudinal data, but it is more limited. Looking back over the past 20 years, the structure of employment has barely changed. If you look at the share of people in what we call atypical working—we would define that as self-employment, temporary workers, unpaid family workers, government schemes—that has barely shifted since 1998. It is much the same now as it was then, so there is no great change there. It has probably changed more at the two ends of the age distribution. You will probably find more young people and more older people in atypical work than in the past, but overall there has not been a great change in that structure.

Secondly, perceptions of insecurity are highly cyclical. All the evidence we have on that tells us that they go up and down in response to the economic cycle; there is no upward secular trend in insecurity on any measure we have. There is not much difference in age looking at fear of job loss, if you look at similar points of the economic cycle. If you look at the low points, they do not change very much. Older workers are consistently, over time and today, much more worried about losing their jobs and getting another one as good, which is probably because they have more to lose. Generally, most quality of work indicators suggest modest improvement or not much change, so generally speaking you would say the quality of work today is probably a bit better than it was 20 years ago.

**The Chairman:** Does anybody else want to comment, agree, disagree or let it rest?

**Emma Stewart:** We are not an academic organisation, so I would not want to comment on the longitudinal data over time. We have been running for 15 years. Speaking to people in and out of the workplace, we have noticed that the anxiety experienced by people in work and those looking to find better work is much more visible. We are seeing an increasing tension at both ends of the flexibility curve, as well as the age curve, with people working increasingly excessive hours in white-collar, office-based jobs, and their work-life balance and their mental health really suffering, and at the other end of the spectrum people feeling that they do not have enough work. For us, the takeaway is that people have to make a real compromise between quality of work and flexibility.

Effectively, that compromise between security and flexibility is one of the biggest challenges at the moment in the labour market.

**Q75 Lord Hollick:** What does the data tell us about the development of flexible working? You said “atypical”, but you did not include flexibility in that. Is flexibility particularly attractive to and sought after by younger people, or is it more attractive to older people? What does the data tell us about the apparently rising demand for flexible labour, or at least the rising opportunity for flexible labour? What does it tell us about the attitude that people who are in flexible work have towards flexible work? Do they actively seek it, or do they take it because it is the only job on offer?

**Ian Brinkley:** The honest answer is that it is a bit of all of those. The overall data shows there has been a slow increase. I sometimes say “glacial”, but that is a bit unfair. It is a slow, steady increase; there is nothing very dramatic about it. It is sometimes temporarily driven up by changes in legislation, particularly around extended flexibility rights or rights to request flexible working: you get a temporary spike and then it settles down again. We are moving up grindingly slowly.

In some ways, the differences in flexibility for young people are more imposed on them than sought. You find a much higher proportion of young people in temporary jobs or on zero-hours contracts. That is just the nature of the labour market for young people. When you get into the 50s and beyond, you tend to see a greater take-up of certain forms of flexible working, notionally around flexible working hours. There is some increase in term-time working and in job sharing. But what struck me more is how the overall numbers do not change that dramatically. They go up over the age curve, such that older workers, generally speaking, are more likely to be working in those forms of flexible working than younger ones, but it is not a dramatic difference and much less than I would have thought.

**Lord Hollick:** Is there any data on the progression from flexible working to full-time work, from being an independent contractor to becoming a member of staff? There will be a lot of young people looking for the first step in their career, and in the first instance they might have to settle for flexible work, because that is all that is available. What is the progression into full-time employment?

**Ian Brinkley:** It is very important to have a clear distinction between atypical work and flexible work. Flexible work is much more about the working practice inside the organisation: that is, whether you have flexibility over your start or finish time, whether you can do term-time work, whether you can job share, whether you have special arrangements to look after care responsibilities and so forth. Atypical working is quite different from that. It is much more about the employment contract. It is about your status.

I have not seen much evidence on progression from some forms of atypical working into full-time working. It still seems to be one of those unresolved questions about the degree to which temporary work provides a stepping stone. We can say that the share of workers in the 25 to 29 age group in atypical work is dramatically lower than those under 25. There is quite a big step there in the labour market. That suggests that,

at least for some people in the under-25 age group, there is participation in atypical working. Then at least some of them are progressing out of it, and are able to move into full-time jobs and more regular employment.

As for flexible working, you do not see that much difference in terms of take-up across the age groups. There are some differences in the sorts of flexible working people are taking, but I was surprised at the lack of differentiation across age.

**Emma Stewart:** We have done quite a lot of research on the demand for flexibility versus the availability of flexibility. I would echo Ian's point. It is important to distinguish demand in relation to quality, permanent jobs that offer some flexibility in how you work and demand for self-employment or atypical employment. We look at the former.

We did a major piece of research a couple of years ago; we surveyed over 3,000 people. We found that the demand across the generations was really high for people seeking their next job to be a flexible, quality job. We estimated that 87% of the people we surveyed either had some form of flexibility in how they work—that could be informal, not contractual; they might start early or they might work from home one day a week—or sought it in their next job. Of those, the ratio was highest in the 18 to 34 category; 92% wanted some form of flexibility. In terms of the middle age range, our data showed that about 72%, which is still really high, of over 50s were seeking some form of flexibility.

It shows a significant demand. Interestingly, at the extreme end of the jobs market, one in four people would be prepared to take a pay cut to work less if the option was available to them, but the option is often not available to them. Quality part-time or flexible work is in really high demand. We run a flexible jobs index every year and we track how many job vacancies are available on a flexible basis from day one: that is, where the employer in the job advert will say either that the job is part time or that they are open to the conversation about flexibility. Shockingly, it is only 11% of vacancies. We scan around 6 million vacancies every quarter. The roughly nine in 10 of the working population who want quality and flexibility are competing for around one in 10 vacancies. We think there is a significant challenge in the jobs market at the moment.

We have an employment challenge with negotiating flexibility, staying in a job and having flexibility, but we have a far greater challenge with job mobility, which limits people, particularly women, older workers, and people with caring responsibilities. They fought long and hard to negotiate their four-day week or their one day a week from home. They then want to move up and out, but they are absolutely trapped because there are no jobs for them to go to. Employers do not consciously think about saying this, because they do not necessarily see the demand and the value of flexibility among workers.

**The Chairman:** To get the figure right, you are saying you that scan 600,000 and that about 65,000 offer part time, on your percentages.

**Emma Stewart:** Yes, or they to say, "We're open to a conversation about flexible working". That could be home working or it could be flexing your hours at the start and end of a day. How much work, where people

work and when people work are how we would define the broad parameters around flexible working.

Q76 **Baroness Tyler of Enfield:** For this specific session I should declare that I am a fellow of the CIPD.

I just wanted to pursue this point about zero-hours contracts and the gig economy. I wondered what your view is about whether the greater desire for flexibility on the part of employees led to the growth of zero-hours contracts and the like, or whether these new types of contracts are being driven, first, by the desire of businesses to have a more flexible workforce and, secondly, as some people suggested in their written evidence to us, simply as a way of cutting costs by avoiding the employment protection obligations that go with permanent contracts.

**Ian Brinkley:** It is one of those questions where the answer is probably that both are driving it. My guess is that for zero-hours contracts it is due primarily to businesses and organisations trying to get more flexibility. Our own survey suggests that while a minority of firms say that it is to cut costs, rather a small minority actually owns up to that. That may be an underestimate, because if you are a firm that is really interested in driving down the wages of its workers, you are probably not going to fill in surveys from the CIPD. None the less, it does not seem to be a big driver of the rise; it is much more to do with flexibility.

The gig economy is a bit of a mixture. If you are thinking about the bargain basement end, the low-wage end, which is where most of it is, that is largely business and organisation-driven, but it is adapting models that are already there. Uber and Deliveroo are just taking the existing employment model, which is the labour-only, self-employed contractor, which was already operating in the minicab industry and in fast food delivery operations. Although it has a new tech veneer, it is a very old business model, which is simply being applied. At the higher end of the gig economy, I suspect a lot of that is to do with individuals wanting more flexibility. Because they have skills and services that are in demand, they can make quite a decent living out of it. It varies, depending on which end you are talking about.

In terms of whether people are in these things out of necessity or choice, I am aware of four surveys on zero-hours contracts. Three come out with more or less the same number, which is just over 30%, saying they are doing it out of necessity and not out of choice. There is one, which is a bit higher, from the TUC, which asks a slightly different question and comes out at 45%. If you average those four out, you probably have something close to about a third saying that they do not want to be on them, and two-thirds who say they are indifferent or they suit them very well.

**Baroness Tyler of Enfield:** I have a follow-up question. Do you know what percentage of those people are on zero-hours contracts as their only job and only means of income, so the insecurity that comes with that is problematic for their budgeting and everything? How many people have another job and are doing this just to top up their income because they want to buy something or something like that?

**Ian Brinkley:** I cannot recall the exact figure, but it is higher than for regular work. The incidence of multiple job holding is bigger for people on

zero-hours contracts than elsewhere. It is nowhere near a large percentage, but I would have to check that number.

**The Chairman:** By the way, Professor, if you want to come in at any point, this is a free-for-all; do not be inhibited.

Q77 **Baroness Crawley:** What do you feel about today's workers having less of a say in their working conditions than previous generations? The most recent British Social Attitudes survey suggested that there has been a polarisation of control in the workplace with a distinct difference between those in managerial and professional occupations, who tend to gain more control, and those in routine and semi-routine occupations, who have less control. Have you found that in your research?

**Emma Stewart:** We are in a really interesting time, because the labour market is changing so rapidly. Workers' input into how they are able to control, manage and do their good work has always been a challenge. I read something recently in the *FT* by Sarah O'Connor, who was writing about how 100 years ago we had "lumpers", effectively zero-hours contracted individuals who were paid on the dockyards by the hour, by the lump. This is not a new thing.

We are seeing a few things shift on the ground. One is the challenge that the unions have, in that collective bargaining power has decreased. As we know, membership has dropped from around 70% to around 26%. The unions are facing a particular challenge with attracting young people, who are often affected by the more challenging situations at the bottom of the labour market. There are really interesting and innovative ideas coming out of the likes of the TUC and some really small grass-roots organisations, such as pro-worker platforms where individuals can swap shifts, negotiate and bargain. There have been some really interesting grass-roots campaigns. We need to be looking at what is working and seeing how we can scale that.

At the other end of the age range, we are experiencing an increasing number of workers over 50 coming to us—Ian touched on this earlier—who genuinely do not know how to negotiate on flexibility because there has been so much legislation since they entered the workplace. The nine to five is no longer the norm. The workforce has changed, but the workplace has not quite adjusted. They are caught, because they are seeking guidance as to how they can negotiate phased retirement, how they can ask for flexibility, how they can make that case.

It is very prevalent in the younger generation to expect to work differently, but less so in the older generation. In the middle, we have a significant proportion of people with caring responsibilities, women in particular, who have far less salary-negotiating power. The gender pay gap is significantly linked to the lack of ability to negotiate both salary and flexibility, the higher up the talent pipeline you go.

We have a challenge here. I would urge the Committee to consider looking not just at zero hours and atypical work; we have about 5.5 million shift workers in the UK in permanent jobs for whom control and predictability over their shifts is really significant. We have teachers and nurses who are struggling. For teachers, it is a different issue and is about how you cope with the workload and the demands of the

classroom, but nurses have very little control over when their shifts are set. We need to be thinking more broadly about how we balance the work-life flexibility needs of individuals with employer efficiency-driven flexibility, and get that sweet spot right across sectors and different areas in the labour market.

**Q78 The Chairman:** Are you looking for legislative change here? If so, do you have any propositions you would be able to put to the Committee before we finish our deliberations, for us to consider?

**Emma Stewart:** I should declare that I am on the BEIS Flexible Working Task Force. The right to request is due for review next spring. That is going to be debated by the task force. You will have seen that Greg Clark put a note out recently that the Government are considering the potential for a duty on employers to look at whether flexibility is available from day one and, if so, to say so.

Having said all that, our perspective in working with business is that, at the moment, legislative levers are not necessarily going to drive the cultural change we need or deal with these operational constraints. We need new road maps, ideas and ways to support people to build capability around job design in this country. That is not something that you can legislate for.

**Lord Bichard:** Following up on that, there is now the statutory right to request flexible working after 26 weeks. I have seen some data on how many requests are made. I have not seen—maybe I have just missed it—data on how many of those requests are accepted or agreed to. Is there any data on that? Is there a sense of whether this is having an impact?

**Emma Stewart:** As far as we are aware—Ian may know differently—there is not a huge amount of data on the acceptance or take-up of flexibility as a result of requests. That lies at the heart of this challenge. In order for a manager to have a sensible conversation with an individual about how to flex the way they work, that manager and that organisation need to understand what is within the bandwidth of being able to change. They need the capability to have those conversations not just when the individual asks but as part of annual reviews and so on.

**Lord Bichard:** But there is not much point playing around with the 26 weeks if you are going to get the same answer at the start as you would after 26 weeks. In other words, if employers are reluctant to agree to flexible working, particularly in some settings—you mentioned some of them—there is not much point just changing the weeks.

**Emma Stewart:** No, there is not. I would agree with you.

**Lord Bichard:** I bet that is what happens.

**Professor Athina Vlachantoni:** Just to add to Emma's point about the 50-plus group specifically, although, as Ian said, there is demand for flexibility across the different age groups, from a demographic point of view, midlife individuals—between 45 and 60, let us say—are at this point sandwiched between different types of caring responsibilities. The nature of caring for children or even grandchildren is completely different from that of caring for an older parent or parent-in-law. That is really important to take into account. In our work at the Centre for Population



Change we focus on those midlife individuals from different generations, younger and older, who may be pressured to change their working patterns.

We have found that men and women between the ages of 50 and 55 who have caring responsibilities are equally likely to stop working altogether, but men are actually more likely than women to reduce their hours from full time to part time. We do not know whether that is because women are perhaps better able to juggle paid work with caring responsibilities or because they are more likely to leave the labour force altogether. For that midlife group we are seeing the peak of the sandwiched generation at the moment. Their children after them and their parents before them are less likely to have those competing demands, but for that group between 45 or 50 and 60 or 65 the demand for flexibility is a little different. It may well become greater in the next couple of decades and then plateau again.

**Q79** **Baroness Greengross:** Should the Government regulate flexible working, as suggested by the Women and Equalities Committee, and indeed by the ILC when it gave evidence, so it is almost by default? Is there a case for that?

**Ian Brinkley:** I am not quite sure what you mean by regulating flexible working, because flexible working is quite a wide area.

**Baroness Greengross:** There is an assumption that work is going to be flexible. You would argue against it being flexible rather than for it being flexible. There is an assumption, which Emma might like, that all work is going to be open to flexibility, which would mean government regulation. That was suggested by the Women and Equalities Committee and by the ILC in its evidence to us. I am part of that, so I am aware of it. Is that out of the question, or should it be considered?

**Ian Brinkley:** I would certainly consider it for some forms of flexibility. Having it as a measure across the piece is unworkable, because there are some jobs where some forms of flexibility will not work. For example, there are some jobs where it is impossible to work from home, although that is becoming easier over time. There are some jobs that demand the person to be there for certain number of hours or to be there for unsociable hours, if you are thinking about the emergency services and so on. It might be worth looking at particular pieces of flexibility, if we think the voluntary approach or the right to request is not working and we need something stronger to create change in the workplace. Across the whole spectrum, flexible working really will not work.

**Baroness Greengross:** Obviously, there are jobs that cannot be flexible; we all know that. It could be turned around so the assumption is flexibility and you almost have to opt out of that. If it is a job that requires someone to be on the spot, on the location, you would be exempt from that. Is that feasible? Should we go to that sort of society, where jobs are assumed to be flexible and some jobs cannot be, rather than the other way round?

**Ian Brinkley:** I suspect that is probably going to be a step too far for most organisations. You would have huge difficulties trying to define what sorts of flexibilities fall within the legal requirement and what sorts do not. A lot of the flexibilities are informal, rather than anything else. The

second question is how much value employees put on flexibility compared to other aspects of the job.

I have a slightly different take to Anna on this. The suggestion is that people with flexible working are a bit more satisfied with their work than people without flexibility, but the differences are not huge. Compared to other job characteristics, particularly pay, security and whether it is interesting work, flexibility tends to fall quite low.

It is extraordinarily important for a minority of workers and it is really important for some people who are struggling to get into the labour market through the regular routes just because of their circumstances. For most workers, we have the perception that it is not rated highly compared to the other basic job characteristics.

**Q80 Baroness Jenkin of Kennington:** This question follows on. What work-based flexibility is required to support caring responsibilities at both ends of the spectrum, for both younger and older generations?

**Professor Athina Vlachantoni:** It is a good question. To pick up on a point I made earlier, the care provision for different beneficiaries is different, so it follows that the type of flexibility required at different stages of the life course will be different. For younger workers who are caring primarily for children or younger people, the cost of childcare is prohibitive. In many cases, it creates a situation where workers have to make difficult decisions about whether it makes sense economically to even be in the labour market.

It is an excellent idea to have free hours of childcare for children from the age of three. There have been problems with the operationalisation of that idea in the sense of the supply side. There are lots of childcare facilities saying they cannot cope with the demand. It is also important to lower that age threshold, especially if we are talking about younger workers not being able to sustain sufficient incomes in order to get on the property ladder, and all the other issues this Committee is interested in. There is an assumption that childcare up to the age of three falls on one person within the family, who is usually of working age. That is a loss to the economy. Usually, that is the woman. It is important to have a combination of those two areas: subsidising the cost of childcare but also reducing the threshold for free hours.

In the latter part of the life course, so for the very important and increasing proportion of people aged 50 and over who provide care and who still have not retired, and even 60 to 65 year-olds who are caring for 85 year-olds later on in the life course, respite care is an important factor. It is also important in that context to have opportunities to combine paid work with childcare.

**Emma Stewart:** From the perspective of the individuals we coach and support, who need flexibility often because of caring responsibilities, they value a recognition by employers of a number of different elements around flexibility, but generally through the life course of an organisation. The ability to have informal breaks from work is really important, because your need for flexibility peaks and troughs throughout your employment. You will have intense periods of caring at either end, and then you will have other periods where you are very happy just to work.

Many managers still have a reactive perspective on flexibility. In the legislation currently, there is the right to request, which suggests the default should be 9 am to 5 pm, full time. It is often reliant on the individual to ask, and individuals know they are often disadvantaged or may be turned down if they ask. I revert to the point about culture. It is really important for organisations to proactively promote the fact that they are open to those conversations and for managers to review this on a regular basis.

If you review someone's performance once a year, why should you not be reviewing how their working pattern fits with life outside work? In order to do that, you have to have the capability to make adjustments. But we can do various specific things. Some of the employers we work with will do things like career MOTs for people over 50, because they may want to move and work less. It is really about trying to instil the culture within an organisation that goes beyond any specific legislative requirement, in order to make sure those conversations can be had on a regular basis.

**Baroness Tyler of Enfield:** This picks up something Lord Bichard said earlier. When it comes to changing the culture, employers could be required to be transparent about how many of the requests for flexible working they had agreed. That does not mean that they must agree them, because there will always be times when it is not appropriate, but they could be required to publish how many of them were agreed. Would that start to change the culture, the conversations, how managers' performance was assessed and all that?

**Emma Stewart:** Yes. I will link this to the point about day one flexible rights by default. I agree, actually. We are working towards that, but if we jump to that very quickly we are in danger of quite a few unintended consequences, particularly with candidates who are perceived to want flexibility not even being interviewed for jobs. We could be more transparent and require organisations to report not just on their gender pay gaps but on the ratio of people working part time and full time, and the ratio of requests accepted and not just discussed—data is everything—we would have more visibility of the challenge and then we could take further action to address it.

**Professor Athina Vlachantoni:** I want to add a point, which may be obvious. I would just stress the importance of diversity. Not everyone aged 50 and over wants to provide care or has a demand on them to provide care. That is really important to take into account, because there is evidence that the current baby boomers, who have not yet reached later life, have different views about who they want to care for them. They have more resources; they are more likely to spend money on private care as opposed to relying on informal networks. That is really important.

From our research at the Centre for Population Change, we found that, among people around 50 years old, the children will provide help to their parents or parents-in-law with instrumental tasks, such as shopping or housework, only if they themselves received help from those parents when they were younger. There is an interesting reciprocal approach. If their parents need support with more basic tasks such as dressing or

bathing, they will provide that support to their parents regardless of whether they themselves were helped by those parents when they were younger.

With every cohort, the intentions and incentives to provide care and the demand for the type of care to be provided shape the patterns of care provision, which then has an effect on the type of flexibility those individuals are likely to request from their employers. That is just a word of caution about diversity even within cohorts and age groups.

Q81 **Baroness Thornhill:** I have two questions in my head. The wicked issues are the cultural ones. Obviously employers perceive this negatively. It is not deemed to be a good thing. How might we change that? Interestingly, we have heard from people talking about the elder age group, the whole life course and all that. I wondered whether the key to this was older people changing the culture of retiring at 60 or as early as possible. How do we manage the longer working aspect? From your perspective, Professor, are older people thinking that they want to work longer? Do they feel that need? How much will this help it? In particular, how much do we feel people have traded off wages for flexibility? I have conflated two lots of things that I am really interested in. Please pick out what you want from that.

**Professor Athina Vlachantoni:** In terms of different cohorts of older people and their approach to working, there is definitely a change. If you looked at Eurostat data comparing the UK with other European countries 15 years ago, the age at which people said they wanted to retire was consistently below the state retirement age. That is slowly increasing, possibly due in part to the policy change of shifting women's pension age and the possibility of shifting both men's and women's retirement age even further, to 67 or 68. The answer to that is that different cohorts view retirement differently. The idea of retiring early is not as prevalent as for the parents of the current 50 to 65 year-olds.

**Ian Brinkley:** There is a huge frustrated demand from people who would like to make that trade-off but cannot. If we look at the over-employment rate from 2002 to now, it bobbles about a bit but essentially it is unchanged. We have many millions of people who would like to work fewer hours and are prepared to accept a pay cut, which is how they get into the over-employment measure, and their trade-offs are being frustrated. We are not entirely sure why, but they cannot cut their hours how they want to. You can interpret this in terms of the movement we have seen into self-employment, particularly among the older age groups, because if there is one consistent finding it is that the self-employed tend to earn less on average than employees.

To the extent that people are exiting regular employment and going into self-employment, you can see that as a clear trade-off, in some cases, where people want the flexibility of self-employment and do not mind giving up a bit of income to do it. Again, that may be related to the very persistent problem that we have of people having too many hours, wanting to cut them and wanting to take a pay cut, but seeing no movement.

Q82 **The Chairman:** One thing you referred to in your written evidence was the sense of potential apprehension among older people. If you are 50 and

you think you might still have some progression in your job, if you roll up and say, "I would quite like to cut my hours a bit and cut my income", does the employer's perception of you potentially change as a result of that? Therefore, does some inhibition arise? We hear from older people that they worry more, which is reflected in your written evidence, about being able to find another job if they do not cling to what they have, because their skills are not perceived as being quite so au courant as those of others.

**Ian Brinkley:** It is going to depend a lot on whether you are in a skilled job that is in demand or an unskilled job where it is easy to replace you. If you are in a skilled job that is in lots of demand, that might be quite an attractive offer to the employer if it means that you stay with them longer, perhaps beyond the state retirement age or the pension plan retirement age. Those are the sorts of skills that firms want to hang on to. If you are a lower-skilled manual or non-manual worker who can be easily replaced, you may indeed be worried that you are just ushering yourself to the door at a rather faster rate than might otherwise happen.

It is going to depend very much on what position you occupy, your skill levels and employment security. In general, older people have far more to lose if they come out of their current jobs, because a lot of their benefits will have been built up in a specific firm. They may well feel that other employers are going to be reluctant to take them on. Therefore, they will have to go for a lower-level job than they had before and face all sorts of prejudices. They may be in a job that they are perfectly capable of doing but without the qualifications to go to another form of employment.

We have progressively closed off bits of the labour market to people who do not have the right qualifications. People who have been in work for 30 or 40 years can no longer go very easily into nursing, teaching or other areas without going back through the education system again. There are lots of reasons why older people are going to be concerned about moving or not getting employment that is as good as their current job.

**Emma Stewart:** We see that there are unconscious and conscious biases around older workers in the workplace. It is important to distinguish between bias and the fillip of support that needs to be provided to older workers, and in fact anybody who is looking to move. We have not talked about the careers service; we have not talked about Jobcentre Plus provision. We have a long way to go to provide tailored, bespoke advice to individuals looking to move around the labour market and retain flexibility.

Another issue is that being a part-timer is a significant stigma in the jobs market. Being an older worker and wanting to be a part-timer is a stigma. We know that many women who negotiate to work for three or four days a week in the middle of their careers become stigmatised and effectively off-ramped by being part time. It comes back to the challenge of how we perceive part-time work and its value. We need to challenge that. We do it at Timewise. We do a power list every year celebrating very senior people in four-day week roles to show that you can work differently.

Lastly on that point, that we have seen, as have many others have—Resolution Foundation has done a lot of work on this—that the group most likely to be trapped in low pay and least likely to move out is women in part-time jobs. We need to think about the skills agenda, but we also need to think about the structural inequalities that they experience, because our research shows that about 1.5 million people are trapped in low-paid, part-time jobs who have the skills to earn more. It is not a skills deficit; it is about how we perceive part-time work in the jobs market.

**Q83 Lord Bichard:** This question is really a chance for you to develop some of those thoughts, because I am going to ask you what you think. If we were to make a recommendation to government on how working conditions could improve intergenerational fairness, what would it be? What is the one thing you would like us to say?

**Emma Stewart:** Can I have two?

**Lord Bichard:** Absolutely, yes.

**Emma Stewart:** As I said earlier, we need to start by tasking employers to report on the ratio of part time to full time, and the ratio of requests and people working flexibly. We need to see what the data looks like. Really importantly, we also need to consider how we support businesses to build the capabilities to understand how to redesign jobs. We do not invest in that in this country. We invest in a huge amount of R&D and innovation in relation to technology; we do not invest in human capital innovation. In order to change, many employers in many sectors where this is really challenging need help. I would ask that the Government look seriously at how we can test and support different ways of designing work, which is one of the things I am pushing for on the Flexible Working Task Force.

**Lord Bichard:** As you were saying earlier, a lot of that comes back to skills and whether people have the skillset to enable them to take advantage of opportunities if you restructure the labour market. I was interested that Ian Brinkley said that you need to go through training again.

The other way of looking at it is that you should never come out of training and learning. Is lifelong learning in this country on a descending path rather than an upward one, as we have heard previously? I am sorry. That was a comment.

**The Chairman:** You are still allowed your one proposal.

**Ian Brinkley:** That is quite close to my one proposal, which is to take lifelong learning seriously. In some ways, we have been going backwards. At the moment, the big focus, which is an understandable and obvious priority for any Government, is on apprenticeships, particularly for the under-25s.

In almost every other area, the infrastructure, institutions and programmes for older workers are getting weaker. Look at what has been happening in adult education and further education, and the institutions that we thought had reach into the workplace and might appeal to non-traditional groups of workers. The Open University and Ruskin College are both in trouble as institutions.

There is very little out there for older workers whose firms are perhaps not going to invest very much in them and cannot afford to. It is a very thin offering. Until you make that lifelong learning process a reality for all groups of workers at all ages, you are always going to come up short, and you will always have older people in the labour market who perhaps missed out on the university, the apprenticeship, or whatever it happens to be, who are now stuck in a job that does not offer them much prospect of progress or advancement, and they cannot get out of it because there is nothing there to help them do it.

**Lord Bichard:** Some other countries have introduced a system whereby there is an entitlement to learning, and even—I say “even”, reflecting our culture—for older workers an entitlement to subsidised learning. Could either or both of those make a difference, without putting words into your mouths?

**Emma Stewart:** We need to invest more in educating and supporting lifelong learning across the life course. There are a number of innovative things which the Government could do. There are some quick wins.

On the apprenticeship debate, we need to be thinking about how we can offer part-time apprenticeships. Most employers do not think they are able to or that they are not allowed to. There is no place on the Government’s apprenticeship portal to even post an apprenticeship that is part time. Yet, if you are struggling to work full time because of caring responsibilities, you are prohibited from learning. B&Q has a 76 year-old part-time apprentice at the moment who is doing phenomenally well, I hear. There are some very simple things that we can do, but there is a bigger question about where the Government place their investment and how much they value adult learning more generally.

**Professor Athina Vlachantoni:** As a gerontologist, I would go a step further. In the current context, supporting workers who have care obligations is the area to focus on. Today, we have talked about caring obligations aimed at younger generations and childcare issues, but we have also talked about workers who have to provide care above the age of 50 and combine that care with work that actually pays.

A quick hit might be a review of the care allowance and the disincentive of the £120 per week of earnings, which might prevent people from making that choice. I would focus on offering opportunities to combine paid work that is meaningful and economically makes sense with what is coming inevitably: the experience of having to provide care for someone in the family.

**The Chairman:** We will have to wrap up there, I am afraid; we have to get into the next session. I am sure there are many more questions that we would all like to have asked. Thank you very much. It has been a very good session. We really appreciate and thank you all for giving up your time to come. You have given us a lot to think about. Thank you.

Dr Libby Drury, the Cares Family and The Challenge – Oral evidence (QQ 144–150)

**Dr Libby Drury, the Cares Family and The Challenge – Oral evidence (QQ 144–150)**

[Transcript to be found under the Cares Family](#)



## **Federation of Small Businesses and the TUC – Oral evidence (QQ 84–92)**

Tuesday 16 October 2018

[Watch the meeting](#)

Members present: Lord True (Chairman); Lord Bichard; Viscount Chandos; Baroness Crawley; Baroness Greengross; Lord Hollick; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 8

Heard in Public

Questions 84 - 92

### **Witnesses**

I: Kate Bell, Head of Rights, International, Social and Economics department, TUC; Lina Bourdon, Chair, Diversity Policy Unit, Federation of Small Businesses.

Q84 **The Chairman:** Good morning. Thank you very much for coming to join us this morning. We very much appreciate your attendance and we are continuing to pursue the themes of jobs and the workplace, from the perspectives of both employers and employees. As you know, the session is open to the public both present and virtual, because it goes out on the parliamentary website and is subsequently permanently available on the site. We will take a verbatim transcript of the evidence, and that will also be put on the parliamentary website, but you will have a chance to check it and make corrections for clarification or for purposes of accuracy.

I am Lord True, the Chairman of the Committee, but we will not all introduce ourselves because we have name tags here. Perhaps for the record and for the public who may be following this, if you could briefly introduce yourselves I would be very grateful.

**Kate Bell:** I am the head of the rights, international, social and economic department at the TUC.

**Lina Bourdon:** I am here representing the Federation of Small Businesses. I am the national chair for diversity, and I am a business owner and employer.

Q85 **The Chairman:** Thank you. We are obviously looking at the world as it is and then trying to make provision to ensure that there is fairness in the future for all generations. Can I ask a sifting question around where we are now? How, from your perspective, has the relationship between employer and employee changed in recent decades? By the way, thank you for your written evidence, which covered some of these points. As a further question, to what extent do employers expect more flexibility from their employees and vice versa? Is there a difference here between age groups? We have been discussing that with previous witnesses, but it would be interesting to have your perspective on these points.

**Kate Bell:** As for how the relationship between employers and employees has changed over the past decade or more, we have seen an increasing shift of the burden of risk on to the backs of employees. Zero-hours contracts are often a very good way to typify this relationship but, if you think about the risk to employers of managing variable demand, it is increasingly being managed, rather than by planning your response or your workforce, by having employees on a more flexible basis so you can say, “If we do not have enough work today, you will not have to come in”. But it is not just zero-hours contracts that typify this. If you think about the shift in pensions, the shift from defined benefit to defined contribution pensions is, again, a way of shifting the risk of stock market variations and financial variations on to an individual rather than on to the backs of the wider employer.

To give you two key facts that we think about when we think about how the world of work has changed in recent years, and certainly in recent decades, we are in the longest pay squeeze for 200 years. That is still a remarkable fact, which suggests that workers have not been in a position to demand a pay rise, despite the significant increases in employment that we have seen. We have seen a big rise in insecure forms of work. We estimate that around 3.7 million people in the labour market are in some form of insecure work. Of course, we have also seen some positive developments in that period. There has been an increase in the ability of employees to ask for flexible working, but too often this flexibility is very much one way: employers demand flexibility from their employees but, as I expect you have been hearing from your previous witnesses, whom I just caught the end of, are not always willing enough to offer it in return.

**Lina Bourdon:** As was mentioned, the world of employment and self-employment is changing. Every generation has its own definition of what good work, employment or self-employment is about. We have the millennial generation. This group of people is more interested in work/life balance and purpose, and less in financial success, than previous generations were. Generation Z is the next one, the younger one. They are just approaching the workforce. These people were born in a completely new world. They do not know the world without the internet. The Federation of Small Businesses in Wales is doing research—it is at a very early stage; I do not have figures for you or detailed information, but we can provide that to the Committee at a later stage—on how this new generation will influence employment, entrepreneurial needs and so on.

The big change that has happened is the shift in the number of people who have become self-employed. In fact, at the moment, 15% of the total workforce is self-employed. This number is growing, and it will keep growing. The public policy debate on self-employment is often distracted by so-called false self-employment. On one side, you have the gig economy and on the other side you have those high-earners, such as TV presenters and movie stars, who set up limited companies for tax purposes. True self-employment is different. People who go into true self-employment take bigger risks and face bigger challenges.

When policymakers work on a piece of policy, this group of people is very often an afterthought. Policy is created and then they are thought of. As

a result, they have issues with lots of things: access to financial products such as mortgages is one of them; the benefits system is another. The Government need to recognise this. The number of people in self-employment is growing. They need to be taken into consideration at a very early stage.

**The Chairman:** Thank you. We have not always thought enough about the different burdens and challenges for different sizes of employers in our inquiry. It is very interesting to hear your perception regarding the self-employed.

Q86 **Baroness Crawley:** In our last evidence session, just now, we heard that only 11% of advertised job vacancies offer flexibility, which is very low. I found that quite shocking, given the pressures that both young people and older people are under, as you have been talking about. The older age group, those aged 50 to 65, are looking after people who possibly have dementia. We know dementia is, unfortunately, a sickness that is growing. There seems to be a lack of awareness among some employers of the needs of both young people, who need flexibility for caring responsibilities, and older people in their workforce. To what extent are today's employers and employees aware of the costs and the benefits of flexible working?

**Lina Bourdon:** Small businesses offer flexibility. In fact, before the legislation in 2014, according to the research the Federation of Small Businesses had done at that point, eight out of 10 businesses were either offering flexibility of some sort or were ready to offer it if required. In small businesses, we see that flexible arrangements are agreed on a personal level rather than a contractual basis. Among our members, the average team is seven people, seven members of staff. The employees and the business owners have a much closer relationship than in the corporate business. They understand the needs of the business; they are taking part in decision-making. As a result, they understand when decisions are made. As an employer myself, if there is a need for flexibility, flexibility will be offered. Small businesses do not have the resources to re-employ or retrain, because we cannot offer flexibility.

Saying that, if we look at the type of flexibility that small businesses are offering, part-time working is at the top. Then we have staggering hours, working from home—about 33% of small businesses offer that—and flexi working. In London and the south-east, these figures, especially for working from home, are much higher, because of the cost of commuting and because of how far it is for some employees to commute. Flexibility is more accepted and offered by newer businesses. Those businesses that have been trading for 20-plus years are probably not as flexible. We think the reason is that those businesses are the most difficult to adapt; they have gaps in digital technology knowledge; they do not know what is available on the market; and some flexibility comes with technology, such as working from home. Small businesses offer it. If you do not see it in job advertisements, that is probably because it is a conversation between a business owner and an employee, rather than written into the contract.

**Kate Bell:** We know of some very positive employment relationships in small businesses, but there can be issues. If you are outside that business or things are done on a more informal, one-to-one basis, your

confidence to request those rights is obviously diminished. You do not know about them unless you have got into the business and already established the relationship with your employer. We have been very clear that we think there should be a day one right to flexible working, and that all adverts should be advertised with the option for flexibility, making the flexible working options clear.

We have seen significant advances in flexible working legislation, but we did some research with young parents the summer before last. We wanted to know the extent to which flexibility was a reality. We talked to young parents in social care, retail and hospitality. We found that many were not at all aware of their statutory rights. For example, 60% of the young parents we spoke to—these were young parents aged between 21 and 30—were not aware of the right to unpaid parental leave. They felt they would be stigmatised if they asked for those rights to be realised. As for the flexibility they were accustomed to, 20% of them, for example, only got their shifts with one week's notice in advance. They were required to be extremely flexible in their childcare arrangements and when they were expected to come to work, without having any information about what kind of flexibility they would be offered in return.

It is not only about the existence of the rights. As I have said, we think there are some areas where those could be tightened up. It is about whether people know those rights are a reality in their workplace and how they can be empowered to actually ask for them.

**Q87** **Viscount Chandos:** I would like to ask you about training. I was looking at one particular industry yesterday. Anecdotally, there were two factors. It was fairly disrupted by technology, the move towards the gig economy and higher proportions of self-employment. There is an issue of training there. But, even for people in employment, the sort of training that 25 years ago would have been expected to be provided by the employer was now being expected by the employer to have been undertaken by the job candidates. I wondered if you could say what you think employers should be doing and, given the move towards self-employment, what other sources of support for training might be.

**Kate Bell:** There are three things here. First, we have a very low level of workplace training in this country. One in three employers does not offer any training. The recent Skills and Employment Survey confirms that finding. We have also had a significant diminution in government support for the adult skills budget. There was a 40% cut between 2010 and 2016. Then we have new forms of working, where training perhaps has not been taken as standard. To reflect on the point about self-employment, the trade union movement represents a lot of self-employed people; we see it as a positive career choice for many. But some recent research we did found that half of people who are self-employed earn less than the Government's national living wage on an hourly basis. There is a real problem with the quality of some of this employment.

In terms of turning that round, the TUC has long called for the right to a mid-life career review and the right to a budget that accompanies it, so some form of training entitlement. One thing we have been very positive about that the Government are doing is the planning of the pilots for

something called the National Retraining Partnership, which is a tripartite approach by the TUC, the CBI and the Government. It looks at issues like sectoral change, new forms of work and how we can make sure the training people receive is appropriate for new opportunities. That is one of the real challenges of training policy in this country. We have not had an effective industrial strategy, and nor has it been possible to say, "This is the kind of appropriate workplace training that will not only equip you to do this job but will equip you with transferrable skills for the future".

First, the Government have to restore the budget for adult learning. Secondly, we need a midlife career review and a budget that accompanies that. But we also need better co-ordinated industrial planning, for want of a better word. The Government set out their grand challenges within the industrial strategy. How are they making sure that the training people are receiving is equipping them with the necessary skills, if that is the way our industrial progress is meant to be going?

**Lina Bourdon:** When we talk about small businesses, based on information available to us and the research we have, 25% of small businesses have apprentices. They recognise that they need to train the new generation. We have a huge shortage of skills. Facing Brexit, this problem will not disappear; it will grow. From research the FSB has, a further 25% would consider taking an apprentice on board. Saying that, we can see that numbers have gone down. The biggest decrease happened among small businesses. The reasons for that, from the feedback small businesses give us, are complexity, paperwork, a lack of clarity on how to approach it and cost. The 10% co-investment introduced by the Government towards training affected the whole picture. The Government need to think about removing this 10% co-investment, especially in the industries that have seen an increase in employment costs, such as social care, childcare and the retail sector. When small businesses take apprentices, they will mostly be young people at level 2 or 3.

Self-employment numbers are growing, and millennials are changing jobs. They say that they would not stay in one career or job for more than three years, so by the time they retire they will have changed their career or job 15 times; I have done a little calculation. These people will need career advice and retraining not somewhere in the middle of their career; they will definitely need it through the process at different stages of change in their life, be it looking after kids and then coming back to work, relocation or considering becoming self-employed.

The problem small businesses have is they need wider training for their staff and themselves. We have figures to show that 70% of businesses have taken their staff through some sort of training in the last 12 months. Half of these businesses do not have a formal training plan or budget. If we look into self-employment, the figure is even higher; it is about 75%. Small businesses train on the job, as a rule. They find it easier to do it this way, and that needs to be taken into consideration. But we definitely need help. If the Government want small businesses to train the next generation, they need to look at the 10% contribution.

**Kate Bell:** It is really important to separate the attitudes and aspirations of millennials from what they are able to achieve in today's labour market. Job-to-job moves among young people have diminished significantly. That is one of the reasons we think their pay is so poor, because moving job can often be the best way to increase it. The level of insecurity they have faced has meant that it is much less easy for them to move jobs.

It is important to remember that we have the most qualified generation of young people we have ever seen, and yet that qualification is not paying off in terms of their pay premium. I totally believe the stuff about attitudinal shifts and what millennials hope for from their careers, but their ability to achieve that in the current labour market has been pretty severely constrained.

Q88 **Baroness Crawley:** What would your advice to employers be? I take your point about the difficulties faced by small businesses, but we have Brexit around the corner. For instance, according to the TUC's stats, 37% of employers in the hotel and restaurant industry are not training their employees. I presume that means they are assuming trained employees will come to them, yet we are about to lose or we are losing several thousands of trained employees from abroad in the hotel and restaurant industry. What would your advice to employers be in the next six months or one year, if they want to fill their vacancies?

**Lina Bourdon:** Are you asking me as a small business owner?

**Baroness Crawley:** I am asking both of you.

**Lina Bourdon:** Small businesses have a certain budget. You need to understand that it is not corporate, where you can go to get a loan and implement a training programme. That does not exist. We run a very different type of business. We will have an issue with shortages. We will need to train people. We train them, but it is on-the-job training. It would be great for most small businesses, if they could do it, to take staff out of the business and train them somewhere, but it is often seen as a burden rather than a benefit, because someone needs to do the job. In a small business with an average of seven members of staff—that is the reality—if one member of staff is away, someone needs to do their job.

We need help from the Government. We need support on digital skills, especially for older businesses. Older business owners say that they lack digital knowledge. The Federation of Small Businesses is involved in the Digital Skills Partnership. We go around the country and help employers to train and upgrade. It is the same with staff. But, yes, we face a huge problem. Small business will have more problems than corporate.

**Kate Bell:** Our advice to employers is always to recognise a union, but that is real advice in this situation because we know that union learning reps are particularly effective at helping people to develop workplace training and have a very good record of doing that. That is often funded through the union, with support from Government. The other interesting thing that the Government have been looking at in terms of the apprenticeship levy is flexibility for employers to use that more throughout their supply chain. That could offer opportunities to small businesses, which may be working with large employers.

There is an opportunity for the Government to look at their sectoral deals and thinking about skills training across the sector. At present, we are worried that there is a very inconsistent approach across the Government's sectoral deals. Some of them have put workplace voice at their heart. The nuclear sector deal is a really good example of that, where the industry has committed to working with unions. But you will not get the buy-in across the sector for developing, delivering and getting your workforce engaged in that training unless you have the workforce representatives at the beginning. Sector deals are an opportunity, but in order to realise that they need to have unions there too.

**Lina Bourdon:** May I add something? It is important.

**The Chairman:** Briefly, yes, because we have a lot of ground to cover.

**Lina Bourdon:** A tax break is offered if you improve your skills. It would be really beneficial for small business if we had a tax break on new skills. That would encourage businesses to train staff and train themselves. Currently, if you are a plumber, you can become a better plumber and get a tax break, but if you want to learn marketing, digital skills and business development you do not get a tax break, so businesses do not grow.

**The Chairman:** That is a good point. Unfortunately, there is a training session for some of the Members here at 1.30 pm, so we have to make progress. I will try to wrap up not too long after 1.20 pm.

Q89 **Baroness Greengross:** This is fairly simple. Is anything being done and could we do more to increase progression for people who stay with the same company? It seems to me that not a huge amount is being done, from what you have been saying. Can we see a culture where it is good both for the employer and the employee to change?

**Kate Bell:** Progression is a perennial problem in this area. We did some work earlier this year, and I do not have the exact figure in front of me, although it is somewhere in my notes, so I will supply it afterwards. That looked at the low-paid sector, which is particularly bad at progression. Retail would be an example. It showed that something like 40% of workers were unable to progress over a decade. Progression is a real issue. Workplace training is really important. We know the public sector is better at progression. One of the reasons for that is clear career structure. There are obvious ways to progress. Again, we would point to the role of workplace representation in ensuring that policies and procedures are fair.

But one thing that is holding back young people's job-to-job moves at the moment, even within their company, is a lack of a sense of security in their current job. Tackling the things that lead to a wider sense of workplace insecurity, whether that is reversing the extension of the period for unfair dismissal or tightening up the rules for zero-hours contracts, would do a lot to make people feel they were more secure in their jobs and had a more stable platform from which to progress.

**Lina Bourdon:** In small businesses, we like to see our staff progressing and growing, because the business is growing if they are growing with us. Having new people on board helps, because they come into your business

and they see your business through a new pair of eyes; they come with new ideas. If retention is low, the business suffers, because there is a shortage of skills, training is expensive and so on. Small firms see barriers to training: staff are too busy; training is too expensive; or there is no adequate training in their area.

Leadership and management training is very important for businesses to grow and to grow their staff. If you look into the figures, there is a very low level of leadership and management training. In the last 12 months, only 18% of businesses have taken their staff through leadership and management training, and only 17% of business owners have had it. That is a problem. The National Retraining Scheme looks into upskilling those with low skill levels, which is right. We would also like the scheme to offer training to people changing careers completely or going into self-employment. The number of self-employed people in the workforce is now at 15% and it will keep growing. We would like the scheme to have some sort of offer for this group of people, because it will be required.

**Q90 Lord Bichard:** To what extent is age discrimination a problem for people in achieving fulfilling and longer working lives? The DWP's research suggests that it is. The Women and Equalities Committee has said that it is the root cause. If you agree with that, what are the practical things we should be doing to address it?

**Kate Bell:** It is interesting; older workers have joined the workforce very rapidly in recent years. It has been the fastest growing group of people into work. There is some good news on this front, but age discrimination remains a problem. We have asked employers to publish the age profile of their workplace and to review it. That could play a role. The mid-life career review is, again, an important way of ensuring that everybody has the opportunity to have a conversation about where their career is going. I heard the end of Emma Stewart talking about the kind of discrimination that acts on part-time work as well, which might particularly affect people with caring responsibilities, especially in the later stages of their life.

We need tougher rights to flexible working. We have also called for the right to statutory entitlement for carer's leave. Your previous witness was talking about carer's allowance. We should make it clear that it is expected to combine caring with working life. That is probably one of the key things we can do to tackle that discrimination against older people in the workforce.

**Lord Bichard:** Should the Equality and Human Rights Commission be more vocal? There is a report in the paper today that ageism should be a hate crime. What do you think about that?

**Kate Bell:** That is not something we have looked at. We have been thinking about how the Equality and Human Rights Commission could be more effective at combating discrimination. One thing we would say about the EHRC is that it is significantly under-resourced. It has had its budget cut really significantly since 2010. At the moment, it is stretched. It is stretched to fulfil its current mandate, so we would probably start by resourcing it to do what it needs to do now before looking at expanding its responsibilities further.

**Lord Bichard:** You do not give it as high a priority as some other issues



such as race and gender.

**Kate Bell:** It is not a question of it not being a high priority. The Equality Act covers age, and that has been a really important part of making it clear that age discrimination is a reality in the workplace. But, as I say, the EHRC needs resources to enforce its current remit as a first step. It is something I can take back. I have not discussed with our affiliates whether we would want to make age discrimination a hate crime. I would not want to comment without having discussed it with our affiliates, but I am happy to take that back.

**Lord Richard:** I was not recommending it; I was just asking for your opinion.

**Lina Bourdon:** When we talk about small businesses, we are not immune from the perceptions of society. The majority of small businesses are small, with teams of seven staff members. We have loads of businesses that are family run, so family is involved in some way, shape or form. Because of that and because of the close relationships, small businesses are more willing to come up with solutions. It is not necessarily because they know how, but because they are willing to come up with solutions. The Federation of Small Businesses has a helpline, where members can phone and find out how to deal with problems if they arise.

Talking about age discrimination, coming back to training, if someone is in a job who is older and they do not understand new technology, if training was available and businesses were encouraged to train their staff, we would probably have fewer problems. For small businesses in some areas—I am from the financial services sector—the more grey hair you have, the better you are. Some industries and areas in the country see age as an advantage, rather than a disadvantage. Small businesses are slightly different when it comes to age discrimination.

**The Chairman:** We have heard three proposals this morning for more reporting requirements, in terms of firms reporting to Government. We heard about it in terms of age profile just now. Specifically from the small business point of view, do you have any concerns about the burdens of reporting? Is there a scope for extending reporting, as we are being told we should?

**Lina Bourdon:** I cannot answer this question, unfortunately. I can come back to you. Small business does not like more legislation, more rules, more red tape and more reporting. We are small; we have limited resources and a limited number of staff. We want to help; we want to be involved; we want to contribute; we want to build this economy. But the more legislation you put on us, the more difficult it is to run the business.

**The Chairman:** If you have any reflections on that, as you said, let us know.

Q91 **Baroness Tyler of Enfield:** I would like to pursue further something that came up earlier in the evidence session and at our evidence session last week. That is this idea of mid-life career reviews and how important they are to supporting longer working lives. I am particularly interested to hear what you feel could be done to make sure not just that they happen at

more employers, but that they are meaningful, they have teeth and something happens at the end of them. Particularly given the point you have just made, I am interested in how relevant or realistic they would be for small businesses.

**Kate Bell:** We see these as really important. Union learning reps have been trained to deliver them, with a good deal of success. We think unions could expand their role in this. We think it is particularly important, as we see faster industrial change with the introduction of new technology. To give them teeth, as you said, they need to be accompanied by some rights and some money. We think older workers should have a right to retraining, and there should be a budget to accompany that.

I heard part of the earlier session where you were talking about international evidence. The French example is really interesting, where there is a right to a budget and it is flexible. It is a really interesting model, whereby there is a list of training you can use it for. That list is developed by a social partnership approach, bringing together unions, employers and government, saying, “We think this is the type of training people could be doing, which would deliver not only a skills uplift but an earnings or employment uplift”. It is really important, but to make them meaningful there needs to be some money attached to them.

**Lina Bourdon:** From the perspective of small businesses, with everything that is going on—younger people changing jobs more rapidly—career advice will need to be provided at different stages of life, not just in middle age or at a later stage. Currently, training or career advice is provided by educational institutions. If someone has been in self-employment or working for a small firm for a while and they want to change career, they are not clear where they can get that advice. That needs to be taken into account.

Along with career advice, pension advice will be very important. We are concerned that the Government ran out of willingness to proceed with the pensions dashboard. The development of the pensions dashboard was allocated to private firms. We worry that people in self-employment—15% of the population and growing—will be left out. These are areas where the Government need to focus and come up with a solution. The main thing is that careers advice will be needed through the working life of the business or the employee, not just during a mid-life career change.

Q92 **Lord Holmes of Richmond:** It is time to become utterly reductive and lay your golden nugget on the desk. If you could do one thing to improve intergenerational fairness in employment, what would it be?

**Kate Bell:** We see the issues coming out of intergenerational fairness as ones that are problems in the wider labour market. The critical way to improve the labour market is to give employees a greater voice through trade unions. We would start by strengthening the rights of trade unions and giving them the right to access workplaces to tell people about the benefits of joining.

**Lina Bourdon:** I have two nuggets, sorry. First, as a business owner and, to some extent, a leader, I know the best way is to lead by example. When it comes to flexibility, it would be great if the Government could

advertise every job they have in the wider public sector on a flexible basis. The FSB has done it; you can do it. That is one.

Secondly, training is increasingly important, especially given how life is currently developing. On the business side, everything is developing so quickly that you have no time to catch up with everything. Yes, we need training. We need training for staff, but we also need training for businesses. Of the 5.7 million businesses out there, 78% do not employ a single person. That is an enormous amount of people who can grow the economy, employ people and contribute, but they do not know how. They are not willing because of the cost of running the business or the risk they take as business owners. That is the result.

**The Chairman:** That concludes the session. We are extremely grateful to you both for coming in. We have heard extremely interesting evidence from both perspectives. Thank you for your time.

## **The Rt Hon Frank Field MP – Oral evidence (QQ 104–111)**

Tuesday 30 October 2018

[Watch the meeting](#)

Members present: Lord True (The Chairman); Lord Bichard; Baroness Blackstone; Viscount Chandos; Baroness Crawley; Baroness Greengross; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Lord Price; Baroness Tyler of Enfield.

Evidence Session No. 10

Heard in Public

Questions 104 - 111

### Witness

I: The Rt Hon Frank Field MP, Chair, House of Commons Work and Pensions Select Committee

**The Chairman:** It is a bit forbidding but, as you well know, we are not like those House of Commons Committees where people are shredded. We are very grateful that you have come and given the time to join us this morning. We all respect the insight and work that you have done over so many years and we would like to pursue some of the points in the reports that you have been involved with. This is a public session that will be available on the parliamentary website. You will have the opportunity to correct any evidence. Please introduce yourself for the record and we will begin with the questions.

**Frank Field:** I am Member of Parliament for Birkenhead. I chair the Work and Pensions Select Committee in the other place. I wonder if I may make an opening statement.

Q104 **The Chairman:** Yes, indeed. I was going to invite that. I apologise for having a frog in my throat. If I cough, therefore, it will not be a sign of disapproval of what you are saying. I was going to ask you whether you believe the intergenerational settlement in the UK is currently fair? What generations are disadvantaged and in what ways? That may lead to an opening statement. We will narrow in on the social security aspects in the following question.

**Frank Field:** I cannot give you an answer to that and I do not think that anyone else who appears before you who is honest can give you an answer to that, which shows how important your work is. If one looks at the model that we have in all our minds, we can see the difficulties that we are in today. Most of us are products of the post-war settlement. When Rab Butler stood up in the early 1950s and said that the standard of living was going to double every 25 years, politicians were aghast that this state of affairs could turn out to be true, but it was true. Our mindset is that each succeeding generation will do better than the one preceding it. What is so important about your inquiry here in the House of Lords is that you are the first serious body—we did a partial inquiry into this but

nothing of the status that you have going—to look at what the consequences are when the next generation is not going to be better off than the current generation. In a lot of the answers, therefore, we will be highlighting those groups who have benefited, not because we want to pick on those groups but because we want to register that the next generation, given the economic position that we are in, will probably not do as well as their parents did. That is a totally new political period for us to be in in the post-war era.

**The Chairman:** We would all concur with those remarks, for which I am grateful. Given that one of the backgrounds to the inquiry was the assertion that in this state of affairs there was a perceived unfairness, some quite strong phrases were used. We heard from Lord Willetts about one generation robbing the future of another. That is not the tenor of most of the evidence that we have had. From your perspective as a Member of Parliament, and the only Member of Parliament we have had so far, in your judgment and day to day work is there a sense, particularly among younger people today that you meet in your constituency, that there is this cliff of failing expectations that we are facing ahead? Do you encounter that regularly?

**Frank Field:** The young have adjusted remarkably quickly to the rough deal that they are going to get compared with their parents. If one looks at the incredibly clever people who I work with within my office, it is no reflection on me to say that they are all pleased that they have got a job. When I left university, I expected to get a job. I expected to get a job with an occupational pension. I expected to be able to acquire savings and I expected to get a house. Most young people in the equivalent position to mine at that time think they are doing rather well if they have got a job. That is the difference now in expectations.

It is the repercussions of our debate in Parliament, Lords and Commons, which seem to upset people, because we are pointing out who has done rather well in the post-war world settlement and who is not going to do so well in the future. The divide, generally speaking, is between people who are pensioners who have done well compared to those who are going to follow. That is not to blame pensioners, but merely to say that their expectations were fulfilled in a way that we are probably going to find it difficult, if not impossible, to match for younger people.

The importance of your Committee will be to keep this debate going. I hope you will be honest in that nobody has carefully collected together what we know about intergenerational fairness; in other words, who has got what depending where they are in the cycle of life that we experience. That is not a reason for not doing a report. It is a reason for doing the report and encouraging the Government to start doing the work so that we can understand these issues better. Unless the Government follow what I hope will be your report by very constructively responding to it, we will be in the era of vague assertions for ever and a day, and I do not think that helps anybody.

**The Chairman:** We heard from Treasury officials earlier that they admitted they did not do any kind of cohort-based studies or consideration at all, which was surprising. We will be pursuing that with Ministers. I would like

to move on to the different groups and to the specifics of some of the social security aspects which you have already alluded to. Do you want to come in here, Baroness Tyler?

**Baroness Tyler of Enfield:** I know that we are going to talk about data in a bit more detail later but, on the point that you just made about people not having gathered the data, do you think that is because it has not been on the radar or do you think it is because politicians have known full well that it would be politically difficult data to have?

**Frank Field:** I do not think it is the latter. I think it is because nobody started the exercise which is now beginning in Parliament, and with a big bonus to you for having this inquiry. For the Treasury to come forward and say that they do not collect data is very honest of them. There had been a time when if you had asked them if they collected data on the vertical distribution of tax burdens and public expenditure, they would have held up their hands and said, "We have no idea". Parliament, however, insisted that that data should be collected. It is similar with horizontal distribution. What is the difference in any given level of income between those with children and those without children? The Treasury would have held up their hands and said, "We have no idea". I hope that will be one of the strong recommendations from your report.

**The Chairman:** Thank you. Lady Greengross wanted to come in on social security specifically.

Q105 **Baroness Greengross:** You and I have worked together on this over many years. I am interested in the fact that the social security system is now unfair. Can you give us examples which you feel are very unfair and where some people are being unfairly privileged, on which I would tend to agree with you?

**Frank Field:** The data will show that younger people are less fairly treated because the wonderful model we had in the post-war period where we all got richer and expected higher standards of living has come to a halt and, therefore, it is affecting people at the beginning of their lives more than people at the end. To highlight some of the ways that pensioners have benefited, and I am in that class myself—and any other interests on the parliamentary register should be declared—we are living longer and taking a lot more out than we thought we would do when the welfare state was established in 1948. Nobody, or most of us in my generation, foresaw when we acquired houses the capital-gains effect and particularly how easy it was to acquire more than one house. That has been a hugely beneficial effect for us. As I said at the beginning, we all expected, if we were going into professions or larger companies, occupational pensions. That was the standard. The group of pensioners who have least benefited are poorer pensioners. To say the pensioners have been the beneficiaries is not to put them in the public stocks and say they have been on the receiving end of special privileges; they were just born at the right time and these things happened whereby we are not going to be able to deliver for the next generation.

I submitted to the Committee the note from the House of Lords Committee on the cuts that the Government have made to the welfare budget, which have been the biggest cuts ever. They have made the

biggest contribution to bringing the deficit down. That analysis shows that, generally speaking, pensioners' incomes have been protected as far as welfare payments are concerned and that all the cuts—£37 billion of cuts cumulatively to date—have been borne by people who are of working age, and particularly working age with children. That has not been debated and has hardly been taken up. That is how things have turned out. However, one wants to register that now because the Government are saying it is moving towards the end of austerity. It is those who have had the weakest shoulders and have borne the greatest burdens who should be the beneficiaries of any gains from the end of austerity. To say that pensioners generally have been the great beneficiaries is not to blame and not to put them in the stocks. It just so happens that we were very lucky to be born at the right time.

**The Chairman:** I am old enough to remember in the 1970s when Joel Barnett broke the link between earnings and pensions because it was not in his view sustainable. That was a courageous decision at the time but we now find ourselves with this triple lock. Your Committee recommended that that should be addressed and you would presumably stand by that recommendation in the light of what you have just said?

**Frank Field:** I do but, of course, we have a new Committee so it is a question of what their views would be. The Government put it in their manifesto and lost seats, so I do not know what will be happening there. I would have thought that the first move should be to bring all benefits into taxable income because the more we have and the more we widen the tax base the less high average and marginal rates can be. I would suggest that we look at the package that pensioners have by thinking that maybe it is very difficult head-on to follow through the recommendation that the Government had in their manifesto, but pensioners have other forms of income and other forms of benefit. Maybe this will come up later in questioning but I think all that should be taxable.

**Lord Richard:** I agree with that but I am a little worried, and I am not sure if you would agree, that you are perhaps generalising when talking about pensioners as a block and young people as a block. There are quite a lot of poor pensioners out there and 64 year-old women would probably not agree with you that they have been terribly well treated, so the analysis and our reflections perhaps need to be more nuanced and sophisticated.

**Frank Field:** Of course it does, and we have data on that. The Committee I chair reported on how older women approaching retirement were being treated. We proposed a solution that people should be able to draw down their pension when they expected to draw it down but that they should take a small hit in that they would not be able to draw it at the full amount. Because of the divisions between that campaigning group, the unanimous recommendation from a Tory-controlled Select Committee which I chair came to naught. That is why we saw the demonstrations in the Public Gallery of the House of Commons yesterday.

There are particular groups and that group of women who will have to work much longer than they thought before they can take their state retirement pension feel aggrieved, and so they should be. I also want to

put on record, however, that if we were having this meeting 10 years ago the whole agenda would be dominated by pensioner poverty. The one thing that Gordon Brown did which really worked was the pension credit. That has left some pensioners poor, but that initiative alone transformed the face of poverty which previously wore an older face; it now wears a younger face. That was the one reform that made that structural difference. That is not to say that we do not all know and deplore the fact that some pensioners are poor, but it is a totally different position from what it was before Gordon Brown introduced the pension credit.

**The Chairman:** I want to bring in Lady Blackstone on the specific benefits.

Q106 **Baroness Blackstone:** You have suggested that the universal pension benefits should be taxed but I wonder if that goes far enough. Should we not be getting rid of some of these or at least restricting them simply to those who are poor pensioners like those who have benefited from the pension credit system? Taxing them does not seem to be likely to go far enough in addressing the perception that these extra benefits are unfair and unnecessary.

**Frank Field:** Many of the people who have gained them think that they are jolly good benefits. That is our problem. You will be able to make a report knowing that, unlike us in the other place, you do not stand for election. My proposal—made along with many other people—for taxing them is not that that is the end of the journey, but it puts these benefits into political play. Once we have established that, the debate would not stop there. We have to get more richer pensioners to realise that they should pay their licence. They do not have to claim it. Those of 75 and over should pay for their licence fee in the interim, but by taxing it we have begun a reform—not the end of the reform but the beginning of a reform process—which would make matters fair.

We may remember that these benefits were introduced because a Labour Government was under severe financial pressure and these little awards were handed out because they were terrific to have but they did not cost then that much compared with a decent increase in pensions. I think we should look at the basic pension rates and at these benefits and, move one, put them into political play by saying that they should be taxed. If we try to take groups above certain incomes then we will set up a machinery separate from the one that we have. Therefore, regarding Sir Steve Webb's submission to us when he said that it would be very expensive to do it that way, we would sidestep that problem because it would just be entered on our income tax forms.

**Baroness Blackstone:** Picking up on your point that there are many people who are in receipt of the universal state pension who are still in employment, is there a case for having a look at this again and not paying pensions to people who are quite often still in full-time employment, and/or raising the age at which people can claim or receive state benefits in a national pension scheme? This would be faster than the current proposals, which are going to take a very long time to catch up with the fact that people are living much longer and also working for much longer.

**Frank Field:** The more the pensioner population through the ballot box resists change on this front, the more Governments will make the only



move that they have, which is to raise the pension retirement eligibility age. I would not go down that route further than the Government have currently said is necessary. If I take my own case as an example, I am eligible for my state pension, which I drew on the first day, but my standard of living massively increased because I do not pay national insurance. I am in work so I should be paying the national insurance contributions like everybody else that is in work and my pension should be taxed as part of my taxable income, which does happen. If one wanted to see a significant increase in revenue and make it fairer between those pensioners who cannot work and those who jolly well can work and want to work, I would advocate that we start to tax through the national insurance system the pensionable income over and above taxes which are currently levied.

**Baroness Blackstone:** It is so obvious that this ought to happen. Why is it not happening? What is stopping Governments from introducing this change?

**Frank Field:** What is so extraordinary is that Chancellors think that they are going to be beaten up by the public and they are amazed by the general approval they get. If one thinks about Gordon Brown, who would resist change, like the penny on each pound of national insurance contributions going to the NHS, he used unparliamentary language to Ed Balls, saying, "You have now lost me the expletive next election", and was then amazed that the public thought what a sensible proposal this was. I guess that the current Government will come round to the same view and be amazed that the public actually approve of their behaviour.

**Baroness Greengross:** I have done a lot of work on this and I agree completely that one of the reasons why this is objected to is that HMRC thinks that it will not bring in very much money. If we treat people who are working as workers, whatever their age, and they pay insurance and they pay tax, if it brings in a lot or a little is secondary to the fact that it is fair. Would you agree with that?

**Frank Field:** It is certainly fair to do this and, while one looks to the Revenue for advice, it is patently not true. Given that they privatised our tax returns, cut the number of civil servants doing all this work so that we have to employ accountants to do it, it does not cost them anything if they say you have to enter a national insurance contribution once you have reached the statutory retirement age. It would not cost them a penny. It might cost us a bit more because our accountants might charge us a bit more for doing a slightly more complicated tax return. It would cost the Government literally nothing and bring in billions.

Q107 **Baroness Jenkin of Kennington:** I wanted to talk about the fact that a third of over-60s who travel free on the Tube are going into full-time work. That is another one that should be looked at. As you have said, your Committee talked about the baby boomers.

**The Chairman:** We are going on to the broader question of the ageing society.

**Baroness Jenkin of Kennington:** Do you think that the Government are making adequate preparation for the ageing society and particularly the demographic shift?

**Frank Field:** No. Might I add to that?

**Baroness Jenkin of Kennington:** Please.

**Frank Field:** Lord Hennessy wrote a really good essay about the struggle there was to establish that the Government should do strategic defence reviews to, on the one hand, look at what the expenditure costs are for defence and, on the other, to match that against what we expect from a defence budget. You would have thought that it is a ludicrous state of affairs to be passing defence budgets while never matching it to strategic defence reviews. Andrew Forsey and I work closely on lots of reports. We have done a similar pamphlet for Lord Hennessy's series, if I can do a plug here, for a strategic welfare review. We do not actually look at, which is your point, what the costs are and what the demands will be on that, and have a proper, mature political debate rather than just doing these one-off snapshots on both government reports and snapshot political debates. There is no work being done. I hope that our strategic welfare review will encourage the Government to act but also that when you report you will keep coming back to it on the Floor of the House of Lords and elsewhere to make sure that the Government do not get away with thinking that this can be boxed off. There are always more important things to do, we all agree with that, but surely there are not more important things to do than answer the question that you have posed knowing that everybody you bring before you cannot give you an answer.

**The Chairman:** In this they only go to the end of the survey period, and we regard that sometimes as a luxury. One of the other related points is that I am mindful of the babies who are being born today. Are you troubled about the burden that we are laying with regard to intergenerational fairness? Do you think that we give enough consideration to the effect of long-term deficit financing on the youngest and the debt that we are piling up? Does that worry you, or are you confident that we will be able to maintain the national debt at manageable levels?

**Frank Field:** If productivity was growing as it used to grow we would have a more relaxed conversation, but it is not. I know that we can put forward reasons why it is not and that is outside the terms of reference of your Committee, but that is one of the reasons why we should be concerned about those who are just born. If we look at those who have been through our education system and are now entering the labour market we see how transformed it is with people with insecure employment, lack of contracts, being made to be self-employed and the whole of that new economy. None of us would ever have dreamt of being employed in those conditions. Increasing numbers are being employed in those conditions and we need to have some plans laid to counter that trend, not in a way that destroys jobs but one that cuts into excessive profits to make sure that people have a decent minimum.

**The Chairman:** You have brought us on to the abyss of the very subject that Lord Price wanted to pursue.

Q108 **Lord Price:** Could I ask you to expand on those remarks you made about the gig economy and, as a consequence, the way that non-standard contracts are emerging and your view on how that might impact negatively on the younger generation? Do you have any thoughts about how you

might choose to regulate that differently to make it fairer?

**Frank Field:** Andrew Forsey and I have done three reports on this. This morning we were down at the High Court, where the Independent Workers Union were outside the court supporting their colleagues inside who have taken Uber on as “independent workers”, which is no mean feat. Uber’s tactics are clear. They lost a very important court decision three years ago. Three years later, those two workers are in the Court of Appeal saying that they are not self-employed and wish to be regarded as having worker status. I hope they will be successful today and in the rest of the week or however long it takes for that to be heard. Uber will then go to the Supreme Court. It is going to be six years stretching these contracts out. I will be encouraging the Attorney-General in the House of Commons, and I hope you will encourage the Law Officers in the House of Lords, to ensure that these cases are heard within weeks rather than years. The balance of power would be totally changed if we said to companies that workers must be given a worker status. What that means is that they will have to be paid the national living wage, which George Osborne introduced, and they will be entitled to holiday pay. If they wish to be self-employed, they are free to opt for that status. At the moment they are compulsorily pushed into self-employment. To get out of that status they have to go through the tribunals and the courts.

When you are up against international giants, which the Chancellor yesterday was trying to get to give some tax back, it is not a fair fight. I would hope that one of the recommendations you make is that everybody in this country should have worker status. That is not like the status we all knew when we were going to work but it would be an important improvement—that we would not be self-employed against our wish, we would get the national minimum wage and we would have holiday entitlement. Those who wanted to opt for self-employed status would be free to do so.

At the moment we are seeing the courts trying to settle this, but they are taking a very long time to do so. I spoke at the rally outside the courts and said that I was coming before you this morning and that their efforts were being heard in Parliament and that I would mention that I had been on their rally outside the courts in support of those who were countering Uber’s appeal. I said that I would also be raising it in the House of Commons and that I hoped you would be thinking it important enough to make that recommendation on worker status. It will not turn the apple cart over but it would be wonderful to see how easy Uber will find it to pay that money should we decide that the onus is on them to prove self-employment and is not on the worker.

**Lord Price:** I spent three decades of my working life with the John Lewis Partnership and have a view that a company’s success can be driven much harder if the employees are involved in that success. You talked about workers’ rights. Do you have any views about those workers in the gig economy having a greater say in the way that their companies operate?

**Frank Field:** There are general reforms which are beginning to be debated more on the Labour side than on the Government side, although I am sure that that will change, about how we might have been in a

position where trade unions were over-powerful. The idea now that they are over-powerful is absurd. People are not covered by basic collective bargaining. We do not want to go back to those bad old days but we can surely have a better new settlement than the one we have now. One model is the John Lewis Partnership, which gives people a sense that they are part of a team. The idea that you are going out for all these hours that God sends trying to earn a living knowing that your employer does not have to pay you the minimum wage for when you do not have work, the idea that you do not feel valued in that when you are scraping along and have bills to pay and children to feed, is a huge indictment on our economy as it currently stands.

**Lord Holmes of Richmond:** I would like to declare an interest in that a Bill I put through the Lords is coming down to your end on 23 November. Would you agree that, as an extension, it is time that something was done about unpaid internships?

**Frank Field:** I do. It is appalling that we pass minimum wage legislation in the Commons, we all cheer it and we find that Members are not paying people on internships. What it means if you do not pay is that some people cannot get that experience. Without that experience, the chance of getting an extra employment opportunity is denied. If I can make a plea through you, Chairman, one of our great mysteries is that we have not got time to do anything in the other place because we are full up with Brexit legislation. One day we may have but we do not now. I would hope that through the normal channels, you would lobby the Legislative Committee of the Cabinet so that we can be given time for these useful Bills that you pass to be taken forward, such as Lord Soley's Bill on home education, which I am trying to take forward. We are not doing any other decent work at all. We are just waiting for Brexit, when we will be busy, but we are not busy now. That is not a revolution in itself but it will be revolutionary for individuals who are currently excluded from internships because their parents cannot afford to pay for them while they are gaining that key experience. It is shameful that Members of the House of Commons who preach that we should have even higher statutory minimum wages can sometimes, and maybe often, not pay the statutory minimum. We have plenty of time to pick up your Bill and pass it, as well as Lord Soley's Bill and lots of other very important Bills that you are doing.

I tried to persuade the Prime Minister that the last time we had a serious minority Government, which was Harold Wilson's Government from 1964 to 1966, Back-Benchers introduced divorce law reform, abolished hanging, changed the law on homosexuality and did a number of other key things. These were all Back-Bench Bills. As soon as they were through, Prime Minister Wilson claimed them as his. Nobody would want other than for the Prime Minister to claim them as hers. Why will she not give us the time to put these very important reforms on the statue book? I wish you well.

**The Chairman:** I always let other members of my family claim my good ideas. We cannot go into the procedures of the Houses. The trouble is we have a perception up here that if we send a sensible Bill down someone will shout "object" in the other place and nothing much will happen. We need

to build a broader respect. I want to get back to our inquiry.

Q109 **Viscount Chandos:** I would like to go back to data. You could not have stated more strongly your feeling that that should be one of our prime objectives. I wondered if there were any lessons that we could learn from Parliament having insisted that the income distribution data that previously did not exist should exist. Picking up the question that Lady Tyler asked, how much is that a lack of will, based on the expectation that maybe the evidence is going to be uncomfortable? On your strong statement that we are in a unique position in the post-war era where the current generation are likely to be less well-off than their parents, I am not sure how broadly and widely that is accepted. Intergenerational fairness is not necessarily seen as being all about that, and that is the context in which one has to make the argument for the data to be provided.

**Frank Field:** I am glad that you have come back on that because what I was trying to say was that before, with a stable population and rising national income, we did not have to face this question. Now we are not in that position and, therefore, that is why this inquiry is so important. Again, it comes back to you. You wonder why people want to be Ministers. We want the Chancellor of the Exchequer to say, "We need to collect this data. Please advise me on how we are going to do it. Get on with it and report back within this timescale". It is as simple as that to start the process. As you say, Lord Chandos, it is a matter of political will. We need it done because the debate out there has not yet turned sour. The chances are that as time goes on and we have no data we cannot say what is going on and any old prejudice looks like a good fact. It could turn very nasty very quickly. Therefore, this task that you set yourself in making this report will hopefully be a landmark, and hopefully you are going to follow it through and we will do the same in the Commons with our Select Committee report and your report to get the Government to take this decision. When they do people will be amazed that they had not done this decades ago.

Q110 **Baroness Tyler of Enfield:** You have already given us some very clear and strong recommendations for the Committee to consider, particularly around what we have just been talking about, Parliament insisting that this data is gathered and presented, and also your strong recommendation around all the benefits including state pensions being taxed. If we were to focus on two or three key areas when it comes to making our recommendations, are they the top ones, or are they the ones that have just come out in the course of the discussion? What would your top two or three priorities be?

**Frank Field:** If I was helping you draft your report, which I would willingly do, there would be a lot of recommendations, but there would be two primary ones. The first is that we cannot continue not collecting this data. The second would be to say that we are in uncharted territory, which makes the collection of this data much more important. There will be a growing divide between generations and perception that what is happening is simply not fair. We do not know how that will politically play. People were aghast at the numbers of people that turned out for the Brexit referendum. These things have a habit of coming up all of a sudden and walloping you in the face. What we believe as

parliamentarians is that if we provide the data we can have a much more rational debate in terms of bringing what might happen on the street into Parliament and achieving a greater sense of fairness than we currently have.

It is obvious that, through no fault of their own, the pension generation like me have benefited enormously. That is not to say that there are not some pensioners who are poor and we need to attend to that. The pension credit by Gordon Brown transformed pensioner poverty. It has taken a long time to catch up with that reform and we now have poverty concentrated among families with children and we have just had a series of austerity measures since 2010 that has made families with children bear the greatest burden in trying to get down the fiscal deficit. That has passed largely without comment, although people going to food banks and people who are destitute is the consequence of these measures. Hence the importance of collecting data. If we had had that House of Commons note at the beginning, we would have had a debate since 2010 which might have mitigated the effects on families with children and prevented the numbers and supply chain to food banks and destitution. Those are the two main recommendations.

There are a lot of other ones but if you could say to the Government, "Please make this first move to collect the data, and people will be surprised that you have not collected it before". In the early days we will have to build it up. If you look at social trends, that was a very important initiative and it got better year upon year as a way of trying to tell us what was going on broadly in our society and then digging deep among particular groups, but that can never happen unless the first step is made.

**Q111 The Chairman:** We have not given you notice of this and we only have three minutes left. One of the things that our Committee is going to be looking at is this concept of "communities". This arose from a sense that some people argue that the different generations are not mixing and melding across generations in the way that they used to and this is a matter of social concern. From your perspective as a local representative do you see that as an emerging problem, that people are increasingly leading different and separate lives, rather than cross-generational lives?

**Frank Field:** I have not got the expertise to offer advice on that. Lisa Nandy, a wonderful newish Member of Parliament, has looked at where towns stand compared with cities and rural communities. She has some very interesting findings which I am sure your clerk could get about how different it is in towns from the multiplicity of movement in great cities. Birkenhead is a proper place, a proper town, so I understand something about that.

**The Chairman:** Thank you very much. We are so grateful to you for coming. You have given us some compelling evidence and a lot to think about, and encouraging evidence too. Perhaps we can encourage you as you go on with your own work. We can assure you that the issue of labour that you raised and discussed is certainly one that we will be addressing in the report.

**Frank Field:** That would be brilliant if you could look at that group of vulnerable workers in the gig economy. The big picture that you are painting is crucially important to take us into a much more informed political debate. We are in Parliament because we believe in political debate, and we do not have the analysis to have a proper conversation on it. Thank you all for doing your inquiry and thank you for inviting me.

**The Chairman:** Thank you very much.

Dr Eliza Filby, Age UK and British Youth Council – Oral evidence (QQ 160–168)

**Dr Eliza Filby, Age UK and British Youth Council – Oral evidence (QQ 160–168)**

[Transcript to be found under Age UK](#)



## **The Rt Hon the Lord Forsyth of Drumlean – Oral evidence (QQ 112–119)**

Tuesday 30 October 2018

[Watch the meeting](#)

Members present: Lord True (The Chairman); Lord Bichard; Baroness Blackstone; Viscount Chandos; Baroness Crawley; Baroness Greengross; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Lord Price; Baroness Tyler of Enfield.

Evidence Session No. 11

Heard in Public

Questions 112 - 119

### Witness

I: The Rt Hon the Lord Forsyth of Drumlean, Chair, House of Lords Select Committee on Economic Affairs.

Q112 **The Chairman:** Thank you for coming in. This morning we will be discussing some very important aspects of policy where the Committee has great concerns. We do not want to replicate all the evidence-taking that your Committee and others have done but to touch on things that are of fundamental importance, particularly to young people. As you know, the session is open to the public. The webcast will be going out live. There will be a verbatim record which you will be able to adjust and amend for the purposes of clarification or accuracy. You know who we are but please can you introduce yourself for the record and then we will begin questions?

**Lord Forsyth of Drumlean:** I chair the Economic Affairs Committee in the House of Lords.

**The Chairman:** We will look at housing first and then come on to higher education and tuition fees, where the subject is broader. Our inquiry is on intergenerational unfairness. Is government policy on housing unfairly advantaging or disadvantaging one generation over another? If so, how?

**Lord Forsyth of Drumlean:** I do not want to upset the Committee right at the start. Certainly, there are aspects of housing which are making life very difficult for that generation. I do feel, as part of the baby-boomer generation, that we were brought up hard for what turned out to be a soft life and that the younger generation have been brought up soft for what is going to turn out to be a harder life. Housing is one of the examples of that. If you look at the numbers in England, 72% of first-time buyers have an income that places them in the top 40% of incomes in the country, compared with 65% a decade ago. For younger people, as any parent will be able to tell you, their chances of owning a home are increasingly dependent on the bank of mum and dad.

That creates an unfairness not only between the generations but within the generations and it is important to remember that. Coming to your question, some aspects of government policy have made that worse.

Yesterday, the Chancellor made some progress towards reversing the damage that has been done by really penal levels of stamp duty. There is a lot to be done there. That makes life difficult not just for youngsters who have to find the money for the stamp duty as well as for a deposit, but for older people, for whom downsizing and therefore making the property available, which we already have the housing stock for, becomes a much less attractive proposition. Because that is the less attractive proposition, the market has not responded by creating the types of property which older people who are downsizing might like to have. That is an example where government policy has not been particularly helpful.

When we did our report, we made a number of suggestions. I sent you some written evidence so I will not bore the Committee by repeating all the points. We felt that the Government's target for new housing was unlikely to address the extent of the problem if we are going to try to make more housing available and bring down cost, and also that they were unlikely to reach the targets. There are a number of things that they could be doing. For example, a lot of land is held by public authorities. If you are a health authority and you decide to sell off your land, the money goes to the Treasury. There is not a lot of incentive, therefore, to make that land available. There are things which the state could do to increase the supply of housing. They could bring land into development without getting into policies that might attack people's individual property rights.

**The Chairman:** We will come back to the taxation issue in a later question because we have heard enough evidence already to believe that that is important. I want to ask one follow-up. One of the structural things that has been happening in recent years is the policy of quantitative easing and the deliberate holding down of interest rates, which economics teaches us affects asset prices. Are you concerned about the pressures that might come on those who have already acquired as this policy, if it is ever uncoiled, is uncoiled?

**Lord Forsyth of Drumlean:** I was a bit of a rebel or outlier on quantitative easing. I understand why quantitative easing was done, but when you ask the Governor of the Bank of England when he comes to our Committee how he is going to unwind quantitative easing, the screen goes blank. Quantitative easing has undoubtedly resulted in a huge increase in asset prices, which has created the huge explosion in house prices, share prices and other assets. That has made it more difficult for youngsters who then have to take on very expensive mortgages and, as you say, Lord Chairman, it is difficult to see how this is going to be unwound without interest rate policy having to change in the longer term, which will mean that the burden of mortgages is greater. We are stuck in a position where interest rates are being held down and that is creating productivity and economic difficulties because it means that capital is being misallocated and people do not get a proper return on their investments.

**Baroness Blackstone:** I would like to pick up on what you said about public ownership of large amounts of land or brownfield sites not being used. We asked officials in the Ministry of Housing, Communities & Local Government last week about this and received a very unsatisfactory

response. Our report does not seem to have made much impact on the Government in this particular area. I want to come back to the issue of unfairly advantaging one generation over another and to point out the whole issue of taxation of assets and the fact that the generation that bought their houses cheaply now own assets which are far greater than they could ever possibly have imagined. Should we not grasp the nettle of council tax bands and make sure that people who are living in expensive houses pay a larger contribution to council tax through one or two additional bands than they are currently?

**Lord Forsyth of Drumlean:** It is never a good idea to impose a tax on people who have not got any money. There are a lot of people who are sitting in expensive houses who do not have the cash to pay. Broadly speaking, however, I agree that there is an argument. Council tax is a highly regressive tax and there is an argument that the bands should be amended so that owners of more expensive properties contribute proportionately. If we are talking of intergenerational unfairness, however, we have to think about the elderly people who are sitting in houses that they might have bought for a small sum of money which are now worth a large sum of money but whose incomes are very low. The state will be able to take its share of that benefit through inheritance tax.

There is a problem with taxation which distorts the housing market in that housing is free of capital gains tax, along with clocks and wine and other assets such as classic cars. The remarkable thing is that all these assets have gone up tremendously in value, and also agricultural land, which benefits from relief on inheritance tax. We have seen a huge increase particularly in agricultural land within commuting distance from London. There is no doubt that the taxation system encourages people to put their money into housing rather than into pension schemes and things of that kind because there is favourable bias towards it. Unscrambling that is almost impossible without creating enormous destruction of value and distortion in the marketplace which I cannot see any Government of any political party risking.

**The Chairman:** We will come back to taxation.

Q113 **Baroness Greengross:** I declare an interest. I am a patron and do a lot of work with ARCO, which is retirement housing with care. Some of this might be addressed by putting a legal duty on local authorities to make sure that alternative housing for older people is available. Are there things that we could do which would encourage older people to move out of these very large homes, rather than always think about the land use by ordinary builders who are not dealing with this unfairness particularly well?

**Lord Forsyth of Drumlean:** Yes, I do. It is expensive and the Government have now got used to having stamp duty in the order of £12 billion. They have got used to those revenues and reducing the burden of stamp duty for people who are downsizing is important. On your point about local authorities, one thing that the Prime Minister has done, which we recommended in our report on housing, is to remove the cap on local authority borrowing against their own assets. We have been in the absurd position where local authorities can borrow money to build swimming pools but not houses. I never thought I would find myself arguing for

building more council houses, but we are also in the absurd position where, if you look at the numbers and the demand, and also the fact that the burden of housing benefit has almost doubled in a very short period of time—because of the shortage of accommodation the rents are very high and therefore the housing benefit is very high—it does not make sense if local authorities can borrow against their own assets that they can increase the supply of housing and therefore provide homes at reasonable rents and, as you say, in order to provide the mixture of tenure which is required. The Prime Minister's decision to lift that cap, which was resisted very strongly for many years by the Treasury, was a good one.

**The Chairman:** That is welcome. Not all local authorities have a housing revenue account against which they can borrow, which was the proposition put forward by the Prime Minister. Some local authorities have a situation where their housing was transferred to housing associations. There may be some wrinkles in the policy, therefore, that one might have to look at.

**Lord Forsyth of Drumlean:** I am sure, Lord Chairman, that with your excellent experience as chairman of a local authority, you will be able to make suitable suggestions in that respect.

**The Chairman:** Flattery gets you everywhere.

**Lord Bichard:** Your Committee suggested that the Government had neglected other forms of tenure other than home ownership, and I agree with that. Since you made the recommendation, the Government have responded. We have the Tenant Fees Bill, which caps deposits, the Homes (Fitness for Human Habitation) Bill, and we are banning rogue landlords. Do you think that together those measures are sufficient to improve the experience of renting because that is so important to younger people now? Do you think that is sufficient and, if it is not, what more would you like to see the Government doing?

**Lord Forsyth of Drumlean:** It is about supply. It is about building more homes. I do not think that we have a coherent policy yet that explains how we are going to build those homes and where we are going to build them or how we are going to train the youngsters with the skills necessary to put them up. You are right that there have been a number of measures. We were very pleased with the Government's response. They asked us to hold back our paper until the White Paper was published, and many of our recommendations were in the White Paper. There is a long way to go, however. It was not clear to me that when the Government set their targets for housing and apprenticeships, those targets were in any way driven from the bottom up. They appear to have been numbers chosen by Ministers without working out how they were going to deliver them.

Welcome as those targets are, much more needs to be done with regard to releasing land, speeding up the planning process and dealing with the problem that we have an oligopoly of housebuilders in this country which are deliberately holding land in order to maintain the price. Policies such as Help to Buy have had the effect of pushing up house prices for first-time buyers and creating obscenities, as we saw at Persimmon where the chief executive was paid a bonus of £100 million, later reduced to £75

million as a result of pressure from shareholders. Companies like that have benefited from policies such as Help to Buy. We need more competition, therefore.

Perhaps I should declare an interest as chairman of a bank that lends money to housebuilders. We need to make it easier for small and medium-sized builders to get into this market. The planning process, which often involves larger sites or a long period in which to get planning permission, means that you need substantial capital resources to be able to wait the five or six years or to deal with the environmental gains which the local authority requires. That was why we made recommendations in our report; for example, to try to incentivise local authorities to make the planning process faster and, in the case of people who are holding land—going back to the question about council tax which Baroness Blackstone asked about—perhaps after so many years agreed as part of the planning process, if the houses have not been built, you start charging council tax on them, which might concentrate a few minds.

Q114 **Lord Bichard:** You focus strongly on supply and I understand why. You have not said anything about security of tenure. Many people would suggest that one of the problems for those renting is the lack of security and the fact that they can be moved so swiftly. This is not the case in other countries. Do you think that there is a problem there? Have you any thoughts on that?

**Lord Forsyth of Drumlean:** There was a situation where there was hardly any rented accommodation available until we brought in shorthold tenure, which transformed it. I am not against people having longer tenure and I am not against landlords being able to achieve that and being able to reacquire their property at the end of a tenancy. There is a danger that if you start introducing regulation which limits the freedom of landlords to let their property according to their own requirements, you may have the perverse effect of reducing the supply. It is important to increase the supply of rented accommodation given where we are in the housing market at the present time. For example, although I seem to be very critical of the Government, the changes which George Osborne brought about on buy to let by increasing the stamp duty even more and changing the tax rules—which, by the way, are ineffective because the relief on interest can still be obtained by running it through a company rather than as a private landlord—had the effect of reducing the rented accommodation that was available for buy to let. So, yes, I am in favour of people having longer tenure but not at the expense of interference in the market in the way that will reduce supply.

**Lord Bichard:** I want to pursue that as it is so important for younger people in particular. Do you think there is a way of reducing this perverse impact on landlords at the same time as achieving more security of tenure for young people? Many young people think that this is a major disadvantage.

**Lord Forsyth of Drumlean:** Yes, you could give landlords the confidence that they would be able to get their property back.

**Lord Bichard:** You are not ruling it out?

**Lord Forsyth of Drumlean:** Absolutely not. I am in favour of having that and I am also in favour of encouraging developers to develop

properties on the basis that they will be let on a long-term basis. The taxation and regulatory systems should encourage that. There are a companies which are doing that. We had evidence in our housing inquiry from companies which are involved in that, and that is to be encouraged. As you say, if you look to the continent, to Germany and other parts of Europe, the tradition is very different. That is in part because of the taxation system and the distortions that it has created which you cannot unwind. Therefore, you have to start from where we are.

A technical, banker's point is that last year the amount of capital which lenders had to provide to developers to build housing was increased by the Bank of England by the PRA from 100% to 150%. The effect of that is to make it more expensive for banks to lend to developers and to reduce the supply of finance that will be available because of the impact on their capital.

**The Chairman:** That is an interesting point. I was not aware of that. It might be helpful to have a short note. On the question of the market and tenure, interestingly you said that you now see a case for more council housing and social housing. Those of us who have a starry-eyed view of local authorities think that local authorities know their area well and can assess the needs of different generations and different types of tenure. Would there be a case, as I have submitted myself, that local authorities might be given a presumption to develop on this brownfield land that you have referred to? They can say that this is going to be developed, put forward a plan and divvy up the proceeds with the owners afterwards. It seems that there is a lock in the system, which you have alluded to, that means a lot of public land is still simply sat on, despite the various initiatives taken by the Government.

**Lord Forsyth of Drumlean:** That is a very good idea, although intellectually I recoil slightly because of the impact on people's property rights. The one thing I learned from doing our report on housing is that ideology and dogma can get in the way and have got in the way. We have a serious problem that we need more housing and we need to tackle this. You do not tackle it by announcing targets without having a clue as to how you are going to achieve them. I agree with that.

**The Chairman:** I had in mind particularly public sector-owned land, but thank you. Let us move back to taxation. As a prelude, you said that you thought the take from stamp duty was about £12 billion. You are a clever fellow because I see in the Red Book that it is £12.8 billion. It is planned to rise, despite the announcement yesterday, to £17.2 billion at the end of the survey period.

Q115 **Lord Holmes of Richmond:** Is the taxation of property in need of reform? How should it change and what impact would this have on different generations?

**Lord Forsyth of Drumlean:** It is in need of reform but you have to go cannily. We have already talked about stamp duty and I mentioned the possibility of local authorities having the power to levy council tax on developments that are not completed within a set period, which sounds pretty onerous. I do not know whether you are going to speak to any of the big housebuilders. They deny that they are holding land banks but it

is as plain as a pikestaff. Also, to repeat the point, if you are able to pay your chief executives tens of millions of pounds in bonuses, that says to me that there is not a lot of competition in this business. We need to create more competition and taxation is one way of achieving that.

**Viscount Chandos:** You were pretty emphatic earlier about the political challenge of grasping that nettle. It may have been in the debate on your Committee's housing report that Lord Macpherson said, with all the scars of being a Permanent Secretary at the Treasury, that his rule for advice to his successors was to steer away from anything relating to housing. How do you think we can break that political deadlock?

**Lord Forsyth of Drumlean:** Probably by appointing Permanent Secretaries who are somewhat braver—that would be one step. Another step would be to try to get some degree of cross-party consensus, which I think we are getting. There was cross-party consensus on allowing local authorities to borrow more in order to provide the supply. There is increasingly cross-party consensus on the notion that we want to have more home ownership but we have to try to increase other forms of tenure and it cannot just be all about home ownership. We should also recognise that there is a big shift in the way the new generation of youngsters think about mobility, tenure, housing, debt and a whole range of other things which I have become acutely aware of wearing other hats.

**Viscount Chandos:** Those are encouraging trends but as long as there are the gross distortions from the tax system, whether it is the treatment of gains or the taxation being focused on transactions rather than holdings, that headwind will make it very difficult to create a housing market, whether for rental or ownership, that is fair to the younger generation. I am not sure that I would agree that they have been brought up soft for an era that is going to be hard.

**Lord Forsyth of Drumlean:** You do not think that it is going to be hard or you do not think they have been brought up soft?

**Viscount Chandos:** I think it is going to be hard and there is a widespread appreciation of that in the younger generation.

**Lord Forsyth of Drumlean:** We probably take a different view. My solution to the problem of the distortion created by capital gains tax is to cut capital gains tax and increase the revenue to the Treasury that will enable it to do more. That is a debate for another day. I suspect the Lord Chairman will call me to order if I start a debate about supply-side economics.

**The Chairman:** I think so. I will allow you, however, since you are chancellor for the day, to tell us what you would do about stamp duty, having highlighted it.

**Lord Forsyth of Drumlean:** If you think it is bad in England, it is even worse in Scotland. The answer is that we simply have to reduce it. There is evidence that these very high levels of stamp duty are cutting off revenue from the Treasury. They have certainly not met their targets and in London it has brought some sections of the housing market to a complete dead stop. To my mind, in a flexible economy where you want people to be able to move around the country, it is a very inefficient tax.

To use it as a tax to try to discourage buy-to-let property, as the previous Chancellor, George Osborne, did, on the grounds that this would make it easier for young people to buy property, to my mind was a crazy policy. It has reduced the supply of rented property and made it harder, because of the general uplift in stamp duty, for youngsters to get on the ladder.

**The Chairman:** There appear to be further moves in the Budget which I do not fully understand on that front.

**Lord Forsyth of Drumlean:** I have not read the detail but my understanding is that for shared ownership up to half a million pounds there is some relief.

Q116 **The Chairman:** Yes, for stamp duty. I was thinking of house-letting. We must move on but we have heard evidence that would confirm what you are saying. This blockage in the market has tended to mean that people increase the size of their house. When I was young the aspiration was to buy a small place and then move on to a bigger place. Now people build up. My feeling, therefore, is that we are losing a lot of starter homes or have done. It may well be too late to close the stable door now.

Moving on to higher education, your Committee produced a trenchant and interesting report on this subject. To what extent do you see the current higher education funding system as passing on the cost of higher education to future generations? How could we change the national accounts to alter this?

**Lord Forsyth of Drumlean:** I started off being in favour of student loans on the basis that it was wrong to expect people who had not benefited from university education to have to pay the bill and that there should be some contribution and that this was fair and equitable. I have to say, to my shame, that it was only when we started to look at this in my Committee that I realised that was not the way it was working at all. I believed, because it is what government Ministers say all the time—they even say it when they come to our Committee supposedly having read our report—that the student loan system is progressive. It is not; nor does it mean that those who benefit are taking the burden off the general cohort of taxpayers. For example, it came as a great surprise to me to find that the student loan book in 2050 will amount to £1.2 trillion in nominal terms, which will be written off. The fact that roughly half the loans are not paid back and get written off means that there is a short-term accounting advantage to the Treasury that student loans will not count towards the deficit. So if you are George Osborne and you are the Chancellor, and you are trying to reduce your deficit, it is a very good wheeze to decide to charge students a 6.3% top rate of interest on student loans. The Government can borrow that money at 1.5%. Why should there be this almost 5% difference? What is that about? The answer is that the interest they pay on their loans counts as income in-year even though most of it will not be paid back and will be written off 30 years down the line when somebody else will be Chancellor. The effect is that you get a benefit in reducing the apparent deficit but it is at the expense of a write-off further down the line.

This was used by the Government. For example, they appeared to increase spending on higher education by around £3 billion and at the



same time were able to reduce the deficit by more than £3 billion, which is magic. That is because of the accounting treatment of student loans. That means that there is a great incentive to encourage people to go into higher education which is funded through student loans. The bits of higher education which do count towards the deficit, such as part-time education, education in the further education colleges and other forms of education, have been cut back very severely, with huge reductions in part-time education and in the very vocational education which we need, because that will count towards the expenditure which will not reduce the deficit. As a result, students are being encouraged to do three-year traditional university degrees which benefit from this fiscal illusion and are making career decisions which are not always in their own best interests or in the interests of the economy as a whole, and the universities are getting £9,250 for everyone who turns up. Worryingly, they are now using that income stream to build sports centres and residences and so on.

We set out to create a market in education but we have created a market in putting student bottoms on seats in the institutions, which is not quite what was expected. The effect of this, because of the high interest rate on the student loan, is that it is not regressive. I cannot remember which page it is on, but in our report there is a table produced for us by some external people to work out how much is actually paid by students in various categories. Of course, someone who has gone on to be a doctor will pay back the most, but what was rather surprising was that people who go off to work in financial services or the law, who on the whole are quite well paid, will end up paying back less than a man who decides to become a nurse. The reason for that is they pay their loan back more quickly and there is this high-interest compound effect. So it is not regressive. It does not result in the cost being met by the student. It kicks the can down the road and grossly distorts the choices for people in higher education and the resources which are available to alternative types of higher education to the traditional degree.

**The Chairman:** That is a serious statement. We will come back to the student loans and the balance of availability, but the picture you present is what my father, who was an accountant in a gentler age, would have called sharp accounting, which meant that he would not do business with those people. Some might say that it sounds like a bit of a fiddling of the public account books. Would that be overegging it?

**Lord Forsyth of Drumlean:** I am delighted to say that the NAO has decided to look into this and there may be change. The other thing that the Government are doing is selling off the student loan books at a substantial loss. I got a letter from the Minister following an exchange in the House in the last few days. They argue that that is in the public interest. If the student loan book is sold off, magically it disappears from the write-off at the end of the year. I agree with the Institute for Fiscal Studies, which described it as a fiscal illusion, but it is a very dangerous fiscal illusion and has resulted in some very foolish conclusions. For example, when we took evidence, we met a number of students and apprentices and other people. I remember one young lady who had gone to Durham University. Her parents had no money and she had to give up

after one year because she simply could not afford to live. We also had evidence of students doing all kinds of not very desirable jobs to make ends meet. The decision was taken to move away from maintenance grants to maintenance loans. The effect of maintenance loans for youngsters who go into lower-paid professions, such as nursing or whatever, and take a degree, means that they have an even bigger debt. Therefore, their costs are even higher and it is therefore even more unfair and regressive.

If you ask the Treasury how much it would cost to bring back maintenance grants, it will tell you that it is £1.7 billion. If you applied proper accounting, however, and if you were writing off the debt as it recurred, it is nearer £450 million. It is not just the distortion in the types of things that people study, it is a distortion in evaluating how you support them. My Committee and I strongly believe that although we cannot afford to bring back the full maintenance grant that I benefited from when I went to university, we could bring back means-tested maintenance grants, which would make an enormous difference, and we could extend the scope beyond doing a three-year degree. That would go a long way towards helping with the unfairness, because it is unfairness. All of us in this Room benefited from a very different system. It is true that there were much fewer people going to university. We now have the paradox that we have more people going to university and many of them would have been better doing the kinds of courses which were available and were funded and supported by the local authorities in my day when I was a youngster. The whole thing needs a radical overhaul.

We have not had a debate on our report in the House because we are waiting for the Augar committee to report, which I hope will pick up these issues. I am holding my breath because the committee's terms of reference have been written in such a way that it is not allowed to make any recommendations that might result in public expenditure or changes. I am told that it is going to move beyond that brief. The second point that worries me is that the committee is just advisory on a review which is being done by the Department for Education, which, on the basis of the evidence we have received, just does not get these arguments—or perhaps it is being told by the Treasury what to think. I do not know.

**The Chairman:** We must move on. I note in passing that £400 million is less than the cost of the potholes that we are about to deal with.

Q117 **Baroness Blackstone:** Your answer is compelling and I am sure the Committee entirely agrees with what you said. I certainly do. Some of us said at the time that this system of smoke and mirrors, which is one way of describing it, would lead to a lot of the problems that you have just outlined. I wonder if you can do two things. First, can you say a little more about its impact on different generations? We are charged with looking at intergenerational inequities. Secondly, will you chance your arm on what kind of radical approach we ought to take in future to get out of this mess?

I have to take some responsibility, as does Michael Bichard, because he was the Permanent Secretary—

**Lord Bichard:** A brave Permanent Secretary.

**Baroness Blackstone:** and I was the Minister of State responsible for the

introduction of fees for higher education. We thought that it was right that students should make some contribution to the cost. What we did, however— and I do not say that it was entirely right in every respect—was to introduce not a loan but an up-front payment that was means-tested. It was restricted to £1,000, which was 25% of the average cost of a course. Therefore, the taxpayer and the employers would make a contribution, as well as students or their parents. As it was means-tested, young people who came from low-income families did not have to pay. There was no problem in implementing it. People accepted that middle-class and upper middle-class parents with enough income would have to make a £1,000 contribution. Can we go back to something a bit more like that or is it too late?

**Lord Forsyth of Drumlean:** It is too late. I certainly think that we should start by freezing the fees until we can sort out a system which removes this distortion I talked about which takes funds away from other forms of higher education. You are right about the decision to charge these penal rates of interest on student loans. It is not just that. On the Government's policy, we are currently doing an inquiry in my Committee into whether RPI or CPI should be the measure of inflation. We discovered in evidence that the Treasury uses CPI, which is about 0.8% lower than RPI, when it comes to paying out benefits, but RPI when it comes to putting up train fares. I read in the newspaper the other day that National Savings and Investments is now going to use CPI rather than RPI for working out the interest that is payable on people's savings. For student loans, it is RPI-plus that is used and not CPI-plus. It is very difficult not to come to the conclusion that the decision to hugely increase the element that came from tuition fees as opposed to teaching grant was driven by a desire to manipulate the deficit figure and to meet the deficit targets. It also results, as you will see in our report, in highly undesirable things happening.

One example is the huge explosion, not in all institutions but in many of them, in grade inflation, where suddenly the number of people who get firsts has gone up enormously. Perhaps wrongly, one suspects this is about attracting students because the name of the game is getting them there. I had better not name any courses, but we all know what they are—courses which are perhaps not obviously and immediately going to result in a career or an easy opportunity to get a job. There is no incentive and it prevents the Government using teaching grant to encourage the provision of more courses which are relevant to our economy.

I do not think you should feel too guilty about this, Lady Blackstone. We all had reason to believe that it was a sensible system but I think that it has been pushed to breaking point by the Treasury. You and I would disagree about this, but I remember the poll tax, which was originally going to be less than the cost of the BBC licence. The Treasury cut the grant and it ended up being between £400 and £600 a year and it was going to be paid by students and people on benefits, and the whole concept was destroyed by being overzealous. The ideal of students making a contribution and of tuition fees has been damaged by this and also damaged by a belief that it is progressive, which it certainly is not.

**Baroness Blackstone:** Could I just add one more point? One issue for a Committee that is looking at intergenerational inequity is: why are the parents not making a bigger contribution? They do not under this system. They may find informal ways of helping their children but formally they do not have to make any contribution. No other country in the world has gone down this route, which in itself is interesting. We have a system where we ask students to pay back very large sums of money at very high interest rates, whereas if we had accepted that there are many parents who can afford to contribute to the cost of their children's higher education, we would not be in this situation now. It is relevant to this.

**Lord Forsyth of Drumlean:** Why do you say that?

**Baroness Blackstone:** Because we would not have had to give everybody a fee loan. We would have asked parents to make a contribution, as happens in many other countries, to the cost of their children's higher education up-front, directly. It avoids all these problems that we have now and it is fairer across the generations because it is not just loading the cost of higher education on to graduates, who will be youngish. They will become older but they will be young. It is asking middle-income and higher-income middle-age parents to directly contribute to the cost. Do you see the point I am making or am I not being clear?

**Lord Forsyth of Drumlean:** I see the point but I am wondering what the reaction from middle-income parents would be if they were asked to pay £9,000 a year.

**Baroness Blackstone:** It should not be £9,000 because that is getting away from the concept of a contribution coming from parents, a contribution coming from graduates and a contribution coming from the taxpayer. It is asking the whole lot to be paid that way, which is madness. They did not object to paying £1,000. Some people did because some people always object to anything new, but it was introduced and implemented without much objection.

**Lord Forsyth of Drumlean:** The interesting thing which I learned from talking to the students was that they were much less concerned about the tuition fees and the borrowing associated with them than they were about maintenance grants and the maintenance costs. The other interesting thing was that many of them did not really understand how it worked and that they would have to pay it back. Even more worrying, which is the opposite to your point, were examples of parents paying off the student loan—which I did for my children, I confess—when as a financial decision that was a foolish thing to do because their children would end up having to pay off the full amount. We even had hearsay evidence of people taking out a mortgage in order to pay the loan. I do not think that it is widely understood how the system works and what the liabilities on the parents are.

You are looking at intergenerational fairness. My parents did not have any money. My generation would not have gone to our parents to help us to get a house or get an education. We were quite independent. We have now created a generation who are very dependent. The burdens on parents with children who are having families and getting married and having to make their way in the workforce is quite considerable at the

present time. One wonders how many parents who you describe as middle income manage. There are real pressures.

**The Chairman:** There are but we must move on. I do not want to let the time go without addressing the other very powerful point you made, which you have heard from many others, which is the mix of the product available.

Q118 **Baroness Crawley:** First, what do you think of the Budget decision yesterday to cut smaller firms' contributions to the apprenticeship levy by about half? Do you think that is progressive or do you think it is going to end up being more difficult for young people going down the apprenticeship route?

Secondly, in your Committee's report you recommend substantial changes for those not attending university, such as the abolishment of the Institute for Apprenticeships and the introduction of two new apprenticeship regulators. We have heard from some witnesses that one of the problems with the tertiary sector and further education is that the Government and Parliament have not given changes that have been introduced in the recent past enough time to bed in. I get the impression, however, that you are saying they were the wrong things anyway and we need a radical look at the institutional landscape of this. Do you think it is a bedding-in issue or do you think that we need change?

**Lord Forsyth of Drumlean:** I am sympathetic to the argument that says we have been pulling up the plant too frequently and are constantly changing the plant. It was not in our report, but at some stage in the briefing we were shown a chart of all the initiatives that had taken place in vocational education and higher education. I am pretty ancient and go back to 1997 when I was in government and I thought that I knew all about this. I looked at that chart and 1997 was up here and there were about 20 different initiatives and things that were renamed and changed. If you are at the sharp end of this, trying to run an academic institution, it is a nightmare. We were very conscious of that and the last thing that we wanted to do was to suggest institutional change. You are right that we suggested that the Institute for Apprenticeships should be abolished. That was as a result of listening to the evidence from the chairman, which you should read for yourself and make your own judgment. Nobody seemed to be taking responsibility for delivering effective apprenticeships. We received evidence from a number of employers, one of them a lawyer, who openly admitted that they simply rebadged their existing training for people as apprenticeships. When I asked the official from the Department for Education in charge of this programme whether she thought it was appropriate that money from the apprenticeship system should be used to send people doing MBAs to business school, she replied—to the astonishment of the Committee—that she thought it was and that she was an apprentice herself and was doing a management course of that kind.

I cannot remember the numbers exactly but they are in our report. There were almost 500 different standards for butchers and candlestick-makers and goodness knows what else. Less than half of them had been done and it was estimated that it would take two years to complete the standards. Meanwhile, the levy was being charged on employers. I should

declare an interest as the director of a company which has an industrial services business and we desperately want to train apprentice scaffolders. However, finding a college which has the resources to deal with the numbers is extremely difficult. Naively, I imagined that the apprenticeship body would be responsible for directing all this, but one had the impression that no one was in charge.

On the government side, we had evidence that the target of 3 million was dreamed up in order to put it in a manifesto without any understanding of how that would be achieved. We had evidence that at least half the providers were not considered up to scratch by the inspectorate. It looked to us as if there was no coherence and no plan. I was in government when we abolished the binary divide way back in the early 1990s. We talked at that time about wanting parity of esteem between vocational and academic courses. If anything, we have gone backwards. We do not have parity of esteem with vocational courses because of the funding distortions that I have mentioned, because the apprenticeship structure is not fully developed, and we had lots of complaints from businesses about what they were meant to do.

It was not that we wanted to create another structure, we just thought we should have one funding structure that dealt with everything up to level 4 and another above, and that these bodies should try to create some flexibility, some modular learning, some changes in the system that would enable people to move up from more vocational to more academic and otherwise.

In that sense, I suppose we were pulling up the plant but it was because the plant was wilting and, going back to what I said about being brought up soft and having a hard time, if you look at the impact which artificial intelligence is going to make, if you look at the changes which the internet is bringing about, if you look at the lack of job security which youngsters have compared to what my generation had, there is a huge challenge out there. The Committee knows all this. The idea that you can have one career for life is all gone. We do not have the infrastructure in place, however, that will enable somebody in their 40s to go and do a course and be supported. If they have a family and children, it will be almost impossible. In that sense, I do think that there needs to be a radical view and I do not see any evidence whatever that the Department for Education is focused on achieving this. When we asked the Minister, who was very good and gave us very good evidence, where the target for 3 million apprentices came from, her answer was "I haven't a clue".

**Baroness Crawley:** What are your thoughts on the Budget yesterday and small firms having relief from the apprenticeship levy?

**Lord Forsyth of Drumlean:** I hoped I would get away from answering that. We need more resource being more effectively directed. I guess that that is a reaction to the anger which the Treasury is experiencing from small businesses because of the shambles that is the apprenticeship system. Cutting the resource going in, given the size of the problem, is not sensible, and it is necessary to deal with the disease rather than the symptoms in this case.

**The Chairman:** We will wrap up quite soon but, Lord Price, you want to

ask a quick one.

**Lord Price:** I am conscious of the time. On the apprenticeship levy, I was told by a source who has been a key proponent of apprenticeships that the levy would require their business to take on four times as many people as they had previously. Have you come across evidence that the figures are such that businesses cannot satisfactorily take people through an apprenticeship process?

**Lord Forsyth of Drumlean:** I am not an expert on this but if you are a business you can also do a deal with your suppliers. What was surprising is that companies such as Jaguar Land Rover or British Aerospace have got it licked. You visit them and they have fantastic systems for their apprenticeships. They are not really interested in dealing with the levy and all that. They just get on with it. It is their business. The difficulty for smaller businesses is providing them with the means—with local colleges—so that they can do this, knowing what they have to do and how to do it, and be given advice. We have gone about this in a very bureaucratic manner. For example, the department will tell you that it has businessmen involved in deciding what the standards should be for a particular apprenticeship and when you talk to the businessmen they tell you, “We are not civil servants. We don’t want to be sitting in meetings doing the standards. We want to take on a youngster and make them ready for the world of work”. We had evidence that people coming in with degrees were often less successful as apprentices than people who had not had the benefit of higher education. The young lady I mentioned who left Durham because she could not afford to stay there ended up doing a degree apprenticeship with KPMG or one of the Big Four accountants. There she gets paid, she has a career and she is able to progress. There is a lot of good work being done here, therefore, but we feel that is has not really been gripped.

By going for a target such as 3 million, which is your point, we are sacrificing quality for quantity. It should not be about numbers; it should be about how we are enabling more people to acquire the skills that the country needs and helping businesses to work together with their suppliers to achieve that. I did not see any evidence that the Institute for Apprenticeships was capable of doing that. Our recommendation, therefore, was that for people up to levels 1, 2 and 3 there should be a new education regulator and for people at levels 4 and above it should be the Office for Students, which would have the specific responsibility of giving youngsters the best career opportunities.

There are little things that we can do. For example, when we were talking to people who had gone into apprenticeships, we would ask how they did it and what happened. Invariably, they would say that it was their mum. I hope that is not a sexist remark. It was the mothers who had found out about it and told them. In the schools there was very little information because the schools are rated on how good they are on the basis of how many people they have going to university. Nobody says to a school, “Well done, you have got people going to Ken Baker’s technology colleges”, or “You have people doing apprenticeships”, and similarly with employers. The whole system needs radical surgery and it should be on quality not quantity.

**The Chairman:** We have heard some radical evidence that I should say we have also heard from others. We must wrap up swiftly. The talk of having MOTs in mid-career could be good or could be a gimmick but will not be much good if you do not have access to part-time learning and the top-up ability to promote your career. We note what you have said about that. We do not have time to go through it but note your comments on the problems with part-time learning.

Q119 **Lord Bichard:** I cannot help saying that you have been describing the demise of lifelong learning and the danger that we end up in a society where young and old people do not have the skills to work in a rapidly changing workplace. The Augar review is very important but it is taking a long time. Nothing to do with this Committee, but maybe some of us should think about how we increase the pressure for change, because the system is not working. As you say in your report, it is not a system; it is chaotic. The question I have been asked to ask you, however, is: when you come to read our report, what would you be most disappointed to find that we had not recommended?

**Lord Forsyth of Drumlean:** Everything I have told you this afternoon.

**Lord Bichard:** If you were to prioritise, what would most disappoint you?

**Lord Forsyth of Drumlean:** To me, it is about education and training and it is about exactly what you describe: flexible learning. It is about giving people a hand-up to participate in that and opening up opportunities. The housing issue is much more difficult but that is about improving supply and breaking the oligopoly that I mentioned among the big housebuilders and encouraging more provision. These two things, but education and training is the most important. From our point of view, those of us who will be teetering around, who are older, will depend on having a well-educated, skilled generation; otherwise, they will not be able to pay the bills upon which we will depend.

**The Chairman:** We must not end on a selfish note.

**Lord Forsyth of Drumlean:** It was not selfish.

**The Chairman:** Thank you very much. Lady Blackstone used the term “compelling”. I think your evidence was compelling and so was your written evidence. Thank you very much and we will wrap up there.



## **Chris Giles, Julian McCrae and Professor James Sefton – Oral evidence (QQ 169–176)**

Tuesday 27 November 2018

[Watch the meeting](#)

Members present: Lord True (The Chairman); Lord Bichard; Baroness Blackstone; Viscount Chandos; Baroness Crawley; Baroness Greengross; Lord Hollick; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 18

Heard in Public

Questions 169 - 176

### Witnesses

Professor James Sefton, Chair in Economics, Imperial College London; Julian McCrae, Senior Adviser to the International School for Government, King's College London; Chris Giles, Economics Editor, *Financial Times*.

**The Chairman:** Good morning and welcome. I think you have been to these occasions before so you know that sessions are open to the public. We are being streamed live on the parliamentary website and your winged words will remain on there. However, you will be able to correct the verbatim text for purposes of clarification or accuracy. For the record, would you introduce yourselves briefly and then we will get on with the questions?

**Chris Giles:** I am the economics editor of the *Financial Times*.

**Julian McCrae:** I am a senior adviser at King's International School for Government, and an associate of the Institute for Government.

**Professor James Sefton:** I am at Imperial College.

Q169 **The Chairman:** Thank you very much and please chip in as and when you feel it appropriate. In this session we are looking at the capacity—or incapacity, whichever it turns out to be—of Governments to plan for spending across generations. As Chair, I get the sighting question to allow you to make some opening observations, and that question is, in the broadest terms, how have Governments balanced tax and spending between generations?

**Chris Giles:** We have to be careful about being too precise about this issue. It is not just about tax and spend; government has a big regulatory role as well, for example in planning, which might well have big intergenerational issues, and in more moral questions such as whether there is a debt of gratitude owed to the wartime generation for saving Britain from Nazism.

When you look at the specific elements of tax and spend, you can say, quite simply, that borrowing generally will add a burden of debt service to a future generation, and investing in a way that improves the economy in future will help create wealth for future generations. This is how you get

to some quite broad rules of thumb, such as the golden rule, which has been part of our fiscal rules on and off for the last 20 years or so and which is to borrow only to invest—but we should remember that these are rules of thumb only. James can talk about generational accounting, which is another way of looking at intergenerational fairness and how much each generation puts in or takes out. By all of these measures, you would say that in Britain today, and looking into the future, younger generations will do worse than current older generations, and generations such as mine are sort of in the middle.

**Professor James Sefton:** When we think about tax and spend, we think of three things. The first is tax and spend in cross-section, and the picture is clear: there is significant redistribution across the ages. As you would expect, most people from about their late 20s to their early 60s contribute to the system, and we calculate that on average that amounts to about £5,000 per person. These contributions are distributed to the young, who receive on average £5,000 per person. There is then a large redistribution towards the old. The net flow tends to be up the generation towards the old in terms of pensions and healthcare. I am sure we will talk about healthcare because in the future the big expenditure increases will come from its expansion. That gives you a picture of transfers at the moment in the welfare state.

The second way is to look at it over the lifetime of a given generation and, because of the redistribution in the cross-section, the best way to think about this is to assess net contribution over the lifetime of that generation. John Hills did some important work on that way back, and he came up with the conclusion that it was the generations born between 1900 and 1925 that tended to get more out of the system than they put in. That is because the welfare state expanded after the Second World War and they received benefits from the welfare state without putting in the contributions earlier. Generations born between 1925 and 1960 probably benefited a little, but it was roughly even. For generations born after that, it depends on what we think is going to happen in the future. It is necessary to make estimates and project forward and it becomes very uncertain because of that. Generally, the evidence is that for the generations born up to about 1980—and John Hills came up with this statement—the British welfare state comes out looking “remarkably well balanced”.

The final way we look at it is through generational accounting. Now we are trying to look forward only and ask: is the system sustainable or are we passing a lot of debt on to future generations? There is a lot of uncertainty here because, again, it depends upon what we think is going to happen in the future. In an intergenerational accounting framework, we try to model current policy. When you start modelling that, it gives you an idea of where the fiscal pressures are likely to arise from. For example, there are quite strong and tight constraints on pension expenditure and how it is likely to evolve in the future. The big unknown is health expenditure. We have little to guide us here. There is no natural constraint on how that is going to expand in the future, and, depending on what assumptions you make—and the OBR has discussed this in its

recent fiscal sustainability report—you can get some large numbers about how unsustainable government finances currently are.

The broad conclusion is that in the past the welfare state has been well balanced, but, going forward, because of demographic ageing, it seems that current tax and spending plans are unsustainable and will have to be rebalanced—otherwise, current unborns will have a large burden placed upon them, that is they will inherit a large government debt from the older generations, and under most would consider this to be generationally unfair.

**Julian McCrae:** I want to concentrate mainly on the capability issue that you brought up—the capability of deciding on tax and spend plans. James and Chris have covered the wider set of issues. It is fairly true to say that intergenerational issues are not taken into account as much as they should be within our decision-making—although there is an interesting question as to what exactly “should be” means. It is not just intergenerational issues. At the moment, very short time horizons are not taken into account within our fiscal planning frameworks. The processes that we use for those decisions are not unique to the UK; they are true for most jurisdictions. These are highly political and politicised processes that tend to emphasise short-term issues.

That does not mean that those processes are immune to change. You have to accept the political nature of those fiscal decisions. However, there are many issues where dividing some of the analytic ability from the ability to argue cases within, say, our spending review system would be a very useful thing to do—and not just for intergenerational fairness. Similarly, it would be useful to anchor some of the analytics, as we have done with the OBR on issues of debt and tax but have not done on issues of spend, which brings up things such as the NHS, and wider than the NHS into health and care for an ageing population.

There is a third issue. If you are looking at those time horizons that stretch beyond five to 10 years, which is all any reasonable planning for allocating resource can do, what is the best way to look at that if there is very deep uncertainty about what any aspect of UK society might look like in 10, 25 or 50 years? What is the decision-making process you should take now that may emphasise less the best course and emphasise more the resilient course in terms of the decisions we should be making?

**The Chairman:** I think I speak for the Committee when I say that you all touch on fundamental issues—but we heard evidence from Frank Field who said, effectively, that Governments were institutionally incapable of doing a social audit of costs for the future and that it simply was not something that politicians had effectively done—even though you might say that the implementation of Beveridge on pensions was an example of that in the past. Let us move on from those very interesting comments to bring in Baroness Crawley.

Q170 **Baroness Crawley:** We have talked about the ability—or inability—of government in public tax and spend to take intergenerational fairness into account. To what extent do private transfers between generations alter the intergenerational balance? Professor Sefton, you said in your estimate that older generations have £10.5 trillion in assets of which £5 trillion will be

bequeathed to other generations, and that is divided up into £2 trillion needed to support current living generations and £3 trillion bequeathed to those yet to be born. Perhaps you could expand on that.

**Professor James Sefton:** As Chris said, you are looking at some sort of definition of intergenerational fairness. The one that I prefer is that of Brian Barry, a philosopher at Oxford, who came up with a working definition of intergenerational fairness; he interpreted intergenerational fairness in terms of the sustainability of opportunity for each generation. We interpret this rather literally as the sustainability of consumption. We have talked about sustainability in the public sector and you are asking about sustainability in the private sector. In the UK, the private sector has about £10.5 trillion sterling in assets. We have estimated that that is mostly held by the older generations, but half of that will be needed, based on current consumption plans, to support their consumption in old age—which means that about half of it is going to be passed on, or bequeathed. If that is distributed fairly and evenly among future generations—and this is the big question—then there is enough being passed on to support the private consumption of future generations. So we are saying that we have enough wealth to support sustainable consumption for future generations in the private sector. That is not true in the public sector, but it is true in the private sector. So then the big question is how all this money will be passed down. You can envisage this as a waterfall or cascade of bequests coming down the generations; but how will it be distributed among these future generations?

At this point it gets a little tricky because the data is not so good. We observe that most of this bequest happens down one generation—it gets inherited by 55 to 65 year-olds. Then there are inter vivos gifts which the 60 year-olds pass on down to the younger generation, but we do not measure these very well. This is a bit of a mystery. Those in the younger generation seem to have a reasonable amount of wealth when compared to earlier generations, but we cannot track how they get it. It seems to have been passed on down, but the data on gifts does not capture it—so it is bit of a puzzle working out how the money is getting passed down. So that is the bequest issue.

One then wonders what is happening with transfers within the household. We can look at that because we have quite good data on it. Most of the transfers tend to be, as you would expect, from parents to their children. An average child in the UK receives about £10,000 to £12,000 from their parents to support their consumption per year. That is a huge intergenerational support mechanism. In contrast, if we look up the generations at transfers within the household, these are roughly net/net zero. So the money in private households is undoubtedly flowing down the generations.

There is a lot of intergenerational contact going on within the household, and that needs emphasising; the generations are really supporting each other. But the flow in the private sector is down and the flow in the public sector is much more up the generations. They are reinforcing each other in some way and you have to understand them together. Bequests are the big issue too. There is a lot of money being passed on here. There is very little evidence for idea of 'spending your kids' inheritance' that we

see on bumper stickers and that has gained a sort of popular currency. It does not look like members of the older generation are spending down their assets. It looks like they are saving it to bequest it. It is important to recognise this.

**Chris Giles:** To add to that, we need to remember that although the private sector level of bequest and wealth in this country is very high, it is also extremely unequally distributed. A lot of people have no wealth and a lot of people will receive no bequests. So what happens in aggregate does not happen across the distribution.

Q171 **Viscount Chandos:** What role should the consideration of the interests of future generations play in the Government's budget process? In giving evidence earlier, the Treasury focused on the paying down of debt. Do you think that is adequate and, if not, what else should it do?

**Julian McCrae:** I think it goes far beyond debt. The Treasury has been doing quite a lot of work on improving the measures in the balance sheet for the UK public sector—which touches on issues we have already mentioned such as pensions. There is some really interesting work in New Zealand, which has started to think about a much wider concept of assets and liabilities for the public sector. We might think that the greatest asset of the public sector is its ability to tax into the future and our liabilities as being the healthcare needs of our population, supporting people who cannot work, and, hopefully, helping other people into work who would not otherwise work. New Zealand started, essentially, with welfare and began to think about some of the payment of benefits as contingent liabilities and what the mechanisms were that would make a difference over the long term to those expenditure flows. That is, in some ways, the same as looking at current expenditure in each year, but it changes the nature of the internal discussion. With many of these decision-making processes, we spend too little time thinking about precisely what discussion we want to have and what we want to focus our politics and analytics on. There are choices here. As I say, the Treasury has started to look at whole-of-government accounts and is taking a wider look at the balance sheet.

The one observation I would make is that that is still within a structure which looks at the short-term budget balance and the immediate fiscal rules and expenditure control. So if you look at what it has done in its balance sheet review, there are lots of very interesting ways in which you might get a little more out of your balance sheet. Could government dispose of property, if we are not using it, which it has been trying to do for the last 30 or 40 years? Could we charge people for intangible assets and do all kinds of things to raise revenue to make the immediate budget constraint easier? Some of those things are sensible public policy. Some of them are very bad public policy. You can get a lot out of monopolies for the state if you really want to exploit those assets. The Treasury's focus is solely on what will help it. There is very little focus on assets that have been run down beyond the point at which we are going to have to invest in them going forward. At the moment all that is hidden inside our balances. What type of estate and infrastructure do we need? Those are contingent liabilities, essentially, that are facing us, and we are making short-term budgetary decisions to reduce them. As other witnesses have

said, it certainly goes wider than debt and it is wider than just the intergenerational transfers. What is our attitude to the future? That is the real question.

**Chris Giles:** I will add a couple of things. In the real world, it is the Treasury's ambition to balance its budget, which is the only formal target it has that takes an intergenerational view. It is a very broad rule of thumb that if you balanced your budget persistently, certainly your debt position would improve over time and the debt-servicing burden on future generations would be lower. That is a very broad rule of thumb. The Government present their balance sheet in the Budget and they presented it in the Budget last month, but we do not see that as part of their ambition to target, unlike some other countries which have balance sheets at the heart of their fiscal rules. New Zealand, as Julian said, is an example and has been doing this since 1992, so for 26 years. It is that target, the fiscal objective of a balanced budget in the mid-2020s, which is the one target that is being missed at the moment. It is one that is a long way into the future and can always remain in the future. How much in real politics is it playing a part in government policy? Not very much, I would have thought.

**Viscount Chandos:** Even if a reduction in outstanding debt is favourable to future generations, how that debt is reduced—the reduction in deficit or the creation of surplus—has huge implications as to who is paying the tax or who is suffering the change in public services, which has an intergenerational implication as well.

**Julian McCrae:** If you are running down your debt stock by depleting the condition of your assets, you are not saving yourself money; you are almost certainly costing yourself money for future generations.

**Professor James Sefton:** I have a couple of thoughts. I always cite the Commons Intergenerational Commission which has a model and says you have to imagine an economy that is hit by shocks. It is not the older generation's fault that there was an asset price boom in house prices or an economic shock in the financial markets. You cannot blame that specifically on the older generations. But the Government needs to think about whether they have a duty to redistribute back across generations in the face of those shocks. You have to think about the type of shock. There is evidence that an economic shock, a slowdown in productivity, hits all generations roughly equally. You are either in work, in which case it hits your wage, or you are saving, and you are relying on your assets, in which case it hits the returns on your assets. There is not a lot of scope there for intergenerational sharing.

A different case is where you get a housing and real estate bubble. That is a massive shock that has hit our economy and it is a net transfer from generations, away from people who do not own houses towards people who own them. There are clear winners and losers in the face of this type of shock. That is what marks it out from a productivity shock. Some generations have gained from that shock, some have lost. Does the Government have to think about redistributing back some of the gains from those returns? That brings up a big question and, being an economist, I do not like wealth taxes and I would not encourage them,

but you begin to wonder whether the income from these types of assets – in particular real estate and pensions – needs to be taxed better. So you might think about reforming council tax or perhaps introducing national insurance on pensions as a way of somehow redistributing some of the gains from that shock that had a big intergenerational impact.

The other thing that you have to think about with debt—you are absolutely right—is that part of the solution is going to be people working longer. It has to be part of the solution as the economy ages. You have to think about the winners and losers from working longer, because life expectancy varies across the income distribution. So this needs to be taken into account as well when you are thinking about how we are going to balance the budget and who gains and loses from increasing the working life.

**The Chairman:** Thank you. You referred to the Treasury's forecasts and its target for balancing the books. It has not been conspicuously successful on either front. The Committee wanted to probe a little further on this capability to plan for future generations. I want to bring in Baroness Blackstone.

Q172 **Baroness Blackstone:** Given that we are interested in the effects of different policy decisions on different generations, do the Government have the data they need to look at those effects? If they have the data, do they analyse the data adequately to understand those effects? I think you were implying at the beginning, Mr McCrae, that they do not, but it would be good to hear a little more about that. Also, what should happen to make it clearer to the Government and other people involved in policy-making what these effects are? What do other countries do in this respect? Do we have any models that we should be looking at and from which we might want to draw lessons?

**Julian McCrae:** It is important to distinguish between the processes by which we take decisions and the data and analytics which we have access to. Whitehall and the UK Government are quite an analytic Government if you look around the world. We have had a lot of capability for 30 or 40 years and have built it up. The question is how you utilise those analytics and bring them to bear on the public policy questions we face. At the moment, on the spending side, if you asked what financial model we are using to take the health service forward, the answer is that we saw a little bit of the model emerge around 2014 when the NHS made a very big spending bid and produced a model that linked potentials for efficiency and potentials for future tax funding to an estimate of how demand would move forward—which produced the £8 billion figure in 2015.

To my mind, that was not right in any modelling sense—no models are right and they cannot predict the future—but it was a great basis from which we could start to build a serious analytic debate about what was going on. There were a few key variables about the future funding of our health service: what we think will happen with demand, what we think will happen with the technical efficiency within the current system as structured, and what we think the potentials are for allocative efficiency—switching people between different modes. We are starting to understand

what those drivers look like, in the way the OBR does, with quite a complex forward-forecasting thing on tax, where we literally try to forecast what tax revenue is going to look like in three/five/10 years' time. It is not because Robert Chope and the OBR get that right. It is because we have a model that we are constantly using to update what we think the short run of these long-term trends, with five-year or 10-year projections, look like, to improve our analytic ability.

We could follow the example that the OBR has given us in other areas and say that on spending we should be getting our major departments to put into the public domain their top-level assumptions about spend and put those into basic modelling and have it scrutinised by an independent body. We could go the whole hog and create, as the OBR is, an independent body which says to government, "These are the reasonable assumptions"—but I think the starting point should be to draw out from departments what they are doing.

That would greatly help some of the discussions which are inevitable in the dynamics of a spending allocation process or a budget process. In all countries in the world, these are inherently political processes about short-term trade-offs. We invented the fiscal rules, following lots of other countries, a while ago. They were a credibility mechanism which worked initially—Chris is more of an expert on this than I am—but I do not think that for the last 10 years anyone in the markets has taken seriously the long-term fiscal aspiration of the Government, simply because it is almost certain that within 12 months we will have another long-term fiscal aspiration. These are not binding constraints on the decision-making processes in government. That is almost certainly inevitable in a long-run process like this. The real issue is whether you can anchor the analysis in the short run enough to say, "These are the models we are using and the ones we have to use". The political discussion, which is inevitable and will make short-term trade-offs, is then at least locked into the right discussion. What happens in the spending review at the moment is that DH will start with quite reasonable assumptions, but we run an iterative decision-making process and there will be five or six iterations of, "This doesn't quite balance with our political aspirations". It is interesting, of course, that this is not about officials being venal or merely complying with political diktat. It is just the nature of complex decision-making processes that you push assumptions and build in optimism bias as you go round those repeated gains, and you end up with completely unreasonable assumptions.

Most of the people involved in the 2014 plan, when they look back at it, think, "Those efficiency assumptions were not reasonable, but we still put them into our public finance forecast". So it is about being able to anchor that at the start of the process and say, "You cannot move these assumptions. That is not a negotiating position inside that process and you have to focus on the other margins, the real decisions about what our tax and spend is going to look like". I hope that gets close to your answer.

**Baroness Blackstone:** I have a quick follow-up question but perhaps one or both of the others could answer. Given all of that, who should this Committee be focusing on in terms of taking some action to deal with this



issue? When the Work and Pensions Select Committee was looking at intergenerational inequalities, it mentioned this, but it does not appear that a great deal has happened since then. It would be helpful if you could tell us in one sentence who we should be asking to take some action to deal with this issue.

**Julian McCrae:** May I give two quick answers? If you want to look internally, it is the head of the finance profession and the head of the analytics profession inside government who should be thinking about these issues. Their names elude me, but I can supply them later. I think that will help, because they are the people inside government who should be building and developing the models. Fundamentally, you need to move this in exactly the way we did with interest rate setting and wider budgetary setting. We need to move this out of Whitehall and into an independent institution whose mission is transparency and openness about improving the models and not keep it as an internal decision-making process.

**Chris Giles:** If I could be helpful and give you some concrete suggestions, one would be the DWP in terms of understanding better the outcomes on a generational basis. We collect a lot of data on income distribution, which is published by the DWP, but it does not publish it on an intergenerational basis, and that is where all the action in income distribution has been over the last decade. It would be very simple for it to do. Other people have done it externally. It would be much more powerful if it came in an official government report. Equally, the ONS could do the same with the Wealth and Assets Survey and look at that more on an intergenerational basis. To go to one of James's points about gifts, perhaps the ONS should be thinking about trying to understand better what is happening to inter vivos gifts, particularly within families and who is getting them and who is giving them. As a fourth suggestion, again it is the Treasury being clearer in its fiscal rules and having an intergenerational component in them.

**Professor James Sefton:** I would support Chris on the Wealth and Assets Survey and the point he made about the effect and implications on inequality of this waterfall of bequests. The Wealth and Assets Survey is the best data we have, but it does not really give the ability to look at intergenerational nature of these transfers. It measures the bequests and gifts received but does not track the socioeconomic group of the parents. You need to link the parents to the children to understand the flow of those bequests. That is true of gifts as well.

An understanding of healthy life expectancy and how that changes over the income distribution is also necessary. As we grow older, are we having a longer, healthier life, but is that the same across the whole gamut of the income distribution? We do not know enough about that and it is a really important question. The ONS does 'Effects of Taxes and Benefits' (ETB) survey where it allocates in-kind consumption across all households as part of the Living Costs and Food Survey. That gives us a good picture of the intergenerational distribution of government resources. Unfortunately—you will not believe this—that some of this data got lost in the move of the ONS to Newport. We had a fantastic history of it. If that data could be found somewhere, in some archive, it

would be a fantastic insight. I have done my best to dig it out, but I cannot find it.

**The Chairman:** Unfortunately, this Committee does not have the ability to offer a public reward.

**Professor James Sefton:** It would be fantastic if you could.

**The Chairman:** Perhaps we can offer to praise whoever finds it in our final report. You referred briefly to the broad question of assets and liabilities over time, and I know that Lord Holmes wanted to come in on this point.

Q173 **Lord Holmes of Richmond:** Do the Government adequately consider their assets and liabilities when setting their budgets?

**Chris Giles:** Over time they have had a very poor consideration of particularly the assets side. We look a lot at the liabilities side and we look at public sector net debt, but we do not consider often what we are doing with assets. If you want to take some concrete examples, in the 1980s we had North Sea oil as a new asset and decided to spend it and, in the 1990s, we decided to make students pay a lot more for their education, for perfectly good reasons, but did not think about the intergenerational consequences. We are now merrily selling off student debt because that flatters our public accounts, and we are selling it off at a lot less than it is worth. It is not like a privatisation, where you can make an argument that the private sector can be more efficient with this asset. It is an asset that they will get and pay less for.

We tend to look very poorly at the asset side of our balance sheet. I know that in the Budget there was the balance sheet review, which was precisely an attempt to do this. The British Government are not alone in this. This is pretty standard across advanced economies. When we think about the land we own, we keep doing things such as very recently selling off the railway arches, but we sold them to a private equity firm, which will now do due diligence and understand what they bought, because we did not understand what we sold. Almost certainly that means we sold it too cheap. So in many respects we have not taken adequate account of our assets and therefore not managed them very well.

**Julian McCrae:** Following up on that, particularly around property, the key here again is capability. I once sat in a meeting in Whitehall when Gordon Brown was Prime Minister and we were looking to make some money out of selling off government property. The chair of the committee of officials noted, slightly acerbically, that the first time he had been asked that question by a Prime Minister was by Ted Heath in 1970, and that this was an old perennial of what Governments try to look at and find value from. Bringing that story forward, though, if you look at the Whitehall end of the government estate, in around 2010-11 we started to put in a much more information-led driver of what property we had and what its utilisation rates were. We connected that to decisions about which part of the estate we needed and what we wanted to dispose of. Slowly we built up a capability to do that sensibly. That investment—the knowledge and also the capability to utilise that knowledge and make the correct decisions—is the difference between the 1970 meeting and the 2009 meeting, which got nowhere. In that relatively small part,

admittedly, of the government property folio, we have the capability to manage things properly.

**Professor James Sefton:** This is a very small point and it is not my area of expertise, but the Government own a lot of land as an asset and, by granting planning permission on that asset, you change the value of that land dramatically. That could be a significant source of resources for the government which I do not think has been thought about particularly.

Q174 **Baroness Greengross:** The other side of that question is whether the Government should be more cautious about their ability to meet these liabilities or not.

**Professor James Sefton:** More cautious about their ability?

**Baroness Greengross:** Yes, when you have really been saying the opposite.

**The Chairman:** You referred earlier to the immense, possibly unknowable liabilities in the areas of social care and health. Should the Government be more cautious, bearing in mind its asset base?

**Professor James Sefton:** The answer to that one is yes, absolutely. I am sorry, I did not understand your question. When we first started the generational accounts back in the 2000s—I think we first published them in 1998—we said that if you were going to have an intergenerational smoothing of these resources, you needed to pay down the debt. I know that a lot of things have happened since then and the debt has spiralled, but the idea was that it would be paid down to almost zero by about 2020. You can laugh now, but that is what we said back then when we were talking to the Treasury, and that was so that would be able to finance the ageing demographic—but that has not happened.

**Chris Giles:** To put this into a slightly alarming form of words, if you look at the OBR's latest long-term fiscal sustainability report and add up its projections going forward for debt service, and areas we have to spend money on—health, including social care, education and pensions—whereas the Government currently spends about 10% of national income more than that and almost balances their books, by the middle of this decade those four things will have grown so much that there will be no money left, without higher taxation or much more borrowing, to finance everything else that government does—including police, defence and local authorities, which are very significant parts of government.

This mirrors what is happening in a lot of local authorities, which have been looking at their statutory responsibilities and their likely incomes and finding that at some point in the future these lines will cross and they do not know what they are going to do. It does not mean that society cannot find answers to that. It just means that it is a very difficult question and we might want to be saving up a little more in advance of the time when these things really hit.

**The Chairman:** Lord Hollick.

Q175 **Lord Hollick:** This Committee set up a contact group made up of some young folk, some middle-aged folk and some older folk. At our first meeting there was quite remarkable agreement around the two issues that they

thought were of great concern regarding intergenerational fairness. One was housing and the other was job prospects and training for jobs. There seemed to be a lot of unanimity among those three groups. If we look at housing, the Government have set a bold target of 300,000 homes a year, and there is a good case for why we need to build that number—but we are not going to be able to build 300,000 homes a year unless the local authorities, in partnership with others, are allowed to borrow municipal bonds. Yet the accounting for that is unlike many other OECD countries, because we add it to public sector borrowing, whereas in fact it is an income-producing asset. So are there not some rather bold or reckless measures that we can take to refigure our public accounts in a more efficient and accurate way? The example in the other direction would, of course, be the way that we are carrying student loans forward in the belief that they will be repaid. Half of them will not be, so who is kidding whom? It is just being kicked down the road. How can we address some of these bigger issues, and who should we send our letter to?

**Chris Giles:** You are absolutely right that at no point do you want the accounting tail to be wagging the public policy dog. Quite often we find that across government that it does. We find it very difficult to formulate our accounting systems. Certain forms of accounts have to be done on an international basis. It might be stupid sometimes but we have to do it. We do not have to target public policy on those accounts; we just have to produce them. We can produce accounts that we think are sensible and which give the right incentives across government, and we can then set government targets on the basis of those accounts. There are no international constraints whatever on doing that. We do that already with our fiscal rules, which are not based on internationally recognised numbers but are ones that we think are slightly more sensible. So the answer is that on things such as student loans, the accounting at the moment is absurd—although it is going to be rectified, we think, depending on what the ONS does. Certain assets are very different, so if one is a relatively low-risk income-producing asset, the borrowing for that is of a very different order of magnitude from borrowing for general government consumption. It makes very little sense to treat them in exactly the same way, and, certainly, to have targets that treat these things in the same way. So again this work needs to be essentially cross-government and Treasury-run, because the Treasury runs the fiscal rules and, ultimately, the targets that are set. The Treasury tends to be very cautious. It does not like not being in control. For example, it worries, often legitimately, about giving powers to local authorities to borrow extensively which might have to come back to the Treasury in the end. So you will understand that the tensions are real there—but that is ultimately where action has to be taken.

**Julian McCrae:** I agree with everything Chris said on that. It is important to understand that some of this is about very odd rules, but we could get round most of it if we wished to. Some of it is about fiscal rules drawn in very particular ways which force almost insane behaviours by public bodies. We have repeatedly engaged in an exercise of, “Can we just get it off the balance sheet?”, and spent a lot of time thinking about it when there is no economic concept and certainly not the huge cliff edge between the two that we seem to assume. There is also the point that

Chris made at the end. The point of control is vital in understanding why we do some of these things and why the Treasury, in particular, is not prepared to allow other public bodies the type of latitude that you might expect them to have and that, if you think they are going to build their own capability, you almost certainly have to give them for their own effective fiscal autonomy. The Treasury will worry that that fiscal autonomy will collapse back on to it. In that case, it may be right, unless we have political institutions that mirror the fiscal institutions at a devolved level.

**Professor James Sefton:** I like the fact that you said there was unanimity across the generations; the idea that there is a strong generational contract there.

Q176 **Baroness Jenkin of Kennington:** If the Government could do one thing to improve their accounting for intergenerational fairness, what might that be?

**Julian McCrae:** My one thing is probably in line with everything I have said. I think we need an OBR for spend which can look at the spending and the forward projections quite seriously and develop some of the models. It should have the right to insist when we are doing our spending reviews on the assumptions inside the numbers that we are using.

**Chris Giles:** I would have a fiscal rule that is specifically targeted at the balance sheet—so assets and liabilities of government, similar to what New Zealand has. These are obviously rules of thumb and are not perfect, but if you start measuring them, they become more important within government.

**Professor James Sefton:** It is a slightly big ask, but we do not do any social production in the national accounts and an important part of the intergenerational contract is caring time transfers, which are all part of household production. Australia has started to introduce that and, if you started to introduce that in the national accounts, it would get people to start thinking about it. That is really important when you are thinking about intergenerational fairness.

**The Chairman:** Certainly the Committee is very conscious of the non-financial elements to which you have referred. I could not be more grateful to you—I am sure I speak for all of us—for your compelling and clear evidence, and for the time that you have taken to come to be with us. Thank you very much indeed.

## **Professor Elspeth Graham, Professor Christian Hilber and the Intergenerational Foundation – Oral evidence (QQ 130–136)**

Tuesday 6 November 2018

[Watch the meeting](#)

Members present: Lord True (The Chairman); Lord Bichard; Baroness Blackstone; Lord Chandos; Baroness Crawley; Baroness Greengross; Lord Hollick; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 13

Heard in Public

Questions 130 - 136

### Witnesses

[I:](#) David Kingman, Senior Researcher, Intergenerational Foundation; Professor Elspeth Graham, School of Geography & Sustainable Development, University of St Andrews; Professor Christian Hilber, Professor of Economic Geography, Department of Geography and Environment, London School of Economics.

Q130 **The Chairman:** Good morning and welcome. My name is Nicholas True. I am chair of the Committee. We will not all introduce ourselves in the interests of time. As you know, the session is open to the public. At the moment, they are not thronging in, but we are on live web feed and people watch it. It goes out live and what you say will be subsequently accessible on the parliamentary website so long as it exists. There will be a verbatim transcript of your evidence. You will have a chance to correct it for points of clarification or accuracy. Two members of the Committee have to leave early, for reasons nothing to do with your presence, so do not feel that you are not capturing our attention if they do. They have very politely given notice they have to do that, but they wanted to hear from you, even for a short time. Perhaps you would like to introduce yourselves for the record and we will begin with questions.

**Professor Christian Hilber:** I am a professor of economic geography from the London School of Economics. I do research related to housing.

**David Kingman:** I am the senior researcher at the Intergenerational Foundation, a small charitable think tank that has been going since 2011 and is funded by no-strings donations from trusts, foundations, individuals and corporate partners, where we research intergenerational inequalities. I have a particular interest in housing, among other subjects.

**Professor Elspeth Graham:** Good morning. I am professor of geography at the University of St Andrews. I am also a co-director of the ESRC Centre for Population Change. I have done work on both housing and age segregation.

Q131 **The Chairman:** Thank you very much. Obviously, the remit of the

Committee is to look at intergenerational fairness. We have just had a session in which we have heard quite a lot about some of the needs and issues affecting older generations, but I hope that we can also focus very much on the needs of younger generations and those seeking to enter the housing market.

Perhaps I could start with a general sighting question to allow you to set out your case. How does the Government's housing policy currently affect different generations, and which age groups, in your perception, are least well served currently?

**David Kingman:** In talking about the impact of government policy on the current housing crisis, we have to go back in time a little to see that the current housing situation is a coalescence of multiple factors, many of which are to do with government policy, such as the decision in the late 1970s to withdraw the public sector from a significant role in housebuilding, the right-to-buy scheme and the failure to replace social housing with new-build housing, the protection of very tight planning restrictions over the last few decades and the liberalisation of the private rented sector in the 1990s.

While there are inequalities to do with housing in all generations, we feel, and there is a lot of evidence to show that the current younger generation, the millennials—those born between 1980 and 2000—are doing particularly badly in relation to housing compared with previous generations. Today households where the household reference person, the head of household, is over 55 own two-thirds of the UK's net housing wealth; those where the HRP is under 44 owe just 15% of it.

The average millennial over 30 has accumulated only about half of the total household wealth which a member of Generation X, the previous generation, had done by the same age, mainly because they are less likely to own their own home. We feel there is a specific issue here affecting millennials.

It is also true that if you look at how much different generations spend on housing, today's younger generation are spending significantly more on housing than any other generation at all levels of income, in all five income quintiles. We think there is a lot of evidence to show that there is a specific generational problem here.

**The Chairman:** It is the younger generations. Would you agree with that analysis?

**Professor Elspeth Graham:** It seems to me that we have a debate about intergenerational fairness, which looks mainly at the difficulties that younger people are definitely having accessing home ownership, particularly in areas of high house prices, and where there are restrictions on mortgage lending, and comparing those, as we have just heard, to the accumulation of housing wealth among the older generation.

I have looked at previous sessions and realised that some people argue that there are different options for younger people, such as making renting more attractive for example, but there is qualitative evidence that while many young people aspire to become homeowners and see private renting, for example, as a waste of money at the moment, they are also

very aware that they are not all in the same situation when it comes to getting on to the housing ladder.

I would also want to bring into the discussion the inequalities within the younger generation as well as within the older generation, because I do not think this is a simple matter of generational differences. Not all the younger generation are disadvantaged when it comes to the housing market. Some—this is what the younger people said in the qualitative study—feel that they are lucky because their parents can give them money to help them on to the housing ladder, while others realise that they are disadvantaged because they do not have parents who have enough wealth to help them on to the housing ladder. We have to be a little careful not just to pit one generation against another.

**The Chairman:** I think the Committee would agree with that. I will bring in Professor Hilber in a second. We are well aware of inequalities within generations and we do not skate over those. It is simply that our inquiry is directed by the House towards intergenerational issues. You can take it as read that we understand some of those points and we will come back to them. Professor Hilber, do you want to add anything?

**Professor Christian Hilber:** I would like to follow up on this. I would like to start with a caveat that reiterates some of these points. We cannot talk about the young and the elderly. There are at least three dimensions that we need to consider here. The first is age—the young generation, the middle aged and elderly people. The next is income and wealth. There are elderly people who never got on the owner-occupied housing ladder and they are in a rather similar situation to some of the young people. Thirdly, the situation is very different in different areas of the country, so what is true in the north-east of England is not true for London or Oxford or Cambridge, to name a few places.

Coming back to the question about the role of the Government in this, I do not want to talk so much about housing policies but about the role of the planning system, which in my opinion is rather dysfunctional. The UK has a system that is different from other systems. It has a development control system that gives a lot of political power to NIMBYs<sup>3</sup>. That is different from other countries and it imposes all sorts of constraints on building. It has green belts that prevent cities from growing horizontally. It also has height restrictions, view corridors and other constraints that prevent cities from growing vertically. It has preservation policies in inner cities that prevent cities from renewing themselves by knocking down old stock and building at higher density in central areas.

These constraints have become more binding over the last four or five decades and are now extremely binding in large parts of the country. This has led to an affordability crisis in the Greater London Area, the south-east and other pockets of the country. Professor Graham and Mr Kingman talked about the younger generation not being able to get on the housing ladder any more in those areas because they simply cannot afford it. In that sense, yes, the young generation is the one that suffers most.

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<sup>3</sup> Note by witness: NIMBYs refers to Not In My Back Yard residents.



Q132 **Baroness Jenkin of Kennington:** To what extent can downsizing by older generations play a role in meeting housing needs? Perhaps I could start with an illustration of my own, which is not quite about downsizing. My mother in her late 80s was in a big old house that was a white elephant and unsustainable, so we split it up and there are now 12 people living there aged from one to 94. My mother can die there and the house is sustainable into the future. It is not a listed building and I think we did everything we should have, but I have a feeling that a lot of people would be put off by doing this sort of thing for fear of the computer saying no. It is obviously the solution, as I say, to a big old house and old age. We are doing what has been encouraged by a lot people.

Can you think of any incentive that would encourage more people to do that sort of thing? I know that the Intergenerational Foundation has recommended planning reform—I am jumping ahead to the next question—but, if we could, let us come back to downsizing.

**David Kingman:** You are referring to something that we recommended at the Intergenerational Foundation. Essentially, there is a way of looking at the housing crisis, which is to say that it is a problem to do with the allocation of space rather than just the number of units. You could say that there is enough living space in Britain's housing stock; it is just allocated inefficiently, partly through reasons of taxation, which I am sure we will come on to, and because of the planning system. There has been a rise over the last 20 years in the number and proportion of households that are underoccupied, which is an official statistical measure of the amount of space that a household has compared to a metric for how much they are reckoned to need.

There appears to be evidence that older people moving house is quite rare. Others on this Committee are a lot more expert on this than I am. There is also evidence that downsizing is rare and that subdividing a large property into smaller units, which is what you have just described, is quite rare, partly because the planning system makes it quite difficult to subdivide a large dwelling.

In the specific policy proposal that you are referring to that we wrote about in our submission, we suggested making it easier to downsize in situ. This would involve the liberalisation of the planning system, making it easier to subdivide a large property into smaller units by creating a permitted development right to subdivide.

Over recent years, as I am sure we are all aware, there have been significant attempts to liberalise aspects of the planning system, to make it easier to turn vacant offices into new dwellings, and, in the Budget last week, easier to turn vacant shops into housing. That sort of process has to balance the need to create new housing with safeguarding the quality of that housing.

What this proposal sought to do, which we wrote a report about, was to create a permitted development right with certain safeguards about dwelling size and the quality of the housing that would make it significantly easier for households to be subdivided. We thought that it might in a sense kill two birds with one stone, because it would create more housing. We estimated, based on Census data, that there could be

4.4 million households in England which are owner-occupied by an individual or couple living without dependent children, where the property they live in would be large enough to create at least one additional dwelling which would meet the national space standards. That was our proposal.

So far, that has not happened, but that is a liberalisation of the planning system that we would like to encourage.

**Baroness Jenkin of Kennington:** I distracted you a little, because my question was about downsizing and the role that it would play.

**Professor Elspeth Graham:** Could I pick up on a couple of points? What I am about to say is based on evidence from Scotland, but I think we would find very similar evidence for England and Wales. In one study we looked at older people aged 55 to 79 and their moves over a period of two decades from 1991. We found that, typically, the large majority never moved house in that period. The number who do not move increased from about 73% in the 1990s to 80% in the 2000s. Of those who do move, however, around a half downsize, so perhaps the question is not how we can encourage downsizing but how we can encourage moving. I would have to add that about a quarter upsize, and there are reasons for that, as we found.

The study showed that the people most likely to move are of a higher socioeconomic status, the household has retired, or they live in flats or private rented accommodation and are more likely to move. You have a whole series of possible drivers for moves at an older age, but, most importantly, household change provokes a move. One change was poor health, which tended to provoke older people to downsize, which is not something I think we would want to encourage. There are drivers for downsizing, but the more important question is how we can encourage people to move at all.

**David Kingman:** We did another piece of research in 2012, which was a qualitative study of two focus groups of older couples, one of which contained people who had downsized their previous home and one of which contained people who had not downsized their previous home. What was quite interesting was that a large proportion of them evinced a desire to downsize, but the biggest barrier among the ones who wanted to downsize but had not done so was that they wanted to stay in roughly the same area where they already lived and had established social connections and had good access to shops and public services. Partly because of the planning system in this country, there tends not to be a sufficiently wide mixture of suitable supply in the areas where older people are already living to enable them to downsize and stay in the same neighbourhood.

Interestingly, we also found that, of the ones who had downsized, the majority said they felt it had improved their quality of life and well-being by reducing the burden of household chores when living in such a large house and lowering their household bills. We would not want to encourage downsizing if, as Professor Graham has said, it is a negative response to ill health. There is some evidence that it improves people's quality of life if they downsize because they want to.

**Professor Elspeth Graham:** Yes, downsizing is a response to ill health, but it is also a response to widowhood or getting divorced at an older age, as we might expect. About a quarter of our sample of over-55s still had adult children living with them, and that was the biggest barrier to downsizing. That seemed to me quite an important intergenerational interrelationship.

**David Kingman:** Which goes back to the broader dysfunctions in the housing market. Many of those people might have wanted not to live with their parents at that age but could not leave because of this interconnected web of problems.

**Professor Christian Hilber:** I would like to add two points. First, it is not so much about incentivising downsizing but about not disincentivising downsizing. We have one tax in this country that quite strongly disincentivises downsizing—or upsizing—and that is the stamp duty land tax. I guess we will talk about it later, but it is an important point. It is a tax on mobility. If a house changes occupant often, a lot of tax burden is created. It is not the same as an annual tax on property value.

We have done research on the mobility effects of the stamp duty land tax. The interesting thing we found was that the negative effect in England and Wales was confined to short-distance moves and housing-related moves, exactly the types of moves you have mentioned. The stamp duty land tax in England and Wales—I do not think we have data on Scotland and Northern Ireland—mainly prevents housing-related moves and short-distance moves, and this has a big effect quantitatively.<sup>4</sup> Having said that, we did not look in our research at whether the elderly reacted in a similar way to young people, partly because the sample size was a bit small, but my guess is that the elderly are less sensitive.

My second point is that even if you were to remove the stamp duty land tax and bring in other measures to encourage downsizing, that would not solve the housing problem facing this country, in my opinion. It would help alleviate the problem, but the underlying cause of the problem is a lack of housebuilding in parts of the country where supply constraints have become extremely binding over the last couple of decades.

**David Kingman:** In our qualitative research on housing, people who had not downsized said that stamp duty put them off to an extent. Sorry, I did not mean to interrupt you.

**The Chairman:** We will pursue this point.

**Baroness Blackstone:** Picking up on what Professor Hilber said, I could not agree more: the real issue is housing supply. Downsizing is a tiny drop in the ocean compared with what has to be done to begin to meet the housing needs of the current population. I was a bit puzzled, Professor Graham, by your research. Why did you take the ages of 55 to 79? People aged 55 are no longer old, and most of them will still be in full-time work for another 10 years. I am not surprised that they were not even thinking

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<sup>4</sup> Note by witness: In the evidence session Professor Hilber said that, to the best of his recollection, households from Scotland and Northern Ireland were not included in the regression sample. He found they were included as well.

about downsizing; it is too soon. Moreover, many of them will have young adult children still living with them, because they will often not have their children until their 30s. It strikes me that if one is looking at downsizing, one needs to look at people a lot older than the ones you were looking at and beyond the age of 79. That is a comment, in a way.

The other thing is whether somebody in the category that Baroness Jenkin described, a very old person living in a very large house, might not want to downsize because that is where they have lived for the last 40 or 50 years and they like it, even though it has problems. Can you do anything about that? Are there ways in which you could use public policy to make it easier for them to change their minds, if that is what you want to do?

**Professor Elspeth Graham:** Could I clarify first why we chose those age groups? We were tracking older people over 10 years and we wanted to catch those—

**Baroness Blackstone:** I see; it was a longitudinal study.

**Professor Elspeth Graham:** —who would be around 65 and upwards at the end of the period. We stopped at 79, because after that you begin to get people moving into institutions such as care homes. We wanted to look particularly at those who were moving within the owner-occupier sector of the housing market, and that is why we chose those age groups. Curiously, we found that those most likely to move over the 10-year period were in the 55 to 65 year-old age group, not as you might expect in the 65 and above age group, after retirement.

**The Chairman:** On your ingenious suggestion, Mr Kingman, one has seen in previous cycles of housing that if you permit somebody to come in and split up a house, you risk getting aggressive private landlords buying property and splitting it up into HMOs of dubious quality. How would your permissive approach prevent that happening, given that we have heard quite a lot about the poor quality of private rented accommodation in this Committee?

**David Kingman:** That is a very real problem. We have to be careful, because research into the recent liberalisation of the planning system, particularly the liberalisation of office-to-residential conversion, has suggested that that sort of thing has happened. The key is to ensure that there are adequate safeguards in the planning policy to govern this.

I do not know how familiar you are with the planning system, but there are two aspects to it. There are types of development that require a full application for planning permission, and a lighter-touch system of prior approval where there is a much smaller list of requirements. A permitted development right means that the principle of development is accepted but the local authority can still ensure that a prior approval process has been gone through. There can be certain quite specific requirements that a new dwelling has to meet to be given permission. It would be feasible to include requirements in that prior approval process relating to the size of the units being created and other aspects of dwelling quality. That would be the way to do it to ensure that that process is robust.

Q133 **Baroness Thornhill:** Professor Hilber, I absolutely agree with what you have said about the planning system. In my previous role, I grappled

regularly with liberalisation versus prescription; residents versus councils, developers versus councils, and all those inherent conflicts.

What worries me, which for me personally was brought home by the referendum, is geographical separation and segregation. We have heard evidence that, intergenerationally, groups are moving, and we are getting urban centres that are very young and suburbs and outers that are older. I look across to America and see cruel and vicious segregation that has societal impacts that I am sure we would never want to see here but which one suspects are happening. Why is it increasing?

I would be interested in your take on whether it is a problem, how much of a problem it is, and, in terms of policy, what we can start to do or perhaps should urgently start to do, or does it just happen?

**Professor Elspeth Graham:** I will describe the background first. In a study of England and Wales, we looked at the extent of age segregation and found evidence of it at different geographical scales. There is quite a variety of segregation levels across local authority districts, for example. Using census data, we looked at 1991, when there were only 33 local authority districts in England and Wales with moderate levels of segregation, measured using something called the D index<sup>5</sup>, which is usually used for looking at ethnic segregation. By 2011, this had risen to 198 local authority districts, so over 50% of the total now have moderate levels of age segregation.

This is significant, and it is obvious when you look at the evidence. It is interesting that the highest levels of segregation tend to be quite geographically distributed. They are not concentrated in the south-east, for example, and the lowest levels tend to be in Wales. The geographical distribution is quite interesting.

Why is it happening? We have only just begun to investigate this, but in our study at least, using a measure of affordability of housing that compares house prices with average incomes in an area, we found that the least affordable areas have the highest levels of segregation. This suggests, although we have not yet established this, that it is to do with the lack of affordability in an area—again, not enabling younger households to move into the area, and perhaps also encouraging older households to stay in the area because they do not want to move out. Maybe some of the processes that we have been talking about are actually producing this higher level of age segregation.

Could it be problematic? Yes, I think it could be if it discourages, as it seems to, interaction between people of different ages. It could be socially problematic if older people are living among older people and there might be a lack of support where needed. It could be self-reinforcing if local authorities concentrated services in particular areas for particular age groups. You could get this vicious circle that creates more age segregation, but that ultimately, if it became extreme—it is not yet—could threaten social cohesion because people would vote for different self-interests or age-related interests.

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<sup>5</sup> Note by witness: The Dissimilarity Index is a standard measure of spatial segregation between two groups in a population.

**David Kingman:** We did a very similar study, which also looked at the growth in age segregation in England and Wales between 1991 and 2014. I would agree with everything Professor Graham has said. We looked at neighbourhoods, small statistical units called middle layer super output areas and lower layer super output areas.

Throughout that period there has been a big trend towards urban areas becoming more youthful and rural areas ageing much more quickly. As you said, and we have heard from other people's evidence, the centres of big cities have become younger and the suburbs have been ageing. Obviously that tallies with what Professor Graham was saying, because surely one reason why that is happening is because younger people are becoming less likely to become suburbanised where housing is more expensive and are more likely to live in the middle of cities.

We also found that it was a particularly significant phenomenon in cities with universities and large numbers of students, as you would probably expect. The expansion of university places throughout that period has led to more young people living in the middles of cities when they go to university, and staying there afterwards. It also relates to the regional inequalities which Professor Hilber mentioned earlier, because there is this very large-scale effect in this country where London sucks in a hugely disproportionate share of workers in their 20s and is a net exporter of people above the age of about 35, who generally move out to smaller places in the south-east.

I agree with everything Professor Graham said about why it is problematic, an additional reason being that a political system that is based on geographical representation is likely to contribute, one would have thought, towards political polarisation, given that age is now the single most accurate democratic predictor of which way someone will vote. If you have more older, or younger, people living in certain constituencies, that might tend towards greater polarisation.

**The Chairman:** Sorry, Professor Hilber, that is the second time I have cut you off as you were about to speak. I will give you special favour for the rest of the time. Please come in now and Lord Holmes will follow up.

**Professor Christian Hilber:** I agree with the conjecture about the causes. There are two issues. The first is the housing market, to which you have already alluded, whereby areas with many elderly owner-occupiers are simply not affordable for the young, so there is segregation by means of market price where the young cannot afford it. It is also job related. Young people move to job opportunities, so they move away from areas where there are few jobs into areas where there are more jobs. I do not think this is something that should be discouraged; it should be encouraged.

The question for me is whether age segregation is a problem and how big a problem it is. I am an economist by training and we would ask: is there market failure? I am not sure whether you are familiar with the term "externalities", but it is a question of whether there are positive externalities. Do the elderly benefit from young people being around, and do young people benefit from elderly people being around? Everybody can recount an anecdote of a young person helping an elderly person

carry a package upstairs or an elderly person looking after a child, and things like that. There is that anecdotal evidence, but I am not aware of any rigorous, quantitative evidence or of anybody having quantified how important these effects are, so we know very little.

My guess is that these effects exist, but I am not sure how big they are, and I am not sure that policymakers should do too much to try to plan where people should live. People move to areas where they want to live. I would query whether elderly people really want to live with young people and whether young people really want to live with elderly people. I am thinking about my own mother; I do not think she would enjoy living with very young people. She would probably enjoy living with people a little younger than she is. You want to live with like-minded people you share a life story with. Likewise, young people do not necessarily want to live in an area where there are only the elderly.

There is also the question of preferences. I do not think we should ignore people's preferences for where they want to live. Another reason could be that because elderly people get older and older, there are more services for the elderly, and elderly people sort more into places that are close to say supermarkets and services for the elderly, that is not to be discouraged. But if the elderly sort into areas where there are services for the elderly and the young sort near to say universities and pubs, that leads, by default to segregation. However, that is not necessarily a bad thing.

**Baroness Thornhill:** That is an interesting debate for another time.

**The Chairman:** We like divergent views. Lord Holmes wants to pursue this point, so you will have another opportunity to comment.

Q134 **Lord Holmes of Richmond:** Building on that, how can the Government reduce geographical segregation between age groups?

**The Chairman:** That is not a question for Professor Hilber, because he believes we should allow them, but the other two might like to answer that.

**Professor Elspeth Graham:** It depends whether we think it needs to be reduced from its current level or if there are processes that are going to make it worse in the future, in which case we might want to act. It seems to me that it has something to do with trying to free up the housing market. I will get my point in here. Everybody is well aware that students, young people, tend to concentrate in the big centres, in the city centres, and look for different sorts of facilities, and that older people may not want to live in areas where there are lots of students because they tend to be noisy. Our study did not look at students precisely because it is well-known that students are concentrated together.

We looked at the 25 to 44 year-old age group and how segregated that was from the 65-plus age group; people with families and so on and how segregated they are from the 65-plus age group. That would be a little more worrying to me. I will tell you what the top five local authority districts are, and none of them is a big city—central Bedfordshire at the top, Swindon, Richmondshire, Wiltshire and Colchester. These have come highest on the measure of segregation between these two groups, let us

say the young/middle-aged group and the older age group. The geographical patterning of age segregation is quite interesting.

In so far as we have been able to associate this with housing affordability, and that is quite a strong association, if there is something stopping the 25 to 44 year-olds accessing housing in certain areas it may well be a subject to be considered in policy formation.

**David Kingman:** It seems that a lot of this discussion is coming back, in a way, to the role of choice in housing. Housing is lots of things. It is an economic issue, a social issue and a matter of personal choice. We have this dilemma, it seems, in what people have been saying about whether the patterns we are observing are the result of individual choice or whether individual choices are being shaped and directed by large economic and social forces, and whether the consequences of that are negative rather than positive. That is the key point here.

As I said, our study was quite similar to Professor Graham's. We looked at the difference in segregation between the over 65s and children, which I think we defined as under-15s if memory serves me right. What stood out when was that in these lower layer super output areas, which are small numbers of households—I think there are only a couple of thousand households—at the neighbourhood level, the average under 15 year-old who lives in one of the 25 biggest cities in England and Wales lives in a lower layer super output area where only 5% of the people living in the same super output area are over 65. There is quite a large amount of segregation between children, and therefore between parents, and older people.

This is potentially problematic if it is a sign that we are not creating mixed-age communities. That comes back to what we were saying earlier: that there seem to be a lot of older people who would like to downsize who are not doing so because they cannot stay in the communities they currently live in. This phenomenon of age segregation is probably reflective of bigger dysfunctions in our housing economy and our economy generally, as we have been discussing: the regional inequalities that push young people towards big cities and the problems with the housing market. There is not always enough of a mixture of different types of housing in the same places to house people of different ages.

**Lord Holmes of Richmond:** Would you like to add to your thesis, Professor Hilber?

**Professor Christian Hilber:** To be clear on this point, age segregation is the symptom, in my opinion. One underlying cause is the lack of jobs in certain regions of this country. That relates to what Mr Kingman has been saying and is just a different way of saying it.

Other underlying causes are a dysfunctional planning system and a lack of tax incentives at the local level for local authorities to permit development. These lead to a housing affordability crisis in parts of the country. Those are the causes of the problem. Segregation by age is a symptom. I agree with everything that has been said. We should tackle the housing affordability problem and tackle the causes, not the



symptoms, and we should tackle problems in the job/labour market. That would alleviate age segregation.

My point was that it is not clear whether age segregation per se is a problem. That is different from the segregation that you are talking about, which is driven by problems in the labour market and in the housing market.

**The Chairman:** That is well understood. We want to come on to things that might cause the market, if we can call it that, not to perform, and, again, keeping the opportunities for people getting into the market very much in mind, I know Baroness Tyler wanted to pursue tax and these kinds of issues.

Q135 **Baroness Tyler of Enfield:** Indeed. I am particularly interested in the current system of property taxation and the impact that is having on the choices people are making. I am interested both in taxation on property value, council tax in particular, and on transactions, including stamp duty. Professor Hilber has already talked about that. We have already received some fairly weighty evidence about the impact particularly of stamp duty on people's behaviour and their willingness to trade down—the sorts of things that we were talking about.

It is pretty unclear whether the Government have been considering the intergenerational behavioural effect of stamp duty when looking at the case for reform or increases, and that sort of thing. Could you focus on how the current structure of property taxation is affecting people's behaviour and, probably even more importantly, what could be done about it? Could these taxes be reformed in a way that would create a fairer and more efficient system of housing decisions and allocation for people of all generations?

**Professor Christian Hilber:** Everybody is looking at me. I have done a lot of research on this topic and I would suggest that the stamp duty land tax is a tax on mobility and that it discourages mobility. Our study and other studies show this. It has a very significant negative effect on mobility. Our study suggests that the effect is mainly on housing-related and short-distance mobility. Job-related mobility could also be negatively affected. From a welfare point of view, it is a very bad tax. It is not a good or efficient tax.

What could you do about it? This is a difficult question to tackle. The stamp duty land tax has a long history, and transfer taxes go back centuries. In some senses, they are popular taxes because people only pay them when they move, so they get the feeling that they can avoid the tax, and people tend to like taxes that they can avoid. They do not like visible taxes that they have to pay every year.

I am aware that my proposal is difficult for policymakers to take in, simply because there will be some resistance to it. Having said that, an annual tax on property value is a much more efficient tax. If it is done at the local level it has the added benefit that it provides tax incentives to local authorities to permit development. Right now, they face most of the costs of development at the local level and they face the NIMBY residents who do not like development, so it is understandable that they do not want to permit development, from which they have very little tax revenue.

I come from Switzerland, and in Switzerland we have a tax system almost at the other extreme. There are extremely strong incentives to attract good taxpayers, which has led to a sprawl problem in Switzerland. Clearly, taxes and tax incentives matter. I would say that the UK is at one extreme of the spectrum and Switzerland is at the other.

If I have 30 seconds to outline a policy proposal, I would say that I am aware that you cannot just get rid of the stamp duty land tax in one go. Maybe you can, but I do not think it is likely. There is an example in this country of the abolition of MIRAS—mortgage interest relief at source. That was successful because it was phased out over a number of years. Why not do the same here?

Changing taxes has redistributive consequences which I am aware of and think one should try to avoid. My proposal would be to phase out stamp duty land tax over a number of years, perhaps 10, and at the same time increase the local property tax so there would be a reformed council tax that was less regressive.

**Baroness Tyler of Enfield:** Could I ask you one quick question on the reform of council tax? Would that include things like having a significantly higher rate for second homes, or is that a different issue for you?

**Professor Christian Hilber:** No. I did some research on second homes. My general view is that foreign investors or second-home investors are a popular scapegoat for the housing crisis. They are not the cause of the crisis and they are not very important in explaining it. They explain house price increases very locally; in Westminster, Chelsea and the City of London, in a few small pockets. Having said that, I looked at a ban on second homes in Switzerland, and I think it is a very bad idea.

If you want to do something about second-home owners, and I am not saying that you should, I would propose an annual tax on the property or land value. That is not a stamp duty. This is because for existing second-home owners, who already paid the stamp duty, it disincentivises them from moving. It does not provide any incentive to use the house more efficiently by not leaving it empty, whereas having to pay an annual tax on the property provides an incentive at least to use it, and makes it a less attractive capital investment.

I am not saying that the Government should tax second homes, but if you want to do anything about it, if this is a perceived problem, the best thing to do would be an annual tax on property value or on land value and not a stamp duty and not a ban. This country is moving in the direction of the latter two. There is a ban on second homes in St Ives, and other areas are discussing it, and there is the stamp duty surcharge. Those are inferior solutions to an annual tax on property.

One further point is that everything should be revenue neutral, in my opinion. If you increase the annual tax on property value at the local level, there should then be less central government grant. Central government grants should focus more on redistribution, whereas the reformed local council tax should focus on providing infrastructure and local services. That would be my grand vision of a reform of the tax system.

**David Kingman:** I would agree with all that. The OECD has shown that in Britain we have quite high property taxes in international terms, but, as Professor Hilber has shown, the vast majority of them fall on transactions rather than on occupation. We definitely think that council tax ought to be reformed because it has a number of inefficient and rather invidious features. It is based on property values that are decades out of date and it is very regressive, because beyond a certain point the more valuable your house is the lower your tax rate from the point of view of council tax, which is not a principle that we generally apply to taxes.

Another point, which relates back to our discussion about downsizing, and the role of incentives in downsizing and in property moves, is that it would create more of an incentive for people to consume housing more efficiently if there was a more effective tax on housing consumption. In other countries, Denmark is a prime example, they have a more stringent annual ownership tax that, in Denmark's case, people can pay annually or, as I understand it, the value of the tax can be rolled up to be taken as a charge against their estate when the owner passes away. It defuses some of the controversy around charging people who are income poor but asset rich and living in large properties what could be seen as an onerous tax.

Another point about council tax is that, under the current system, single people receive a discount. You pay a lower rate of council tax if you are a single-person household than if you are a multi-person household. That makes sense from the point of view of reducing the bills of individuals to make them more affordable, but it also further encourages the inefficient use of housing by not disincentivising small households from living in big houses. If you wanted to create an incentive for more efficient use of the housing stock, a more effective council tax system would be a fairly obvious way of doing it, although whether that is politically feasible is another matter entirely.

**The Chairman:** It is a historic relic of the row over the poll tax that was a relic of the row over rates. That is why that is embedded in the system. I am not cutting you off, Professor Graham, but Lord Hollick has not had a go and Baroness Blackstone had a supplementary. I think we will continue on this broad area.

**Baroness Blackstone:** I was going to ask Professor Hilber to say a bit more about a property tax on occupation as against a transactional tax on moving. He has said a bit more about it, but it would be helpful if you all could reflect on the intergenerational aspects of these changes in taxation as far as property is concerned, because we have not really dug into that. It is too late now to get into it, but could we have a short note, particularly from David Kingman and Professor Hilber, because you have both commented on it, in relation to council tax and why it does not work very well at the moment?

**The Chairman:** If you could do that, that would be wonderful. You have covered some of the points in your evidence, but we are interested in that.

Q136 **Lord Hollick:** You have all cited the lack of supply of affordable housing as a root cause of a lot of the issues we have been discussing. Could you

help us by prioritising what you think are the measures, or the measure that is most likely to increase the supply of affordable housing. Professor Hilber, you talked about the dysfunctional housing market and dysfunctional planning system? Perhaps you would like to start us off. What would you recommend as the way of remedying that and improving the supply of affordable housing?

**Professor Christian Hilber:** I am not sure which question to answer first.

**The Chairman:** Either. We do not want to keep you too long. That is why Baroness Blackstone suggested that we could have a written note if need be.

**Professor Christian Hilber:** Let me first answer the question regarding the intergenerational aspects of the tax. Yes, that would have an intergenerational effect, in the sense that elderly people would have to pay an annual tax on property, which would incentivise a move if the house is too big, so it goes in the same direction as Mr Kingman mentioned that you should not subsidise single-person households.

The follow-up problem is that there are people who are property rich but cash poor, and what do you do about that problem? That is probably why council tax was lowered for single-person households. My message from an intergenerational point of view is: do not subsidise these single-person households or elderly people. There are other products such as reverse mortgages, which help people to stay if they want to, but by tapping their wealth, which would have positive intergenerational aspects in the sense that it would not further increase intergenerational inequality.

Secondly, my broad message is that if you want to tackle the housing affordability problem for the whole of society you need to build more housing, not just more social housing, and to do that you need to tackle the causes of the problem. That means reforming the planning system and the tax system. I could talk for an hour about how to reform these two, but that is my broad message.

**The Chairman:** What is the most important single measure that you would cite to reform the planning system?

**Professor Christian Hilber:** It is difficult to say. I do not just want to say, "build on the green belt", because that alone falls short of solving the problem. If you say, "build on the green belt", but local authorities have no fiscal incentives to permit development, nothing will happen, or not much will happen.

I am aware that this is unlikely to happen, but the implications are reforming the whole planning system; moving away from the development control system that gives excessive power to NIMBY residents and moving to a zoning system such as that in other countries.

**The Chairman:** We are running out of time. Clive, did you want to pursue this?

**Lord Hollick:** I just wanted to get the answer.

**The Chairman:** Two brief responses and then we must wrap up.

**David Kingman:** On the intergenerational aspects of taxation, I agree with Professor Hilber. I am not sure that in a rush I have anything more to add there.

I also agree with what Professor Hilber said about reforming the planning system. If you look at the history of housebuilding in this country, there were two periods where we built an adequate amount of housing. They were in between the wars when planning restrictions were much less than they are now, before the main legislation safeguarding planning had come in, and in the 1960s and 1970s, when local authorities played a major role in building social housing.

I would support a major reform of the planning system. Also, if we were working within the grain of current policy to a greater extent, I would support a greater role for local authorities in building affordable housing, which the Government currently seem to be trying to do through reducing the borrowing cap on local authorities. The problem there is that the right-to-buy scheme needs to be reformed, because at the moment local authorities do not have much of an incentive to spend a lot of money building affordable housing if the first people who get into it can buy it at a discount at some point and sell it at full value. That is inextricably linked to the issue of affordable housing delivery.

**Professor Elspeth Graham:** To add to what others have said, it seems to me that affordable housing is often associated with social housing. When I talk about housing affordability in areas, I am talking about matching house prices with average incomes. If you want to increase the affordability of housing in areas, you have to take steps to cap prices, which probably means building more houses for sale and encouraging development. For younger people, job security and income will also be exceedingly important. Everything is connected, and that is connected to whether their parents are likely to move house or not.

**David Kingman:** My big message is that everything is connected. Housing cannot be looked at in a vacuum.

**The Chairman:** We have not discussed zoning, which was referred to. It is an interesting proposition that we do not like here in this country, but it is certainly an approach. Thank you, Professor Hilber, because at a previous session I kicked out a question on what I call the sacred cow of the green belt and was told it was not very relevant, so it was very interesting to hear your evidence.

Thank you all for coming in. I am sorry that we have kept you at length. We appreciate your full and thoughtful answers. If there is anything further you want to add, we will always receive a written submission. We are grateful for those that we have had already.

Professor Sue Heath, Social Market Foundation, Building Societies Association and Centre for Economics and Business – Oral evidence (QQ 151–159)

**Professor Sue Heath, Social Market Foundation, Building Societies Association and Centre for Economics and Business – Oral evidence (QQ 151–159)**

[Transcript to be found under Building Societies Association](#)

Professor Christian Hilber, the Intergenerational Foundation and Professor Elspeth Graham – Oral evidence (QQ 130–136)

**Professor Christian Hilber, the Intergenerational Foundation and Professor Elspeth Graham – Oral evidence (QQ 130–136)**

[Transcript to be found under Professor Elspeth Graham](#)

## **Professor Sir John Hills, Institute for Public Policy Research, Policy Exchange and TaxPayers' Alliance – Oral evidence (QQ177–182)**

Tuesday 27 November 2018

[Watch the meeting](#)

Members present: Lord True (The Chairman); Lord Bichard; Baroness Blackstone; Viscount Chandos; Baroness Crawley; Baroness Greengross; Lord Hollick; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 19

Heard in Public

Questions 177 - 182

### Witnesses

Professor Sir John Hills, Chair of CASE and Richard Titmuss Professor of Social Policy, London School of Economics; Warwick Lightfoot, Head of Economics and Social Policy, Policy Exchange; Carys Roberts, Senior Economist, Institute for Public Policy Research; Rory Meakin, Research Fellow, TaxPayers' Alliance.

Q177 **The Chairman:** We will return to public session now. We will not introduce ourselves because our names are shown. As you know, this session is open to the public. It is going out live on the parliamentary website and will stay there. There will be a verbatim report which you will be permitted to see and correct for the purposes of clarification and accuracy. Welcome to you all and welcome back, Sir John. We have seen you before, but you are very welcome to our public session. For the record, could you introduce yourselves and then we will go straight into the questioning?

**Professor Sir John Hills:** I am a Richard Titmuss professor of social policy at the London School of Economics.

**Warwick Lightfoot:** I am head of economics and social policy at Policy Exchange.

**Carys Roberts:** I am a senior economist at IPPR.

**Rory Meakin:** I am a research fellow at the TaxPayers' Alliance.

**The Chairman:** Thank you very much. The remit of the Committee is to look at issues of intergenerational fairness or otherwise. We are very well aware that there are many intragenerational issues, but for the purpose of this inquiry we are focusing on the broader intergenerational issues and in this session we are looking at taxation and benefits in particular. Perhaps I could ask a sighting question: do you think the balance of tax and benefits, as is, is fair between generations and, if not, which generations have been unfairly advantaged or disadvantaged?

**Professor Sir John Hills:** The short answer to that is no. You need to distinguish between generations in the sense of when we were born and of our ages at any one time. It is perhaps inevitable that some of us born



in the years immediately after the Second World War—a large generation—have done rather well out of the system in terms of the balance between taxes and the services and benefits we have received and expect to receive. We have been able to share the working-age tax burden among a large number of us and we have been looking forward to systems that have been offering us pensions, for instance, from a pension age which did not previously move very fast, although I know that is a very sore subject for women born in the same year as me—1954. As a generality, that slow adjustment, and other things connected with it, has led to a benefit for people born between 1945 and 1960.

Looking more immediately at ages, it seems to me that we have developed a system where taxation is unduly concentrated on the working-age generation and is rather light by comparison with the wealthier part of the younger retired or over pension-age generation, in particular in the tax treatment of assets, and income from assets. That connects to some of your other interests regarding the structure of the national insurance system.

**Warwick Lightfoot:** I do not share John's view. I think it is a very big mistake to try myopically to pitch one cohort, one generation, against another. In the last 70 or 80 years, modern and advanced economies have been very good at developing effective welfare states, which when you get the balance right help the market economy to work better than it otherwise would. I am sure John and I agree on that. Effectively, you try to share risks that households on their own, private credit markets and private insurance cannot manage. You have to decide where you are going to intervene, what you are going to spend, and then you have to decide how you are going to raise the revenue to do it. You want to raise that revenue in a manner that creates least distortion and involves fewest deadweight costs to the performance of your economy in the long term. You need to have an eye to those with the broadest back making the biggest contribution, where they can do so, but not carrying that so far that you begin to crowd out your economic base so that the compound growth in GDP and your economy grows at a slower rate than it otherwise would. Although it feels quite nice right now when we are making the decisions, in 15 or 20 years' time, we will be attempting to tax a rather smaller economic base.

I think we have done quite well at substantially modifying market incomes, helping people who are in difficulty and helping to support people when they are older. We are also doing quite well at extracting large sums of money at the very high end of the earnings distribution without undermining the capacity to expand and compound the economy. One has to be very careful in thinking that one can get large amounts of revenue out of capital and property, because there is no alignment between income and the capital valuation that is reported. Economists have had enormous difficulty with capital. One of the biggest controversies in the 1950s and 1960s was over capital. I do not think it was ever quite sorted out. It is also about the flows of income and expenditure that you are able to tax, and capital evaluation at any one time, in my view, will not be a reliable source of current revenue to finance our complex spending programmes and welfare state.

We have the broad framework reasonably right. In the last 40 years, we have placed much greater emphasis on helping working-age families in difficulty. You will forgive me for saying this and certainly, the Chairman and other friends around the room will appreciate what I am about to say. If you think of the agenda that was developed by the late Sir Maurice Finer for helping families in difficulty, particularly lone-parent families, and the agenda that you were involved in when FIS was turned into family credit, and later on in the 1990s when the tax credit system was developed to help working-age families with children, we have done quite a good job at redressing the balance and, at the same time, reining in the transfer payments made to retired incomes. There were restrictions on pensions between 1981 and 2010, a reduction in SERPS and substantial changes to tax payments made into pension funds—in 1993 by Norman Lamont and later by Gordon Brown, in 1997—and of course, changes to some of the benefits in kind in social services. Those of you who have been involved in local government and the voluntary organisations that support local government will know about the eligibility criteria in terms of long-term care. In striking that balance, we have done quite a lot. I have not mentioned raising the pension age or what was done on gender neutrality regarding older women.

**The Chairman:** We have four witnesses so we will have to keep the pace up a bit. Would you like to comment?

**Carys Roberts:** I tend to agree with John both in framing and diagnosis. I would add that the same generation has also benefited from the house price boom, which is unlikely to be seen again. We have done quite a bit of work on where taxation could focus on assets. I absolutely understand the point that they need to raise revenue, but taxes also perform an important market-shaping role. The other thing to draw attention to is that inheritances are set to more than double over the next two decades. The wealth of that generation will pass down. The question is, who it is going to pass to? What is an intergenerational question is simultaneously an intragenerational question of the inequality becoming worse for later generations.

**Rory Meakin:** I would concur with the idea that there is unfairness and it impacts more on younger generations than older generations. If you look at public finances, you will see that in the past 40 years only five years have been in surplus. What happens to that? Who has to pay that money back? It will be the current younger generations when they are older. Any deficit spending can only be neutral in intergenerational terms because it is paid for by future generations of taxpayers and financed by borrowing which comes from what could otherwise be spent on corporate investments, and it therefore leads to lower growth and economic improvement, and that, again, is borne by future generations, i.e. younger people now.

Looking specifically at taxes, you might think that stamp duty is borne by older people because they tend to be property owners. However, it exacerbates the housing crisis, and the impact of the housing crisis is borne more by younger people than older people. If you look at duties—tobacco, alcohol, air passenger duty—they are borne more by younger people, because younger people tend to be poorer and, in the case of

alcohol and tobacco, they tend to be larger consumers, at least in volume terms rather than price terms in alcohol. The percentage of smokers is 8% in the over-65 age cohort and 19% in the 18 to 34 year-old age cohort. All these duties tend to impact more on younger people than older people. In total, there is definitely, in my opinion, a greater impact of the tax system on the young than the old.

**The Chairman:** Thank you for those varied contributions. As I say, with four of you, we will have to keep the pace going. Perhaps I could go straight on to Baroness Thornhill.

Q178 **Baroness Thornhill:** We want to nail you on a specific issue of National Insurance contributions rather than the big picture stuff, and, John, you have mentioned it. We have heard opposing views—from Frank Field who said, “I work so why shouldn’t I pay contributions?”, to a Treasury representative who said that it acts as a behavioural incentive to keep people in work longer. Do you think it is equitable that employee national insurance contributions cease at the state pension age and, if so, why?

**Professor Sir John Hills:** It is no longer equitable. There was a logic to the system when most pensioners were poor and when the aim of the system was a symbol—and of course we know that it is only a symbol; in some ways it is an accounting fiction—and that what we do is that we pay in our working lives and we tend to receive benefits after retirement. That is where I agree very much with what Warwick said. The idea that we pay in contributions through our working life and later we receive the state pension is a good way of describing what is going on. However, we face problems, and I know that the Committee knows very well the major problems that we face with the escalating future costs of healthcare and, in particular, social care.

In a world where not all pensioners are poor and where median pensioner incomes are similar to those of younger people, to exempt a substantial chunk of income of older people, much of it derived from defined benefit pensions, which were highly tax privileged as they were accumulated, it seems to me that this is a moment where one could couple a tax on people who have the ability to pay with a need of which they are painfully aware—of paying for social care—in a way that might reduce the gamble as to whether it is their family which will be losing a large part of its inheritance. I know you are all very well aware of all that. I am not suggesting full-rate national insurance contributions, but something closer to the German model, as I understand it, of a low-level national insurance contribution by the people who are aware of that need and who can afford it above a threshold.

**Warwick Lightfoot:** As I understand your question, it is whether NICs should be applied to someone who carries on working after the retirement age. John has gone into a much broader issue about applying NICs to savings income, pension income and investment income, which is rather out with your question. Regarding the narrow question, it all depends on the extent to which you think there should be a maintenance of the contributory principle. We have changed the contributory principle from a period of 40 years, down to 30 and now to 35. There are people at the moment who are inquiring how the new arrangements are going to

work and are getting somewhat disappointing and confused answers from the department involved about the number of years' contributions they have. So the idea that there is not a contribution principle in play is irritating people who read the columns of the *Sunday Times*, the *Sunday Telegraph*, *Financial Times Weekend* and who listen to "Money Box Live". There is a contribution principle and if you want to maintain that, it does not make sense to apply it after someone is not accumulating any more once they are outside the pension age rules. Of course, someone like myself, who, as I understand it, although I would not put money on the table, appears to have a full house, is still contributing but not getting any more. It has become a little muddled. I probably would share the witness from the Treasury's view that one of the things you want to do is keep people working because you want that output from them. That is the real prize to be had. Last night Alan Greenspan spoke via video at a Policy Exchange event and he made the point very strongly that one of the difficulties of payroll social security taxes in the United States is the way it has suppressed the savings ratio and capital formation and taken people out of the labour market. That is one of the things we probably need to be a little wary of.

**The Chairman:** Does anybody else want to comment on that question?

**Carys Roberts:** Our view is that taxes are likely to need to rise due to demographic changes and parties pledging to end austerity. There is an argument for asking older generations, which have benefited from stronger wage growth throughout their working lives, to pay more, particularly when some people are working later. On NICs specifically, it has become less strongly linked to insurance principles, and the notion that it is a contributory tax allows it to be a regressive tax. We believe in a wholesale reform of NICs, making it more progressive for working-age people as well as people above state pension age, but that there is a role for people above state pension age to pay perhaps a reduced rate, or indeed the full rate on employment income. That could raise just above £1 billion in 2020-21. There is perhaps an argument for putting in place transition mechanisms so you are not going back on an understanding that people had throughout their working lives, particularly towards the end of their working lives.

**Rory Meakin:** Given that the tax burden is at such a historic high at the moment, and the damage it is wreaking on productivity growth and the economy in general, I think the tax burden needs to fall. When you look at NICs, as others have said, essentially, it is another income tax now, but only on certain types of income, i.e. earned income. Is there a justification for having age-based eligibility? No, not really. However, it is also unfair to impose new taxes on groups which have made plans based on those taxes. How you go about redressing the conflicting unfairness is a difficult question. I would say that if you are starting a new tax system from scratch, you certainly would not want a system like this.

**The Chairman:** For the record, was it Alan Greenspan you mentioned?

**Warwick Lightfoot:** Yes.

**Baroness Blackstone:** I want to challenge what has just been said. This would not be a new tax; this would just be the continuation of an existing

tax. You are perfectly right to say that it operates like a tax rather than a contributory scheme, but the question I really want to ask is whether the Treasury argument that was put to us—that it is an important incentive to keep people in work—is credible, given the many other factors that will influence people's decisions as to whether to continue in employment beyond the state pension age. Would it make much difference if the Government decided that people would go on paying National Insurance contributions while they continued in employment after the state pension age, or would people suddenly say, "I am not going to go to work any longer"? I am puzzled by it and I wonder whether Professor Hills or Mr Lightfoot could respond to that.

**Warwick Lightfoot:** One of the reasons why the Treasury will be concerned about this is that when people have looked at things that interfere with work incentives, such as marginal income tax rates, payroll social security taxes are generally perceived within the OECD as a disincentive to participation in the labour market. It is generally accepted guidance that you should avoid heavy payroll social security taxes if you can. Of all the things you can do regarding taxation that diminishes labour market participation, it tends to be a payroll social security tax that gives the worst outcome for the amount of revenue you raise. I would imagine that lies behind the concern expressed by the Treasury.

**Professor Sir John Hills:** I might disagree with that, having agreed with at least half of what Warwick said in a previous answer. It is an empirical question and it would be very good to have evidence on it. We know that the people who keep working after state pension age tend to be the higher paid. They tend to have rewarding jobs and are people such as academics who rather enjoy what they are doing. I suspect that the marginal effect would be relatively small. We also need to pay attention to not just the substitution effect that was being described but the income effect. If people have a target for what their income in retirement will be, some of us might keep working a little longer to get there and some of us might have to work a little longer. I suspect, compared with the other reasons why people keep on working, this is a rather small effect. I would welcome somebody who has done serious analysis of it.

**The Chairman:** I am mindful of time because there is a lot of ground to cover, but Baroness Crawley has promised me a very brief intervention.

**Baroness Crawley:** Carys Roberts, you said that if a lower NICs contribution or a full NICs contribution was imposed, it would produce £1 billion. Is that from a contribution at the lower rate or the full contribution?

**Carys Roberts:** That is the full contribution.

**The Chairman:** We have other ground to cover on this business of taxation and I know that Baroness Tyler wants to move us on.

Q179 **Baroness Tyler of Enfield:** Several of you in your opening remarks talked about shining a light on the wealthier part of the younger retired generations. Indeed, I was struck by your comment, Warwick, that those with the broadest back should make the greatest contribution. In the light of that, my question is specifically about some of the universal pensioner benefits we have at the moment, such as Winter Fuel Payments, TV licences, bus travel. Do you feel they should continue in the future to be

universal, including for some of the very wealthy pensioners, or are the concerns this Committee has heard about the unfairness of some of those benefits better addressed through changes to the benefits themselves and entitlement to them? When giving us evidence, Frank Field suggested that some of these pensioner benefits should be treated as taxable income. There are different ways of treating it, but I would be grateful for your views.

**Professor Sir John Hills:** There is one very important principle which the Pensions Commission, of which I was a member, took a lot of time on, and that was trying to reduce the extent of means testing in old age. That is where a lot of the disincentive issues around the combination of taxes and benefits can arise in terms of people's future accumulation. Looking at the smaller benefits you mentioned, the one I would want to concentrate on is Winter Fuel Payments. I did some work on fuel poverty for the Department of Energy and Climate Change. It is quite clear that Winter Fuel Payments are almost the least effective way of coping with fuel poverty. I would much rather that that money was diverted to something that made a difference to the people at risk of fuel poverty, with a permanent solution and the insulation of their homes.

**Warwick Lightfoot:** The most important thing is a universal basic state pension that people can base their long-term savings and retirement income on. Unless you are fortunate enough to work in the same job, particularly within the public sector framework, where you can move from employer to employer and still have a pension, it is very hard for people, even when they have been quite well paid, to accumulate a stock of financial assets that can yield a reliable income at retirement age. That base is very important. We should also acknowledge that we have one of the stingiest replacement ratios from that basic state pension of any advanced economy. It became somewhat stingier in relative terms because of the decision made in 1981 to uprate it only by prices rather than wages. We have a very stingy replacement ratio and we should not erode that or means test it. The OECD and the IMF have been playing with this idea, but I do not think it is a good idea to go down that route.

It is perfectly legitimate to look at some of the other benefits. As John rightly says, some were built up precisely because the old age pension was so stingy; it was not being uprated and, therefore, we were forced to go down the credits route and other routes. Some of them are very awkwardly aligned, particularly in London. I am 61 and I am thrilled that I got this bus, tube and rail pass. It even reduces the cost of my travel to where I live in Plymouth at the weekend by about five or seven quid. Week in, week out that is very helpful and I am very pleased to have it. I do not know these days how much this costs but it is a very substantial bill. I bet it is something like £60 million or £70 million across London. I would be very surprised if it was much less than that. For the kind of help we give people who have serious difficulty in accessing transport—Dial-a-Ride, the sorts of things that Sally, Nick and I have spent half a lifetime being involved in, where there are strict eligibility criteria and rules about the number of rides you can have, and so on—we have got that completely out of balance. I am sure that that and the television licence

and the Winter Fuel Payments are things one could consider. I have an open mind about that.

I would only say, do not be too clever about means testing and taxation because the administrative messing about becomes a nuisance factor in itself. You want to make sure your basic state pension is not means tested. I fully support the decisions taken in 2010 because I do not think you could have sustained that very stingy replacement ratio that we had before. I have an open mind on what you do about the others. I am not clever enough to give you any guidance about what should happen to them.

**The Chairman:** There are no fans yet. Would you like to make a comment?

**Carys Roberts:** I do not have the evidence in front of me on the effectiveness of Winter Fuel Payments versus other interventions. One thing we did look at was what would happen if you limited it to those receiving pension credit, which was mooted as a way to means test it. It sounds sensible, but we found that, because the take-up of pension credit is quite low and, because of the structure of families, it ends up being quite regressive. There is a need to be quite careful about how you means test it, if you go for that option, because, with the administrative trade-offs, it might not be worth it. You might want to go for all or nothing.

**Rory Meakin:** I would disagree with that. Most of the benefits I can think of should be means tested. Frankly, they are all dreamed up as headline-grabbers on Budget days, and they have insulting names suggesting that older people are supposed to do this or that with the particular money that the Government are giving them. I would think it is more dignified just to give people money if they have low incomes, rather than give little labels as to how they are supposed to spend it.

**The Chairman:** I am sure Mr Hall of the BBC will be pleased to hear some of these comments. Baroness Greengross.

**Baroness Greengross:** As Warwick said, I spent a lot of years looking at these issues. I feel that if somebody is continuing to work well after the state pension age, which moves only slowly, and they are getting a very high salary because they are the boss of the business, when their research assistant does not even get the travel pass—which you love so much, as do I—that is really unfair. It would be better if all those benefits were declared and people with very high incomes were taxed on them. You can go on giving them out to everyone, because everyone loves the travel pass, et cetera, but you would tax people so that the high earners are taxed like everyone else. In a way, if you are continuing to work and you are the boss of a company, why should you not be taxed on those benefits? I just do not understand it.

**Warwick Lightfoot:** I have a concern about that because you do not want to have fiscal churning. I should not have this travel pass, full stop, but I should not be given it and then have it taken away. That kind of churn is the last thing we want. I am also very concerned because we are trying to get as many older people out of having to do tax returns unless they really need to do them. That was a large part of the Chancellor's changes to the older person's tax regime. It is very important that you do

not invite older people to fill in complex tax forms that they may not need to do. I am a little wary for those sorts of practical reasons. You need to find some way of slowly, over time, removing them. When you are 61, you should not be getting what is in my pocket right now, as much as I love it and I am very grateful for it.

**Professor Sir John Hills:** There is one system that might help. It is technically known as grandfathering, but, presumably, should be something more neutral these days—grandparenting—and it allows the age at which you receive it to rise rather than immediately taking it away. I come back to the same point that the money could be used more effectively to tackle the underlying problem of fuel poverty. There is the question of how we phase it out without upsetting people's immediate budgets. I think the ages are wrong at the moment. One way of avoiding complicated means testing is to move those ages up so that you are biting at the group that is most affected. In the long run, my aim would be using those resources more effectively.

**The Chairman:** I think that has all been very clear. Mr Lightfoot, you are going to be a hero to the 61 year-olds of the country who are watching this, I am sure. I am going to bring in Lord Bichard to take us on to property taxation.

Q180 **Lord Bichard:** I am astonished that no one has mentioned the Christmas Bonus, which some of us are really looking forward to receiving because it is going to change our financial situation dramatically. However, I want to talk about property because, in the recent past, the Government have tended to tax property transactions through the likes of stamp duty, rather than the consumption of property through the likes of council tax. Do you think this is the right decision for the Government to have made? Do you think we need to revisit property taxes in this country and, if so, what would your suggestions be?

**Professor Sir John Hills:** The brief answer is that the balance is not right. If you look at one of the Committee's main concerns, which is housing for younger people, the last thing we need is for property transactions to be gummed up by people who feel that it is too expensive to move and it is better to leave property empty or to not downsize—to use it more effectively. Stamp duty is very unhelpful in that regard. Making council tax in some way more closely related to capital values of property and the size of properties—with all the provisions you need to cope with the asset-rich, income-poor problem by way of delayed payments—would be a much more effective way to do it. The underlying economic principle is always that transaction taxes are a bad idea, whereas taxes that capture current flows of benefits, which come in kind in the case of valuable housing, are a better way of running our tax system.

**Warwick Lightfoot:** I do not share that view. It is very difficult to tax wealth and property. John is quite right that people do not always have the cash income to foot the tax bill on a property. If we had a proper income tax system in the way that it was theoretically considered in the first part of the 20th century, we would tax the changes in someone's economic path from one point in time to another. We do not do that



because they do not have the wherewithal to pay the tax. Instead we try to tax flows of income, flows of spending and events. John is absolutely right that you do not want to have very heavy transaction taxes because you want people to be able to arrange their affairs as it suits them and you do not want to get in their way. You have to be realistic about what you can extract from property taxes. There is a role for a property tax. In this country we already levy charges on property above the OECD average, and it might even be substantially above the OECD average; so, in so far as there is a trick you can take on taxing property in its various forms, we certainly do it.

It is worth bearing in mind how we moved to where we are now with the council tax. Two things happened. People loathed domestic rates. There were terrible rows over them which went on and on and on. They were removed by the community charge. To illustrate how contentious that property tax was, the *New Statesman* produced a very powerful leading article where it listed all the things wrong with the poll tax and community charge. At the bottom it said, "We published this 20 years ago when the rating system was revalued and we transposed 'community charge' in place of 'rates'". Property taxes are extremely contentious.

One thing that is very important is ensuring we get public support for the public services we want and the taxes we need to fund them. You have to pluck the goose in a gentle way, as Colbert put it. You do not want to cause the goose to hiss. It is very important that you have taxes that do not irritate the public. Transaction and property taxes do that. This is one of the reasons why in much of the United States, they find it very difficult to get consent for the kind of public services and taxes they need because they make a disproportionate use—albeit not quite as high as us, I think—of property taxes and they do not have a proper expenditure tax. I would be careful about irritating the public. When the council tax began to rise between 1996 and about 2004–05, the public had a hissy fit. You will remember all those people getting very cross indeed. You have to be very wary. These complex public services, delivered by local and national government, essentially, have to be funded by taxes on income and taxes on expenditure.

**Lord Bichard:** Can I press you a little on that because you are telling us that transaction taxes are not a great idea and that we should be very careful about property taxes, because they irritate people, but you are not pointing us towards what your preferred solution would be?

**Warwick Lightfoot:** I am very clear that you have to look for buoyant sources of recurrent revenue, and that means taxing flows of income and flows of expenditure. Because of the deadweight and distortion costs that arise out of taxation expenditure, and complex issues such as the double taxation savings income and labour supply, I would probably have the emphasis on taxation of expenditure as opposed to income. Just going back to your earlier discussion, it is worth bearing in mind in relation to older households that the balance of taxation shifted from income towards expenditure through VAT, which has more than doubled in the last 40 years.

**Lord Bichard:** Would you be in favour of putting up VAT?

**Warwick Lightfoot:** I would make greater use of expenditure taxes in general and a substantially increased income tax.

**Lord Bichard:** We probably do not have time to go further.

**Carys Roberts:** I do not think I have met an economist who thinks that stamp duty is a good tax. It distorts decisions over moving house, as John identified, and penalises frequent movers, which ultimately holds up land prices. Having said that, we clearly need a system of property taxation and a system that can capture some of the huge gains that homeowners have seen, which are keeping wealth inequality high, particularly on an intergenerational axis. We propose a property tax. The reason for that is, if you remove the exemption on capital gains on first homes, you are left with a transaction tax again, and there are huge difficulties with that. A property tax would be partly a consumption tax, so it would be taxing the consumption of housing alongside the locational value, and it would have the potential to be much more progressive than the current system. That is why we argue for it. On irritating the public, it is important to note that housing is the major issue for younger people, for the millennial generation and below, and we will start irritating that generation if we do not crack this issue. As such, I think property taxation has to be key to solving this problem.

**Rory Meakin:** I would fully agree with what John says. In my opinion, stamp duty, certainly before the changes from the slab system, was the worst tax on the books and might still be. The reason we think that stamp duty is such a terrible tax is that it keeps older people—empty nesters, if you like—in larger homes and prevents them from moving, when they would otherwise prefer to move and it would make sense to move somewhere smaller. It also prevents people from moving away from convenient labour markets to locations which are not so great, when they no longer suit their needs. Typically, that might be moving from London to the coast, or something like that. It throws up those kinds of misallocation problems as well as issues over the size of properties.

I would say that property taxes as a share of GDP are not just among the highest but are the highest, according to OECD data. The problem with property values having risen so high is that prices are always and everywhere a measure of scarcity, and it is not that older people have too much of the value of that artificial scarcity but that there is that artificial scarcity. The solution is not to tax the upside for the winners of that scarcity. Instead, it is to reduce the scarcity in the first place, i.e. build more houses.

**Professor Sir John Hills:** Rory has been kind enough to agree with me, but I disagree with the last point he made. In England, the last time I looked at it, on 2014 numbers, we had more residential floor space per person than we have ever had, and yet we have a housing crisis. One of our problems is that we are not making optimal use of the space we have. Regardless of whether the overall level of the property tax is right, there is an equity issue in the relativity between what people in less valuable and more valuable property pay. I looked last year at a flat in Kensington for sale for £300,000 and a house for sale a mile away for

£30 million. The council tax in Kensington and Chelsea payable by the £30 million house was £24 a week higher than that for the £300,000 flat.

**Rory Meakin:** Yes, that is sort of true, but the reason the £30 million property is £30 million is not that council tax is a little too low; it is that there are not enough houses.

**Warwick Lightfoot:** We have a housing supply issue and we are not going to resolve it with a housing taxation solution. Of course, the value of housing has been substantially aggravated by very loose monetary conditions. The Bank of England has presided over a very loose monetary policy, going right back about 20 years, where it discounted house prices as part of its inflation target. Of course, one of the things we should not overlook in terms of intergenerational fairness is that quantitative easing has pushed down interest rates, which has been very good for younger householders and been very bad for older savers and people wanting an income from savings, because rates of return on assets have gone down, not least on bonds.

**The Chairman:** I am going to have to move on. I know Lord Hollick wants to pursue intergenerational transfers.

Q181 **Lord Hollick:** Can we look at the way we currently tax the transfer of money between generations? Carys Roberts, I am asking you a question acknowledging the fact that I am a trustee of the IPPR. In your recent report for the Commission on Economic Justice, you made a strong case for the introduction of capital transfer tax. If I recall correctly, we had capital transfer taxes back in the mid-1970s to the mid-1980s, so, in giving us your rationale for that, can you explain why it was introduced and why it was dropped after 10 years?

**Carys Roberts:** I am not sure I can answer that part, but I can certainly answer why we think that it is the right solution. Inheritance tax, as it is currently formed, is easily avoided if you are wealthy, healthy and well advised. That is the phrase that is normally used. That is because you do not have to pay it if you transfer capital more than seven years before your death, which penalises people who might become ill unexpectedly or who do not have financial advice, and means that we do not raise that much from the system. We propose the gift tax or the capital transfer tax as a way to make sure that that cannot be avoided through those arbitrary means any more. It would be levied on the recipient rather than the giver. That is partly because we think that might be more acceptable to people. It is not obvious; it is an empirical issue, but we are interested in it, and it also incentivises the breaking up of parts of wealth to younger generations. They have done this in Ireland, and I anticipate Warwick's response here because it has not raised a huge amount of revenue in recent years, but that is because of the dramatic fall in asset prices going on in Ireland at the moment. It could raise as much as £9 billion on top of what inheritance tax currently raises, according to modelling by the Resolution Foundation. It would be a fairer way to raise revenue that would make it harder—although not impossible—to avoid that tax. If spent on things that equalised opportunity and wealth, it could have greater legitimacy.

**Lord Hollick:** The £9 billion would be if you introduced it at what level?

**Carys Roberts:** There would be a personal allowance of £125,000.

**Lord Hollick:** And above that?

**Carys Roberts:** That would be equal to income tax rates. It would go into your income tax schedule.

**Lord Hollick:** That would compare with the IHT that it is replacing, which raises how much?

**Carys Roberts:** Off the top of my head, I think it would raise £15 billion in total.

**Warwick Lightfoot:** Roughly £5 billion.

**Carys Roberts:** Going from £5 billion up to £15 billion.

**Warwick Lightfoot:** I may be able to help you with the answer as to why it was got rid of. As you will remember, capital transfer tax was introduced by Denis Healey in the 1975 Finance Bill. Of course, it was during consideration of that Finance Bill that Mrs Thatcher offered that devastating critique of the Chancellor and the proposition that made her bid to become Conservative leader so much more effective. It was a very unpopular tax. The difficulty with having a transfer tax, particularly one that goes to individuals, is the amount of record keeping that people are going to have to do over their lifetime, clocking the assets they have and how they transfer them and how they receive them. You may have seen that the Office of Tax Simplification commission has put out a paper on the complexity of the current inheritance tax system—many people who have no liability for this tax get caught up it before they can get probate. Many people who have no liability for inheritance tax will find themselves caught up in an administrative regime that will achieve very little. I might add that for many households the thought of not having a threshold of £325,000 but something more like £120,000 would be about as popular as finding a dead mouse in your kitchen cabinet. It goes back to the Colbert issue: inheritance taxes are phenomenally unpopular even among those people who will never have that liability.

One thing that is fascinating as an economist is the way people approach assets in their own lives. They have a very powerful bequest motive which vitiates the permanent income hypothesis, because otherwise we would all die leaving nothing. There was a fascinating suite of work published by the *American Economic Journal* about 15 years ago called *Thanatology and Economics*. I think thanatology is a posh Greek word for being dead. It shows that people try to accumulate a huge amount of assets to pass on to other generations; or, for those like me who do not have children, we certainly do not want to run out of cash at the end. We underestimate that bequest motive in people's work effort and all sorts of things. I might add that some very egalitarian countries such as Canada and Sweden have abolished inheritance tax.

**Professor Sir John Hills:** I do not want to come in too much on this, but I think there is an issue of accidental bequests with inheritance tax. Many people under the current social care regime will be over-accumulating resources, if they can, to cope with the risk that they might have to pay for very large amounts of social care. Only one in 10 will end up paying over £100,000—although the numbers will have risen since

Dilnot calculated it—and there will be a lot of money sitting there, as it were by accident, which will go to heirs. If we had a more effective system for paying for social care, there would be less of that around. At the moment there is that money which could be captured through transfer taxes of one kind or another.

**Rory Meakin:** You want neutrality from a good tax system and a lack of distortions. Whether or not you have tax on bequests hinges on how you treat bequests. You can view them as income that is taxed when it is received and spent by the person who receives it, or as a transfer to an heir which is taxed when it is spent. If you introduce a tax in the middle, that is a distortion, and that is how most families view these things, which is why I think it is phenomenally unpopular. If I remember rightly, it is the most unpopular of all taxes, despite affecting only 7% of estates. On the other hand, you can view this at the level of the individual and view inheriting money as no different from earning money. If you view it from that perspective, you might ask why tax should be any different between the two, and that creates a distortion. Whichever of those two options you take, it leads to you taxing both inheritance and capital transfers, or neither. I lean towards neither because of the administrative problems that Warwick discussed. Fundamentally, you need to do both or neither, and the current system of enormous exemptions for certain types of assets is crazy.

**The Chairman:** Could we have a brief reply from Carys Roberts? I know Viscount Chandos wants to come in, but I am looking at the clock.

**Carys Roberts:** It hinges on whether you see multigenerational families as one economic unit. I would argue that, given the increasing importance of inheritance, we need to start splitting those out. On the administration point, we spoke to a number of tax experts for our report and many of them raised the point that with new technologies and digital technologies, there is no excuse for complicated tax returns and not being able to track those things. In time we should be able to make that process simpler.

**Viscount Chandos:** I have a quick question for Mr Lightfoot. Surely bequests and inter vivos capital transfers fall perfectly under your definition of flows where you can naturally take tax. I cannot quite see how you can make the thesis that that is where you need to look for tax revenue, but you resist a more comprehensive and fairer system of taxation of both capital transfers and bequests.

**Warwick Lightfoot:** I accept entirely that death is an event and, therefore, when an event happens you can levy a tax as a matter of practicality. What I am saying is that it is not going to be a reliable source of recurrent flows of revenue, and I think you will find that in most countries inheritance tax, even when you try to make it much more effective, which means getting more money, is always very disappointing in its revenue yields. I might say to John that the point about the potential over-accumulation of capital and inheritance is quite interesting. I share John's views on social care, I would imagine. Work has been done in the United States and that is a country which treats long-term care through Medicaid more like the way that John and I would probably

approach it. In that sense, that American analogy I drew would still survive a more generous long-term care arrangement. I do not think there will be reliable flows of income from either capital gains tax or inheritance tax. Capital values are very unreliable. Countries which have tried to raise substantial sums of money from it are often disappointed.

**The Chairman:** Baroness Crawley for a final question.

Q182 **Baroness Crawley:** If you could make one change to the tax and benefits system to improve intergenerational fairness, what would it be?

**Professor Sir John Hills:** I am afraid I am going to disagree with the question because I think doing one change is a mistake. I do not think you should be talking about taxes without talking about spending, or spending without talking about taxes. For this particular committee, it is very important to be talking both about social care and the problems for the old and housing for the young. I would couple doing something about national insurance contributions, or something equivalent, in old age with funding for social care. I would couple a more progressive council tax system with doing something about the provision of affordable housing for young people. I would not uncouple them and just do one thing.

**Warwick Lightfoot:** John is absolutely right. The two changes I would have in my mind with a specific tax dimension are to personal allowances and child benefit. Withdrawing personal allowances for people on incomes of about £122,000 is extremely damaging to work incentives. I would want to deal with that. The withdrawal of child benefit for households with incomes of between £50,000 and £60,000 is, likewise, very damaging. It is worth remembering that that was a tax relief that was turned into a social security transfer payment to make it more efficient. I think we should return it to where it was before. We will always have arguments about how generous it should be and how it should be indexed or whatever, but withdrawing it from households with incomes between £50,000 and £60,000 is extremely distorting for the tax system. I would also pick up John's baton about long-term care.

I ought to draw a halt there, but I would change fundamentally the planning system so we get more land in use for housing and commercial activities, and for the public service as well. The restrictions on land use are far too limiting. Those would be my principal areas of activity.

**Baroness Crawley:** What would you do about social care?

**Warwick Lightfoot:** We have to accept a situation where I could have a ganglion cyst treated for free but if I have a stroke in front of you and I need very intense personal social care, I will be on my own, and in the hands of the social security system. We have to fund long-term social care of a complex character in the way we fund the National Health Service, because you cannot make a service free at the point of use concur with one where there is a draconian means-testing regime. Of course, you cannot just say, "I would like a bit of social care, please". You go through a very stringent assessment and there will always be debates about how generous we make it or whatever. This is something that the Sutherland royal commission and a bit more of it—has got to be "bit", in my view.

**The Chairman:** We are getting into a very elastic definition of “one”.

**Warwick Lightfoot:** John started it.

**The Chairman:** We accept those comments and, of course, we accept the complexities and the interrelationships. We are fully aware that social care is a fundamental issue, but it is being addressed by another committee of the House at the moment, which is why we have not been directly focusing on it, but I assure you it is much in our thoughts. You are allowed one thing with a bit of elasticity.

**Carys Roberts:** I agree that it needs to be seen holistically, but if I had one priority it would be fixing the taxation of residential property. House prices have risen four times faster than wages since 1997. We are investing in infrastructure projects in London that are estimated to raise land values by £87 billion, with less than half of that captured back in taxation. Our current council tax system is regressive and penalises the young, who tend to live in properties that have a high council tax relative to their value. The whole system is not working. To fix that I would propose the property tax that I described earlier, to replace council tax, and getting rid of exemptions that incentivise investing in housing assets over other asset types—for instance, the exemption on property in inheritance tax.

**Rory Meakin:** First, I agree with everything that John said. The single most important aspect of intergenerational unfairness is the housing crisis. To fix that you need planning reform of the type the TaxPayers' Alliance has advocated and, in more detail, London YIMBY has proposed. If it has to be a tax and benefit measure, though, I would probably freeze the state pension.

**The Chairman:** That is a dramatic end to our session. If you would like to submit some evidence on that point, we would be very interested.

In conclusion, may I thank you all for coming. I would also say to Professor Hills that we are grateful for your informal advice on another occasion. We are mindful of that and would like to put that on the record. I am very grateful to the four of you. We have managed to keep to time, which with four is not always easy, and it has been very cogent and interesting evidence. Thank you very much and I hope you enjoy your lunch.

HM Government – Hardip Begol, Director, Integration and Communities, Simon Gallagher, Planning Director and Isobel Stephen, Housing Supply Director, Ministry of Housing, Communities & Local Government (QQ 93–103)

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Tuesday 23 October 2018

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Members present: Lord True (Chairman); Lord Bichard; Baroness Blackstone; Viscount Chandos; Baroness Crawley; Baroness Greengross; Lord Hollick; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Lord Price; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 9

Heard in Public

Questions 93 - 103

### Witnesses

**I:** Hardip Begol, Director, Integration and Communities, Ministry of Housing, Communities and Local Government; Simon Gallagher, Planning Director, Ministry of Housing, Communities and Local Government; Isobel Stephen, Housing Supply Director, Ministry of Housing, Communities and Local Government.

Q93 **The Chairman:** Good morning. Welcome to those joining us this morning. As you know—and it is proved by the numbers filing in behind you—the session is open to the public. A webcast goes out live and is subsequently accessible on the parliamentary website. A verbatim transcript will be taken and that will also go on the parliamentary website. You will have opportunities to make minor corrections for clarification or accuracy. For the record, please introduce yourselves.

**Isobel Stephen:** I am the housing supply director at the Ministry of Housing, Communities and Local Government.

**Simon Gallagher:** I am director for planning at the Ministry of Housing, Communities and Local Government.

**Hardip Begol:** I am the director for integration and communities at the Ministry of Housing, Communities and Local Government.

**The Chairman:** Thank you very much for coming. As Chairman, I get to ask the question which allows you to make a considered response to the overall themes of the inquiry into concepts of intergenerational fairness. From your standpoint as government officials, how do the Government consider the interests of different age groups when making policy decisions? In your deliberations, is consideration given to how specific age cohorts are affected throughout the life course, looking into the future, rather than just a snapshot in time, and the impact of decisions taken now? Do you consider age cohorts?

**Isobel Stephen:** From a housing perspective, the answer is: certainly, yes. If we look at the impact of the supply of housing in this country and



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what that means in terms of affordability, we know that the length of time it would take somebody on a middle to low income to save for a deposit for a house has increased from about three years in the early 1980s to 24 years now. The length of time it takes somebody to save for the deposit has a knock-on impact on home ownership levels. Some 37% of 25 to 34 year-olds currently own their own home, compared with 59% a decade ago. We certainly think about those aspects of affordability when considering how to take forward home ownership and other housing products.

**Simon Gallagher:** As a department, we are keen to make sure that our analytical base gives us that capacity to look across generations. As a department, we tend to bring to the party a lot of data on geography. We get a lot more data through our statistical returns on geography. We are trying to bring that together with people-based data that you have heard a lot about from the Department for Work and Pensions and other departments, which tells us more about individuals and their cohorts. The really interesting thing we are trying to do is bring those two bits of data together to tell a story about different stories in different places. Of interest are some of the disparities and different experiences of different communities in different parts of the country. That is something we try to bring to this debate.

**Hardip Begol:** I am responsible for race and faith equality in the department. You will be aware of the public sector equality duty and the guidance from the Equality and Human Rights Commission to policymakers to conduct equality impact assessments. Part of that is in relation to age. Where age is a material consideration, it should be taken into account when looking at the disparities between different age groups with respect to our major policies. I promote that in terms of race and faith across the department, to make those considerations. There are the other protective characteristics which policymakers are aware of and do take into account where it is material in policy-making.

**The Chairman:** Returning to the age cohort, can you point to a specific policy that has recently been adopted that would reflect that thinking of identifying the issues affecting a particular age cohort?

**Isobel Stephen:** Some of the home ownership policies the department has are skewed towards younger people. Help to Buy offers people up to 20% of the purchase price of their property as an interest-free loan for the first five years. That has helped 170,000 households so far. Of those, 60% are buyers in the 16 to 34 age category. A further 28% are in the 33 to 44 age category. Some 81% of the total are first-time buyers. Although the policy does not have an age limit on it, it is predominantly helping people at the younger age of the spectrum. If you look at our shared ownership policy, 75% of people who take that up are under 40 with a median income of £30,000 per annum. Again, that helps younger people getting on to the home-ownership ladder.

**Baroness Blackstone:** Before I ask my question, I want to pick up on your emphasis on home ownership. In my view, one of the great failings of consecutive governments, but especially the present Government, is an over-focus on home ownership. The first implication of that is that it is

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providing additional funding for young people, or somewhat older people who want to buy, at the expense of doing far more for those people who cannot begin to afford to buy. That is true of very many younger people. Secondly, it increases house prices by providing extra money which allows those people who are building and selling houses to charge higher prices. It does nothing for the supply of housing, which is our central problem here. I am amazed that you answer these questions solely in terms of home ownership.

**Isobel Stephen:** I can give you lots of other answers which are not to do with home ownership. I meant those as examples of things the Government have done because of what we know about the proportion of young people who are struggling to get on the property ladder and the imbalance between older people and younger people in terms of home ownership. The Government's overall strategy is undoubtedly one of supply, with an ambition to build 300,000 homes per annum on average by the middle of the 2020s. Among the £44 billion worth of financial support, which has been made available by the Government to support that supply, there are many examples of money which is not just for home ownership. Some £9 billion has been provided as support for the Affordable Homes Programme to build up to 250,000 homes. At the Conservative Party conference, the Prime Minister said she is lifting the cap on borrowing against housing revenue accounts. Social landlords have been given certainty on rent beyond 2020. Funding for supported housing is now being retained in housing benefit, which was a decision made in August. We have also said that money will be made available for housing associations beyond the current spending review period for 2022-2028.

There are many other examples I could give you where funding is being made available for all sorts of tenures. Build to rent, which the Government think is very important, is a growing area where there are many more people in the age group you are interested in—the younger age group who are now in the private rented sector—than there have been in the past. The guarantees programme has supported build to rent. There have been planning changes to support build to rent as well, on which Simon may want to comment.

I started with home ownership because some of your questions are to do with transferring wealth from home ownership from older people to younger people, but the Government's overall strategy is increasing supply to help with choice for people, and improving the quality and security of various tenures. For example, in the private rented sector, the Tenant Fees Bill helps ensure that people have transparency over what they are paying for. There is work going on regarding redress to make sure that landlords and letting agents behave in the way that they should, including establishing a database for rogue landlords. There has also been work on leasehold to make sure that people get the right information at the point at which they are buying a home. I started with home ownership because that has been a very visible part of the picture. The government strategy is not just about home ownership; it is about overall supply.

Q94 **Baroness Blackstone:** I recognise the Government have changed their

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position. Better late than never. For eight years, their emphasis has not been on supply, it has been on the demand side. There has been a change and that is hugely welcome. To come back to the more general question I want to ask, are there particular policy areas where the impact on different generations appears disproportionately uneven? To what extent are the Government trying to address these imbalances in their policy-making?

**Isobel Stephen:** I have highlighted a couple of things already. If you look over time at the levels of home ownership, it is much more difficult for young people to get on the housing ladder than it was 20 years ago. Some 46% of the 25 to 34 year-old age group now live in the private rented sector, which has gone up from 27% 10 years ago. Given that the greater proportion are living in that tenure, some of the policies I have already outlined will disproportionately help younger people.

**Baroness Blackstone:** Would it not help younger people more if you did something about the privately rented sector? I know there is some legislation coming through to try to deal with landlords who disgracefully exploit people, particularly young people, but I say again that there are far more young people, especially in London and the south-east, who have no hope of becoming home owners than there are those who can become home owners. By putting the emphasis on home ownership, which you have done, and the Government have done, you are helping only a segment of young people. Coming back to the bigger question, beyond housing, where is the differential impact on different generations? What are you doing about it?

**Simon Gallagher:** I will give two answers. I will continue to emphasise the importance of the planning system in bringing forward enough land for new supply of housing. That is one of the best things the planning system can do to improve intergenerational fairness, because of those issues that Isobel has been describing. The other element is—and we have put a strong emphasis on this in the National Planning Policy Framework—making sure that planning is properly taking account of environmental issues, which we think of as a key intergenerational fairness issue.

One thing that I am particularly proud of in the new National Planning Policy Framework that was published in July is we have embedded in that the principle of net gains for the environment from development. The planning policy starts from a presumption that development should produce net gains for the environment, which will help ensure that the Government meet their manifesto commitment to ensure they leave the environment in a better state than they found it. It contributes quite substantially to the intergenerational fairness element and we work closely with our colleagues in the Department for Environment, Food and Rural Affairs to ensure that we have some practical tools for doing this.

**Hardip Begol:** On communities, there is differential in terms of the engagement of young people, in particular, in decision-making locally and volunteering, although the figures from the Community Life Survey go up and down each year. We work with the Office for Civil Society to make sure that we encourage greater participation by younger people in local service decisions and decisions by local government. There is ongoing work we do with DCMS. It has published a civil society strategy recently,

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which looks at how to encourage more people to be active in the voluntary and community sector.

**Viscount Chandos:** The Government clearly have a planning role. They are also a substantial owner of land. What percentage of public sector land sales satisfy the local plan rather than just go to the highest bidder?

**Simon Gallagher:** I have no idea what the number is off the top of my head.

**Isobel Stephen:** I am afraid I do not know either.

**Viscount Chandos:** It is quite key. Planning is, “Do as I say”, and land sale is, “Do as I do”.

**Simon Gallagher:** Planning is the responsibility of local government, and we have a very local planning system in England. The key test is conformity with the local plan. There is a test there, but it is not an absolute test. Planning policy and planning law are clear that policy decisions should be made that are consistent with the local plan unless material circumstances dictate otherwise. It is not an absolute requirement, but I do not have that precise fact to hand.

**The Chairman:** As a former local authority leader, it was a pertinent question for me. When you have had time to reflect, it will be interesting if there is any information on that point. Social value is not always equated with financial value, particularly when the public sector is sitting on the value.

**Baroness Greengross:** As we know, the population is ageing and longevity is increasing very quickly. The pattern that we used to know, when older people died and the property quickly went over to the next generation, is not happening, because people are staying in their very unsuitable homes, and the crisis in health and social care is another result of that. Would it not be more positive if there was a legal requirement on planners to take into account the ageing population and make available enough care provided in local retirement housing so that housing would be available for the young and we could encourage older people to move, which would help the health service, social care and everything else?

**Simon Gallagher:** There is an important set of issues around this. At the moment, we have not done it in law but through national planning policy, and have tried to do this in two ways. The first, which we have enshrined in the National Planning Policy Framework, is the duty on local authorities as they prepare local plans to consider the needs of the different parts of the population, including in particular older people. The second thing we have done is a slightly geeky point, but very important, and answers part of the question, which is changing the definition of older people in the National Planning Policy Framework—I can point you to the glossary of that if it is helpful—to broaden it to cover not just those who are over a certain age, but those approaching retirement, the very oldest and those who require particular needs.

The key thing is to encourage local authorities and we have given them the tools to start to plan for that locally. In different places, the needs will be very different. One thing we are trying to do through these changes to

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the National Planning Policy Framework is to equip them with the toolkit they need to have those conversations locally and answer some of those questions to ensure they are joining up the thinking going on locally between the needs of immediate housing supply and development, the social care system and the needs of the whole population. It will be interesting to see how that is done. A key thing for us across the board on the National Planning Policy Framework is to take planning away from being a niche subject to working more collaboratively across the needs of the local authority, including, in particular, planning for the needs of different parts of the population in the area but also planning for the environment and joining up the functions there. It is a very interesting area.

**Baroness Greengross:** Should it be underpinned by law?

**Simon Gallagher:** I do not think it needs to be. The National Planning Policy Framework is a material consideration for local authorities as they produce their plans. Plans must be produced in conformity with that, which are then tested by the Planning Inspectorate. It is also easier to change the national planning policy if it does not quite work as we need. We use national planning policy to nudge local authority planners in the right directions, which is an established mechanism in planning. It is critical that it becomes a tool for local authorities to produce their own plans. They have their general duties under the public sector equality duty, which does not cut across this; indeed, it reinforces it. I do not think you need to underpin planning policy in law.

**The Chairman:** This is an important area, but we are getting ahead into some of the more detailed questioning on housing that we are coming on to later. I know that I owe Baroness Crawley a supplementary at some point, but perhaps we could continue with the general preamble and then pursue a number of detailed questions later.

Q95 **Baroness Blackstone:** How far do the Government model the effects of decisions on future generations? Is there any consistency of approach across government on this matter?

**Isobel Stephen:** We use standard information about what we think will happen in terms of age profiles and use that to model what will happen for different age groups in our housing policies.

**Hardip Begol:** In terms of forecasting, I have not come across it. A lot of policy-making looks at what the historic data shows on whether there are disparities and a lot of policy-making is to address issues that exist at the moment. I do not think we do work in that particular area if the datasets are not available.

**Baroness Blackstone:** You do not model the effects of future generations?

**Hardip Begol:** I do not think it is done consistently across government on every policy area.

**Baroness Blackstone:** How is it done in the housing area?

**Isobel Stephen:** It is difficult to talk about in the abstract. If we are designing a housing policy, we would look at the problem that we are trying to solve, which is the larger supply of housing in order to catch up

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with the extent to which affordability has been impacted by a consistent undersupply over the last few decades. Then we would look at what that meant for different cohorts of people, which would include people of different ages, in different parts of the country, with different protected characteristics, to work out what we thought the impact of the policy was, what the value for money of the policy was and whether we should be advising Ministers to do it or not.

**Baroness Blackstone:** That does not tell us much about how policies might disadvantage future generations but I will leave it at that.

**Baroness Crawley:** How would you look at age profiles in your modelling in the Build to Rent policy? Although we are obviously thinking about young people and their need for an affordable and reasonable rent supply, over the next several generations there will be a significant number of people in this country who will always rent and never buy, and there will be a significant number of older people in the rented sector in 40 years' time that is not there at the moment.

**Isobel Stephen:** What you are talking about is older people who end up in the build to rent sector because they do not have a choice. In some of the build to rent developments that we have supported in major urban conurbations, older people have chosen to move into those, because they are modern, low-maintenance buildings, and potentially cheaper from the point of view of upkeep than their own homes might be. We do not make any assumptions about what kinds of people might live in those build to rent developments, because it will depend on the local demographics and what is motivating those people. We do look further upstream in the policy at the sectors of the population that are suffering, particularly because of housing affordability pressures and, therefore, developing policies that will help.

Build to rent is quite a complicated area. A lot of the private rented sector accommodation and a lot of the policies I was referring to earlier about the quality and security in the private rented sector are not about the build to rent that I am talking about now. That is about people who accidentally or otherwise end up with a spare property that they rent out privately. Some of the Treasury policies on stamp duty have been designed to make that less attractive financially for people. Build to rent is different, because they are developments built either by the landlord or somebody else specifically with renting in mind, and sold on to a landlord who will rent them out and not look to sell the properties. This has many advantages, partly because if you are a landlord or developer trying to build a build to rent development, you have a very strong interest in making sure it is of good quality and running costs are going to be low, because you will have an ongoing responsibility for that property and the people who live in it.

In housing supply terms, it is attractive. As opposed to some of the issues that Oliver Letwin has been looking at in his review, where it takes time for developers to build houses for sale because they do not want to build them so quickly that they depress the price in the local area, you do not have that problem with build to rent, because you need to build it as quickly as possible in order to rent it out and start to get your revenue

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stream. That is why it is a very attractive policy because we think it will support not only young people but also older people. In housing supply terms, there are many other reasons why it is something that the Government want to support.

**Lord Price:** We are sitting here talking about this issue as though it is a national issue affecting all people in the same way. From your modelling, I am intrigued to know: is buying houses affordable in different parts of the country? If you are an apprentice and leave your apprenticeship at 21, are you more able to afford to buy a house at 21 than somebody who has gone into higher education? Is this a one size fits all or are there geographical differences or differences in the paths that young people are taking?

**Isobel Stephen:** There clearly are geographical differences. The usual measure that the department uses as a proxy for affordability of all tenures is average house price to average income. At a national average, that stands at eight times income to house price, but that varies hugely. In London, that is 12 times, whereas in the north-east, it is five times. If you look at individual authorities, the differences are even greater: Kensington and Chelsea, 41 times, and Copeland in Cumbria, 2.7 times. Clearly, it is not geographically uniform and the ways in which it impacts on different people in different parts of the country are also not uniform.

**Simon Gallagher:** One of the very important, rich datasets that we bring to the party is the survey of English housing, which gives us a lot of local-level data on tenure, quality issues and various other things, and we are increasingly mining that for the information that it tells us. There are various bits of publications that have been done to explore and unpack some of the issues, which are available on the websites.

**The Chairman:** Obviously, we understand that civil servants act under direction, and so we cannot go further on this, but we will be seeing Ministers later. The Committee wants to feel that there is a vision for the future in terms of what kind of country this is in addressing the problems that we are looking at, so you might signal to your Ministers that we will be interested in that. I think some of us on this Committee feel that when a Budget comes along it is a jolly wheeze for the day and everybody in the House of Commons cheers and the big picture is not always kept in mind. That may be a personal reflection. Let us go on to more detailed questioning on housing and we will move on to communities in the final phase of the discussion.

Q96 **Baroness Tyler of Enfield:** For the record, Hardip and I worked together a number of years ago in what is now the Department for Education. What is the Government's view about some of these emerging new financial products that allow children to use value from their parents' or other family members' houses to act as a deposit? There was a new one launched by the Post Office earlier this year. We all know that the bank of mum and dad is increasingly important. Just under 30% of buyers are likely to receive help from family and friends these days. In answering that question, I would like you to think about the impact that has on intragenerational fairness, because concern has been expressed that these cross-generational wealth transfers are increasing inequalities within generations and particularly entrenching wealth inequalities.

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**Isobel Stephen:** I am glad you made that point because I think that is right. Clearly, the Government support the development of some of the financial products you have talked about, although there is still a question about the way in which people who do not have older relatives with equity in houses can access high-quality housing, whether through home ownership or a different tenure. That is why some of the other home ownership products such as Help to Buy and shared ownership exist, as well as some of the financial incentives that the Treasury has offered through stamp duty for first-time buyers buying property under the value of £300,000 who are exempt from stamp duty. There are different ways of supporting that group of people who do not have that equity.

To come back to your original question about transfer of equity from older relatives—often, but not always, parents—to younger relatives, the Government are very supportive of the development of new products. There are at least three types and probably more. There is the equity release-style product, which is where a parent or relative is able to release some equity which somebody else can use as a deposit for their house or for another purpose. No repayment is required until the original property is sold, either when the person moves into care or passes away. Those are mostly offered by insurance companies such as Legal & General. The average amount of equity released is £60,000. There are about 37,000 of those mortgages taken out every year. The average age of the borrower is 70. Because of the way they work, you do not pay anything until the end. They can work out quite expensive for people because of the compound interest.

A variant on that theme is the retirement interest-only mortgages, which were facilitated by a rule change by the FCA earlier this year. That allows the borrower to release equity on an interest-only basis, to be repaid when the house is sold. That requires borrowers to make monthly payments. There is a challenge for the lenders in pricing the risk in case somebody stops working or becomes ill and requires care. There has been some interest in that from Nationwide, Santander, HSBC, RBS and others.

The third kind, which is called a springboard or intergenerational mortgage, is where part of the mortgage is used in place of the deposit with a charge against the parents' home or savings. An example of that would be a Barclays product where a first-time buyer can get 100% loan to value on the property that they are buying if a relative deposits 10% of the value of the property in a Barclays bank account as collateral against the mortgage. Nationwide have something called a family deposit mortgage where parents can borrow against the equity in their home as a deposit.

There are lots of things going on. It is a growing market because lenders recognise that there is a market to make the most of. It is really good that people are starting to think about their business models in a slightly different way, given some of the issues that we have already touched on in respect of the ageing population. However, there are undoubtedly also issues. Things can get quite complicated quite quickly when you have two properties and two sets of borrowers involved.



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Having clear advice about which products are suitable for people is really important. The lenders being able to price the risk properly is also really important. There is also an issue about consumer trust with some of the products that have been available in the past. People also have some fixed ideas about what they want to leave their descendants as an inheritance. There is an issue about availability and awareness of these products. The sector can see the scope for growth. The lenders can see the opportunity. The Government would support further innovation in this area.

**Baroness Tyler of Enfield:** I have one quick follow-up. The way you set that out is extremely helpful. Going back to where you started, which was the concern about the impact on intragenerational fairness and entrenching wealth inequalities, and some of the earlier conversations we were having about the modelling that the Government are doing when they look at the whole area of housing, can you tell me whether that modelling does or is likely in the future to also focus on these sorts of issues about the impact of wealth transfers within families?

**Isobel Stephen:** When we are designing housing policies, we look more at the macro level of the proportion of people that we see in different tenures, the affordability of those different tenures and the pressures that puts on groups of people, rather than what is going on within families and how that transfer is working. You are right, there is an underlying assumption that we need to focus on the people for whom the equity from relatives' homes is not available. That is why we developed some of the policies that I described earlier such as Help to Buy and shared ownership.

**The Chairman:** Lord Bichard and Baroness Thornhill want to come in on this.

**Lord Bichard:** I want to follow up on that wealth transfer point because if you model it into the future this could become quite an issue; in other words, you are perpetuating advantage and disadvantage. You are constraining social mobility as you move forward. Will the policies and products that we have at the moment address this effectively? Are you thinking about how we can address this issue that could face us in 20 years' time? If your parents have money, you have money and you have home ownership. If your parents have no money, you have no chance in hell of owning a house. Are you thinking about what you could do about that?

**Isobel Stephen:** The lenders will go to the bits of the market where they think they can lend and which will return a profit for them. That part of the story is not likely to address the problem that you have highlighted. The home ownership products that exist are focused on those people who do not have access to a deposit through other means, but I would not say that that was a strategy to address the point that you are making. Those are some of the people who we think are particularly affected by the issues of affordability.

**Lord Bichard:** They are quite marginal, are they not, in terms of their impact on that group who will have trouble raising a deposit? Going back to the point the Chairman was making earlier, we can always produce initiatives. I have been in your situation before. The issue is whether those

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initiatives will substantially address the problem that you and I are discussing. They seem to me to be quite marginal if you roll them forward.

**Isobel Stephen:** The issue about getting people into home ownership is that because affordability of home ownership is so difficult and getting a deposit together is so difficult, government initiatives to address that tend to be quite expensive. Help to Buy has worked. As you say, 170,000 households will not shift the dial in terms of overall levels of home ownership, but it assists people who otherwise would not be able to get into homes. The Government's overall strategy, which is back to where we started, is about overall supply, on the basis that if you improve overall supply of homes, affordability becomes easier over time.

**Baroness Thornhill:** That was what I was going to ask. I read conflicting evidence about at what point in the future supply will start to bring prices down. Anecdotally, I feel it is the other way around. I think a lot of these subsidies are pushing prices up. Certainly in my area, the properties that have Help to Buy are slightly more expensive than the properties without. Is the fundamental problem not about the cost of land? Certainly what we have noticed in land costs is that standards have deteriorated. On builds, for example, Parker standards do not exist anymore. On environmental standards I was pleased to hear you say differently, Simon.

For me, the killer is unaffordability. When you talk to developers and try to look at it, it is the cost of land. Is anybody looking at any alternatives to that? At the moment, the winners seem to be landowners and developers. To make a small political point, their profits and their chief executives' bonuses seem to be going up exponentially. I think a lot of these incentives are fuelling that market; they are not taking the steam or heat out of it. Is that a genuine political aim?

**Simon Gallagher:** There is a lot in there. Let me try to give at least part of an answer. One of the big reasons why landowners tend to be the winners out of the current system is that there is not enough land coming forward for development. When you only have very limited land supply and landowners know they are in a very strong position locally, they are in a very strong position to get good value out of that.

Through national planning policy and some of the programmes that Isobel has described, we have been trying to create the incentives locally to bring more land forward for development, which would put the community in control of the development agenda and give the chance for a bit more of a competitive land market to develop. We are always saying that local authorities should produce a bit more land than strictly needed in their local plans because the more you can do that, you have a bit more control over your development in your local area. One of the problems we find is with local authorities that produce just enough land: they find that they are really in hock to those landowners and the landowners are in very strong positions.

The other thing we are trying to do through the National Planning Policy Framework and the associated guidance, which is a big part of trying to get a bit more clarity into this, is one of the debates we have, which is a sort of variation on the story you have described, is the developer brings forward a scheme and argues that it cannot offer any affordable housing

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or offer it at the same levels that others have because of the cost of land or something else. We think there is real scope for improvement if local authorities are clear on what their expectations are as part of their local plans, which means that developers know what the likely expectations are when they are negotiating with landowners.

The problem we have is that if the developer buys the land from the landowner and subsequently tries to make the numbers add up and assumes it can squeeze the affordable housing, you do not have quite the right incentives in the system. We should be able to get that market to work better if you have much clearer incentives upfront and clarity about what expectations are for affordable housing. It will be tricky. Getting the land market working efficiently is tough.

**Baroness Thornhill:** To be fair, that was always the case. Authorities had a very clear expectation. In my own authority, it was 30% social affordable housing. It was absolutely clear.

**Simon Gallagher:** Yes.

**Baroness Thornhill:** Until recent years, developers knew that. That is what they came to the table with. Of course, the viability test absolutely crippled social housing in particular. Do you have anything to say about that? I think there are some changes coming on viability, is that correct?

**Simon Gallagher:** There are about three or four substantial changes we have introduced. I am pleased to hear your area has been consistent in setting out a clear policy on affordable housing; not all authorities have.

**Baroness Thornhill:** We have not always been getting it because of viability.

**Simon Gallagher:** That is the second thing. Alongside the National Planning Policy Framework, we have introduced some substantive changes to the viability guidance, which do three or four things. The first is encouraging more clarity upfront, because this has not always been happening. The second is setting out a standardised method for assessing viability, because we have seen too much of a game between consenting valuers in darkened rooms and it not being transparent to local communities. It needs to be transparent.

The third is better publication of those viability assessments in a simplified format so they become clear and transparent to the community so the community knows what it is getting from development. The fourth and final one is a bit of presumption against renegotiating those just because costs have changed, because there are two or three problems in what you are describing, one of which is not getting what you want upfront. The other one we have had a lot of concern about has been about people signing up to N% affordable housing and in due course it is N minus because costs or something have moved. That should be the exception. It is really tough.

There is a market. It is a complicated market. It is different on different sites. It is really difficult to get it to work effectively on complicated urban brownfield regeneration sites where there might be substantive land remediation costs. How you think of that in intergenerational terms is a

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really interesting question for this Committee. Is that investment to create something for the future of those sites? It is interesting regeneration, positive for a future generation, but tough to reach the levels of affordable housing because of the degree of investment that needs to go into remediation, site access and so on. Those issues are very different from the issues facing a new garden settlement—a new, large urban extension on a greenfield or smallish site there. There are some really complicated issues in there. I am confident that we have made a good step towards changing this but we will have to keep this under careful review.

**The Chairman:** I am conscious of time. There is a lot of ground to cover. Lady Blackstone, you signalled that you wanted to come in.

**Baroness Blackstone:** I have a quick question.

**The Chairman:** A brief response, please.

**Baroness Blackstone:** This is following up on Viscount Chandos' earlier question about publicly owned land by other departments that is not being used and could be made available for development. Since your department has overall responsibility for planning and land for development, what steps are you taking to try to put pressure on other government departments to have this land released for local authorities or housing associations to develop for housing?

**Simon Gallagher:** You do not have the director who is the expert on our public land programme before you. Isobel, are you able to answer from recollection, since you have dealt with this in the past?

**Isobel Stephen:** That definitely is the intention. A series of departments have land that has been made available—the Ministry of Justice, the Department of Health and Social Care, the Ministry of Defence—and there is a programme of work going on within the department to co-ordinate how quickly that land is released and, importantly, not only that the land is released for housing but that housing actually comes forward on those sites and homes are built as quickly as possible.

**Baroness Blackstone:** What do you predict? You say work is being done on this. Is there a timetable for it to be completed? If not, my knowledge of departments is that they will just sit on this and not do very much.

**Isobel Stephen:** There is a timetable—which I do not have in my head but we can provide you with—for the release of the land and, importantly, for the land to be built out across those five departments. It is co-ordinated, as you rightly say, by our department. We can write to you on that.

**The Chairman:** Allow me a comment again from a local authority standpoint. Some of us wish that the Government would recognise that the majority of local authorities in this country want to behave well, do behave well and do have aspirations. I think some of us feel that policy is often made for the worse. On the area cited by Lady Blackstone, please consider the public sector bodies that are hugely inept at releasing land for housing. I must not be anecdotal, but Network Rail was given a contentious planning application in my area in 2011. It was five years before it started building

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110 houses. Regarding a health authority trust, I arrived as leader and disappeared as leader over seven years, and this trust failed to produce any plan, despite being pressed to do so for housing. There is a big area in public sector bodies to pursue. I want to bring in Lord Hollick. He has an eagle eye for the future. He will pursue some of the questions we have heard before.

**Q97 Lord Hollick:** The target of 300,000 homes a year and the Government's adoption of that is clearly welcome. It was recommended by the *Building More Homes* report by the Select Committee on Economic Affairs. In order to achieve that, you need a number of things in place. The vast majority of the additional homes need to be social housing. That is where there is a huge unmet need. In the past, that has been done by local authorities, many of which have now been hollowed out as far as their housing departments are concerned. There are some very large local authorities which are taking on responsibilities in neighbouring local authorities and becoming centres of excellence.

In order to move forward either under their own steam, or often in partnership with housing associations and private developers, they need funding. The Government have recently made a very welcome announcement about allowing funding to increase. It still falls far short of the amount of money needed to build 300,000 homes. It is all very well to talk about these great targets, but unless you will the means to do them, will the money to do them and allow local authorities to borrow to build, they will not happen. They are, after all, borrowing for an income-producing asset. In most countries that does not count as public sector borrowing. It counts as borrowing municipal bonds or whatever you like. There needs to be a sea change in the thinking around this.

Picking up on a point that has been made around planning and local authority planning, one of the things that came out in the Centre for Cities' evidence in its 2014 report is that local authorities and public bodies have a requirement to seek the market value for the land. An NHS trust, a hospital, would have some spare land and would want to build some housing for nurses, perhaps, but, no, what it has to do is to offer that land and make it available for maybe a McDonald's. There are a lot of cases where much-needed social housing in city centres simply cannot be built because local authorities cannot match the prices.

A recommendation that has been made by a number of committees is that that requirement should be lifted in the public interest to create more social housing. The other thing that came out of the Centre for Cities report, which was headed up by Richard Rogers, was that the housing needs of London could be met by using brownfield land and also public land. That required local authorities to have the power to determine that that is what it was going to be used for and also have access to funding to do remediation and other transport projects.

It is a great target. It is a great headline. Some small steps have been made. I am not going to go into the fact that to build 300,000 homes a year we will need 500,000 additional construction workers. Quite where they are going to come from after Brexit, I do not know, and nor does the construction industry. Let us leave that for another day. How are you going

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to address these fundamental impediments to growth?

**Isobel Stephen:** That is a very large question.

**Lord Hollick:** Sorry. It is a very big number.

**Isobel Stephen:** To come back to your point that 300,000 is a laudable ambition but it requires lots of people to participate and lots of barriers to be overcome, we would all certainly agree with that. On your specific point about the contribution that local authorities can make, of the 160,000 starts on site that took place in the year to June 2018, only 1,500 were as a result of local authorities' building. At the moment, they are quite a tiny percentage of overall construction. Obviously, if you look at the graph—which I expect you are as familiar with as we are—when in the past we have built to that number of units, the local authorities have had a significantly larger role.

That is why the borrowing cap has been lifted on housing revenue accounts. The approach that the Government have taken is to look at all the various stages in the process. We have already talked about the affordability and cost of land. We have talked about some of the planning policies for which Simon is responsible. There is money going into infrastructure through the Housing Infrastructure Fund, which is £5 billion for large projects through the forward funding element of that, and marginal viability projects.

Looking at the market, you will be aware that the development of homes is concentrated in three large developers, really, but 10 quite large ones. Some of the funding streams which the Government have made available are designed to diversify that supply chain. For example, the £4.5 billion Home Building Fund is, in part, designed to support small and medium-sized enterprises which struggle to get lending through traditional means. There are some place-specific initiatives such as garden communities, the Oxford, Cambridge, Milton Keynes work, and housing deals with particular areas of the country, which look at particular areas. There is a whole host of things, which I talked about earlier, which are designed to help with social housing.

**Lord Hollick:** How much funding is required for local authorities to be able to build social housing as this is needed if we are going to hit the 300,000 target?

**Isobel Stephen:** I find that question very difficult to answer. We will have a better answer once we know what the impact of the borrowing cap being lifted is and whether that helps with the capacity of local authorities. The take-up of some of these programmes over the next three or four years will help.

**Lord Hollick:** When you did your modelling, what number of new houses did you assume could be built by lifting the cap?

**Isobel Stephen:** I think it is in the region of 10,000 a year.

**Lord Hollick:** Which still leaves us pretty far away from the target.

**Isobel Stephen:** Yes, but as a contribution towards that target.

**Lord Hollick:** That would imply that a multiple of that additional borrowing

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would be needed if the target number is to be achieved and the social housing component of that target is to be achieved.

**Isobel Stephen:** That is not the only way in which social housing is being supported. I talked earlier about the £9 billion that is going into the Affordable Homes Programme, which is grant funding for social rent, affordable rent, shared ownership and rent to buy. There is also the planning system.

**Lord Hollick:** Is there any intention or planning to lift the requirement on public bodies and local authorities not to have to go to market to find the best clearing price for the land on which affordable housing and social housing could be built?

**Isobel Stephen:** You may have to ask my Treasury colleagues that question.

**Simon Gallagher:** You do not have the person responsible for public land here. We can investigate what the current position is and come back to you in writing.

**Lord Hollick:** That would be useful if you could. Thank you.

**The Chairman:** Have you ever considered giving local authorities the presumption to develop; for example, in cases of wanting to produce housing for first-time buyers, or, indeed, for people at the older end? It is frustrating if a local authority sits looking at public sector land which is brown land. I often advocated allowing the local authority to apply for planning permission, secure planning permission, and give a time limit to the public body to develop or else get on with it itself. Is that something you are considering?

**Simon Gallagher:** I am always interested in interesting ideas such as that one. As you say, that is one which can be led by local authorities. One thing we are always seized by is local authorities who want to do a lot of things, but cannot actually get on and do a lot of those things. Your point earlier, which I thought was a very wise one, about presuming competence of local authorities is a key part of this and a key part of what we are trying to do.

**The Chairman:** We are going to have to move on. Lord Holmes was going to ask a question about the needs of the older population but we slightly covered that earlier. Is there anything else in that are you wanted to ask?

**Lord Holmes of Richmond:** No, I am happy with the answers given. You have managed to dodge a question. Well done.

**The Chairman:** You are allowed to reply if you want to.

**Simon Gallagher:** Anything I could say would step back from what I have previously said.

**Lord Holmes of Richmond:** I am happy with the answer you gave to the points when they came up. Thank you.

Q98 **Baroness Crawley:** To what extent are initiatives to encourage downsizing part of a viable solution to the housing shortage for younger generations? Can initiatives such as intergenerational home-sharing play a part? I see from the evidence that has been put before us that there are

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only 400 home shares in the UK. That means almost nothing. Is that viable? What do the Government think about home-sharing? Obviously not very much, from the figures there.

**Isobel Stephen:** Downsizing and intergenerational sharing undoubtedly have a part of play in the efficient use of housing stock. In the context of what I said earlier, the overall strategy is to increase supply. Within that strategy, it clearly has a part to play. From what we know about the under-occupation of homes by older people—under-occupation technically means having two or more spare bedrooms in your house—52% of people over 65 with a mortgage have two or more spare rooms. Some 63% of over-65s who own their house outright have two or more spare rooms. Clearly, there is scope for both the policies that you have suggested.

On downsizing specifically, the way the Government have approached this is to try to improve the offer for older people, which we have touched on already. The number of homes that are built specifically for older people each year at the moment is quite small—3,000 to 4,000—and 90% of them by the same three large companies. The market is still quite small. There is quite a lot scope to grow those.

The motivation for downsizing for those people who are over-occupying is quite a complicated picture. If you have a policy intervention to recommend, I would gratefully receive your ideas, but I am not sure there is a simple policy intervention that could solve that. From some of the survey data that I have looked at—for example, an NHBC survey at the end of last year and a Prudential survey in September last year—the motivation for people downsizing was about easier maintenance or lower running costs. Some 74% of the people who participated in the NHBC survey said it was about maintenance.

A policy which is about improving the supply of those kinds of homes and the build to rent homes that we were discussing earlier seems to be the best way of incentivising those people. There are other benefits to downsizing, which might be health benefits, people being safe and secure in their homes, being able to live independently and social benefits. There are also many factors which might push you in the opposite direction; for example, the emotional attachment people have to their homes. Some 45% of over-65s have lived in their home for over 30 years. It can be quite a big wrench for people to downsize. There are also the transaction costs, the nuisance of moving, the esteem that people feel for living in a particular kind of house or in a particular community, an aversion to moving into a property that is labelled as a retirement property and living in a particular kind of community, wanting to offer hospitality to family and friends, and the availability of suitable accommodation.

It is a very complicated picture which means it is quite difficult for us to have a policy which would address and help with that. Where people do choose to stay put, there are other policies to help; for example, the disabled facilities grant, which is paid via the local authority to enable people to adapt their homes to make sure they can continue to live independently and safely. It is means-tested and 40,000 adaptations are funded annually with a budget in 2018-19 of £468,000. The department



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is currently considering the recommendations of an independent review which was commissioned by Alok Sharma when he was Housing Minister. There are other ways of making homes safe where people choose not to downsize, but it is a very complicated picture.

On intergenerational sharing, as you say, this is very much a start-up as things currently stand. There are lots of benefits that you can identify about the affordability of housing, improving people's well-being, reducing loneliness of older people and issues that need to be addressed about the trust that is required for people to live in the same building, being able to resolve conflicts where they arise and, if the older person's care needs might escalate, how you deal with that when the younger person has moved in to a premises.

I know of at least three different models of intergenerational sharing. As you say, the examples tend to be international rather than home-grown. There is the model where the younger person lives in an older person's home rent-free. Homeshare UK would be an example of an organisation that supports that. The accommodation is essentially exchanged for the younger person performing tasks to assist the older person: cooking, cleaning, gardening, shopping, whatever it might be. There are also some models where the younger person enjoys a reduced rent for the purposes of company for the older person or doing some volunteering. Roomfor tea would be an example of that, or the LinkAges Intergenerational Housing Project in Cambridge, which was launched in September last year, where postgraduate students live alongside sheltered housing residents for a reduced rent in exchange for 30 hours a month of volunteering.

Finally, there is purpose-built intergenerational housing where you might have both private spaces and communal spaces where older and younger people can live alongside each other, which I think might be the units that you are talking about. There is a housing project in Alicante in Spain that would be an example of that. I understand that there are some community-led projects—one in Leeds called LILAC, another one in Cambridge called Marmalade Lane and one in Dorset called Sturts Farm—that have that kind of model.

It is an embryonic sector. Through the Community Housing Fund, we are supporting some community-led projects more generally, which will include this kind of intergenerational housing. The Community Housing Fund is £163 million over the next couple of years. The prospectus for that is out. We have asked people for bids for seedcorn funding for some of those projects. We do not know what proportion of those might be based on intergenerational housing but it will be interesting to see some of the things that people come up with. It is a very interesting area and, as you say, one that is ripe for growth.

**Viscount Chandos:** Perhaps I could take up your challenge to come up with a policy. As we have had suggested to us by other witnesses, notably Paul Johnson of the IFS, a move away from a transaction tax towards higher annual taxes, as you see in many other countries, would create a framework within which there would be less specific nudging that would have to be done on an intergenerational basis.

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**Isobel Stephen:** As you would know, tax policy is a matter for the Treasury. Stamp duty, in particular, is a very complicated policy with lots of different kinds of drivers for why people might make different choices. I will be interested to see your recommendations.

**The Chairman:** Part of your policy is to make recommendations to the Treasury. Have you not done any analysis of the potential impact of stamp duty on transactions?

**Isobel Stephen:** The Treasury owns the policy. Whether we make recommendations or not, they are the people who make the decisions on that.

**The Chairman:** We will have to deal with them. Lady Jenkin, do you want to come in?

**Baroness Jenkin of Kennington:** As somebody who would like to downsize but is disproportionately disincentivised by stamp duty, I think we should speak to the Treasury. I have two points. This very much bears out what we were told in earlier evidence. I will give you an example. My mother lived in a very big old house into her 80s in great discomfort. We gripped it and there are now four generations and eight of us living in the same house. If you can find some way to incentivise others to do as we have done, that would be helpful.

On Homeshare, I think there is a lot more informality that is not reflected in these figures. If anybody wants to look into it, at the Second Reading of the Tenant Fees Bill I went into this in some detail because Homeshare is affected by the Bill because it becomes an agency. We are currently busying around—and you are nodding, so perhaps, Simon, you know about this. I know the Bill team is looking into it because the model is that the older person and the young person pay a small fee to the agency—to Homeshare—to carry out the checks and do the admin. They are not paying rent; they are paying just the admin costs. The service they are providing is to deal with the loneliness and they are not paying rent. The Bill team are on the case on this. I think anything that disincentivises must be dealt with.

**Simon Gallagher:** I will make sure we pass that point back.

**Baroness Jenkin of Kennington:** I know they had a meeting yesterday. Lord Bourne is very much on the case.

**Isobel Stephen:** It is an interesting cultural point about intergenerational sharing. In Italy, 81% of 15 to 29 year-olds live with their parents, in comparison with 52% in the United Kingdom. That is a cultural thing, which is notoriously difficult for government to do anything about. The parents of children in their 20s who I have spoken to are not necessarily that keen on them staying in the parental home. There are lots of different factors at play here.

**Baroness Jenkin of Kennington:** I had a discussion over breakfast on this very point.

**The Chairman:** It is a cultural difference. I spend a lot of time in Italy and I know scores of families in those circumstances where both generations feel advantaged by it. We have to deal with the world as it is. Incentives

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are one thing, government always looks for incentives, but the Committee wants to consider disincentives. I believe that the transactional cost has been one of the things that has led to the phenomenon of starter homes, certainly in parts of our cities, being turned into non-starter homes by putting boxes on top.

If your choice is to give money to the Government in stamp duty or to improve the value of your home and planning makes it easy to do that, you put a box on top. Two- and three-bedroom houses become four-bedroom houses, or even five. In my view, we have lost an immense amount of housing capital through this misguided policy, which I would contend you may risk aggravating by some of the new planning policies that are making it easier to build up. Do you not think that if you make it easier to build up, there should be some requirement that you provide a new home rather than a bigger home?

**Simon Gallagher:** There is a lot in there. The question is whether we are measuring new floor space or new units of housing. That is quite interesting and one of the weaknesses, if I may say, about targeting a number of homes as output rather than increases in floor space. One thing we know is that people want to have more space to consume as they get better off—to what extent should the planning system facilitate and restrict that? There are tricky choices and trade-offs at the margins there. I am not sure I can give you a straight answer but I think our planning policies are designed to get extra supply and to enable people to have the flexibility to extend their homes. I do not see there is an automatic trade-off.

**The Chairman:** It is not extra supply if it is just a larger home. You are not providing a new unit by your liberalisation in the market, are you?

**Simon Gallagher:** That is not the only thing we are doing on planning. We are trying to get more land in place for private developers, housing associations or local authorities to deliver. If the only thing we were doing in planning reform was to liberalise so that more people could build up, that might be a reasonable challenge, but it has to be set alongside policies which are designed to make more land available for development more generally.

**The Chairman:** We want to finish this session on housing and go on to communities.

Q99 **Baroness Thornhill:** My question is a segue to do with segregation of communities. I look across the pond with despair and see completely segregated communities and I am fearful of that happening in our country. We heard from the Intergenerational Foundation that there were quite stark geographical differences in where the young and old are living at the moment. Rural areas are ageing twice as quickly as urban areas. What policies do the Government have to address those growing geographical differences? What are the differences within BAME communities, particularly as the Ted Cattle report specifically talked about the segregation of communities being a major issue after the Oldham riots? All of housing and planning is about sustainable, viable communities where the hairdresser married to the bus driver can live alongside the billionaire, but the evidence seems to show that that is not happening.

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**Hardip Begol:** We published the *Integrated Communities Strategy* Green Paper in March this year and there is a section on residential segregation where we set out what was happening in particular parts of the country. Overall, Britain is becoming more integrated on race and faith grounds, with a growing ethnic minority population. In some of our towns and cities that is not the case. There is a greater concentration of ethnic minorities and their families in particular parts of towns and cities, and through social mobility or for reasons of not wanting to remain in those areas there are people moving generally into more rural areas. It is a concern for us as a Government.

We have picked five integration areas in the country to work closely with, because you often publish a national strategy, tell everyone to get on and do things, but national government needs to get its hands dirty on some of these intractable issues that go back decades. We are working very closely with the five areas, including places such as Blackburn and Bradford, to get them to set local integration strategies that respond to their history in terms of how their communities ended up being segregated, issues around schooling, employment and how people are mixing in those areas. We want them to come up with a socio-economic strategy and long-term approach of their vision for their area and for people from different communities and backgrounds coming together.

People talked about the forward modelling of demographics. It is really important that people are thinking, "What is going to happen to our city? What sort of people do we want to attract into our city? Who is going to leave? Where are they going to live? Where will their children go to school? Where are the opportunities for people to integrate over the next 20 years?" They are being prepared and we hope to publish those later this year. It is very difficult to ask people who have formed communities in a free society to say, "You should move", or "You shouldn't extend your house". Some of our issues are to do with the fast turnover of people coming into communities, not forming bonds and moving on. There are pros and cons of people extending their houses. You do end up having stability.

The issue we want to focus on, and Simon and I have been working together on this, is when you build new developments or housing, you have more freedom to think about, "What sort of people do I want to attract to this new garden city or 10,000 developments that we are creating?" In the past, I do not think there has been sufficient attention paid to how you create a mix and attract different sorts of people, so those developments are more representative of the community. I think people have just sold and marketed them to whoever has turned up and not given enough thought to creating that age mix and a more integrated development.

**Simon Gallagher:** You challenged us on what we are practically doing and I will give you a couple of examples. One thing we have been concerned about is rural communities not having the growing and thriving population that enables them to support local services. We have been backing in the national planning policy rural exception sites for affordable housing for local people and encouraging through national policy the

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thriving villages initiative, which is to help local villages grow and get things so you have a population that sustains the services.

This also links to something that Hardip and I have been discussing quite a lot, which is the importance of really good design in developments. It has been a big thing that our Ministers have been pushing, and rightly so, because very good design can create the opportunities for communities to mix and things that will survive over a long term, because they will get people engaged. There is an interesting question for those working in public policy in the built environment, which is: what can we do to encourage great master-planning that creates high-quality developments that last for a long time and are not designed by architects for architects but designed for communities? My Secretary of State had a design conference earlier this year to try to kick off that debate and I think you will hear quite a bit more from the ministerial team and the department on this agenda, because it really is important.

**The Chairman:** That is very welcome.

Q100 **Lord Bichard:** As a former chairman of the Design Council, I am encouraged—only 10 years too late, but there we are. You are the Department for Communities and Local Government, so let us think about communities for a while. What role do communities in the voluntary sector have in addressing intergenerational imbalances? The second question is broader. What thinking are you currently involved in about the role of the community in the voluntary sector post Brexit? The reason I say that is we are in the middle of a redistribution of a power coming from Brussels to Westminster and Whitehall.

All I am hearing about at the moment is that is where it will stay, yet Westminster and Whitehall are pretty discredited. Is this not an opportunity—a moment—when we should be thinking about devolution, which seems to have lost its way, not just of local authorities and local services, but a much stronger role for communities and the voluntary sector? I am not seeing any debate around that at the moment. It seems to be a real missed opportunity. If that debate is going to start anywhere, presumably it would start with you. Is it happening?

**Hardip Begol:** I will answer that question first and come back to the voluntary and community sector. I think it is happening. Our Secretary of State is addressing the Locality Convention on 7 November. He will set out his views precisely on those issues around communities, the power in relation to those communities and the practical steps we have taken as a department, particularly related to Brexit. The Government will have a UK shared prosperity fund, which is the successor to some of the EU-funded programmes that we have. We are aiming to put out a prospectus on that later this year.

Some of the principles are going to be around making sure that decision-making is as local as possible. We have had a review of local enterprise partnerships conducted, which are partnerships of both the private and the public sector. The recommendations from that review have really pushed LEPs to look at their membership, including from the voluntary and community sector, to make sure that communities, businesses and

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voluntary and community sector service providers are in the decision-making positions on those LEPs.

All the LEPs are sponsored by senior civil servants. I sponsor the Marches LEP, a great LEP which is functioning effectively. It covers the region by the Welsh border. Its membership already is private sector-led. One of the members is a voluntary and community sector business, providing support for employability to get people into employment. There are moves around creating a greater voice for the voluntary and community sector and involving the community in decision-making.

Local government plays a great role here. For decades, it has been looking at how to commission services in a way that is responsive to the needs of local people. There is obviously more that can be done. We know many local services are already provided by the voluntary and community sector. An area of relevance is the adult and social care sector, where the LGA says there are already 36,000 VCS organisations in that space.

**Lord Bichard:** There is a real sense, however, that the thinking is quite constrained. You spoke earlier about a civil society strategy, which I have read. It is a traditional, almost turgid document, if you do not mind me saying so. It does not capture a sense that we will seriously look at this redistribution of power that I was talking about.

**Hardip Begol:** There is more the Government can do in terms of onward devolution. That thinking is going on at the moment. Our primary system does run on local government and local democratic decision-making. Many authorities up and down the country are doing work to ensure that they consult with their local population and engage voluntary organisations in their decision-making. The integrated communities strategies I talked about in local areas have all established local partnerships, which have brought VCS organisations on board. Part of developing those strategies must be about engaging with the local population, who often feel disengaged and alienated when you talk about issues to do with race and faith and integration in local communities.

**Lord Bichard:** What can the community and voluntary sector do about intergenerational imbalances? What are you encouraging it to do to address those issues?

**Hardip Begol:** There are three key ways. The voluntary and community sector organisations can bring employees and volunteers together. There are over 880,000 people employed in the voluntary sector; 18% are under 30 and 38% are over 50. As organisations in their own right, they can do work in relation to this. In relation to volunteering, millions of adults are volunteering to support young people outside their families, including weekly sporting activities and our uniformed youth services. We know that young people volunteer. Their activities benefit people across the generations.

The VCS is a supplier of services in many sectors already. When local authorities commission and design services, we would expect them to be talking to voluntary and community sector organisations about both of those. In the *Civil Society Strategy*, we announced the creation of a new

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funding organisation to manage and distribute £90 million from dormant bank accounts to support young people furthest away from the labour market in areas of significant racial disparity and youth unemployment.

We have a community partnership board at the department which we engage with regularly. Many voluntary sector organisations are doing everything from the provision of volunteers and mentors in schools to supporting people in the workplace so they can progress their careers. Organisations are bringing businesses on board in the voluntary and community sector, which has a key role to play in this as well. There are many opportunities for the VCS on issues such as employability and the adult social care market.

I am sorry you did not find the *Civil Society Strategy* inspiring. The Minister for Civil Society will be here to account for the DCMS strategy. I think it was a great statement from the Government and quite welcomed by the civil society sector. Often you have strategies where government tells people, “We are going to do the following things for you”. The welcome that strategy received was because we recognised the value of civil society in its own right. It is great that the sector is making decisions about where it wants to put its energies and empowering it to lead the way itself rather than the Government coming in and telling it everything that it is going to do. There were a couple of things in that strategy that were important. The Government re-emphasised the importance of the Social Value Act in terms of its procurement of services. That is something that further work needs to be done on. As a sector, it was pleased it was not a top-down set of instructions to do things differently, but supporting it and the unique role that it plays in society.

**Q101 Viscount Chandos:** If the *Civil Society Strategy* is a statement, what worries me is the contrast between the statement and action. What can communities do to address the problems of age discrimination, loneliness and all the other issues of age? More generally—and having disclosed my interest as a trustee of a major grant-making foundation—year by year, over the last eight years, social enterprises and charities have been brought to their knees by cuts in local authority funding. You can have a strategy that is a statement but the action in terms of funding is going diametrically in the opposite direction.

**Hardip Begol:** The latest figures published in the National Council for Voluntary Organisations’ almanac of how voluntary organisations are doing show that income for the voluntary sector organisations covered in its survey is at the highest level ever at just under £48 billion, having gone up 4%. There was a period when income for voluntary organisations was on a downward trend, but that has been reversed and is now back to the highest level it has been, but that is not to doubt that there have been pressures on local government services and funding, which the Government are looking at.

Some of the specifics in the *Civil Society Strategy* were around issues such as social prescribing, which is an important initiative. We want to make sure that all local health and care systems implement social prescribing, supporting government to have a universal, national offer available to GP practices, which is a good way of making sure there are

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effective interactions between people of different ages. In the health service, solutions do not rely on having to go to hospital. There are many services and connections that can be made between people through a real growth in social prescribing, such as walking groups that we have seen happen, which have a great impact on the long-term health and well-being of older people.

We are making sure that our efforts on volunteering do not focus just on young people. There has been a lot of focus on the #iwill campaign. We are looking at how to encourage older people and those coming towards retirement to remain active and volunteer in their local communities, and community hubs and places are still available in local areas for people to meet and communities can take on responsibility for those assets locally. Sport England will be doing some work on active ageing funds to tackle loneliness, in particular, through sports and physical activity for people over 55. There are programmes out there to keep people engaged, with a focus on their health and well-being.

**Q102 Baroness Jenkin of Kennington:** There are estimates that there are more than 5,000 designated assets of community value. Does that marry with your understanding? What evaluation has government made of the assets of community value? What tangible effects has that had on communities and how does it impact different generations?

**Hardip Begol:** We will send you details of the evaluations we have done of community assets. It has been a good initiative that started under the Localism Act in 2011 and is a vehicle for making sure that communities can retain vital services and opportunities to create innovative ideas led by local people. In particular, the buildings are important to provide communities with a place where people from different backgrounds can mix. Often, if that place is not there, you do not get that sense of community spirit and join-up between people.

One aspect is community pubs, which is an issue that affects many communities. The pub is often seen as the place where people come together. At the moment, there are more than 100 community-owned pubs. As a department, we have supported the More than a Pub programme to support that local asset that people feel is so important. We have been supporting Pub is a Hub as an organisation to really get the sense of pubs not being seen just as places for people to drink but for a whole range of services that can be offered out of that place, which retains it as an important asset in that community.

**Baroness Jenkin of Kennington:** Do you share best practice widely? We all read different examples.

**Hardip Begol:** We do. There is a website, [mycommunity.org.uk](http://mycommunity.org.uk), where we have brought together for all community organisations a single portal where they can go and find information about the rights community organisations have in relation to their assets, good practice and case studies. Voluntary and community sector organisations were saying that the information was spread all over the place and were asking for one single portal that they could go to.

**Baroness Jenkin of Kennington:** Do you recognise that 5,000 figure?



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**Hardip Begol:** I would have to get back to you on the precise figure.

**The Chairman:** Can I ask about assets that the people own; namely, the branches of RBS and National Westminster Bank? A third of bank branches have closed. A scandal on my high street is that another bank has been closed by NatWest. There is an empty building built as one of the finest places, like all bank buildings in the little towns and streets of Britain, ready to be flogged off to the highest offer. These are buildings that could be social hubs in every small town and high street. Why are the Government, who own these buildings, allowing the management to flog off these public assets?

**Hardip Begol:** I do not think that is something I can answer.

**The Chairman:** To put it another way, have you given any consideration to the disappearance of banks as hubs in communities? I will come back to the other one with the Minister.

**Hardip Begol:** We have been thinking about high streets more generally. You will have seen the figures on occupancy in relation to high streets. We have a review going on about what further activity we can do to make sure that high streets continue to thrive. I will make sure that the specific point about the banks is fed into that.

**The Chairman:** We do not need to build new buildings and social hubs for the public, who are the major shareholder. Why can we not use these that we actually own?

**Hardip Begol:** I will certainly take that back. That review is ongoing.

Q103 **Lord Price:** In their written evidence, the Government said that they saw potential in active communities rebalancing the imbalances between generations. That begs the question: what are the Government doing to help generate active communities in those areas with low social capital?

**Hardip Begol:** We are doing a number of things. I have mentioned the work that we have done about making sure that the information and advice are available to all communities in an easily accessible way. We work with the Department for Digital, Culture, Media and Sport on community organisers. That is a programme where local people are trained in relation to being activists in their local area. That training programme is ongoing with thousands of people.

I mentioned local government, which has come out a number of times. There are examples where local authorities have developed their own voluntary and community sector policy about how they want to encourage volunteering and community organisations in their own area. We have our processes through things such as local neighbourhood plans where people can take part in decision-making in relation to planning in their local area.

There are lots of avenues in relation to this. We see high levels of volunteering throughout the country. People are always willing to get engaged. My former department was the Department for Education. Lots of people take part in school governance in their local area. The free schools programme is an initiative where people can come forward to support new schools in their area. There are lots of different types of

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activity, given that people's interests will vary in the sorts of activities they want to take part in in their local area.

**Lord Price:** Can I just build on that a little? I used to chair Business in the Community, which is a wonderful organisation. The Prince of Wales has been an amazing patron and president of it. I chaired the Prince's Countryside Fund. Often what you see are disjointed efforts. There is the People's Front of Judea and the Judean People's Front. I have seen brilliant work in places such as Wisbech and other really disadvantaged areas. I do not see a concentration of effort from a number of agencies to say, "How do we work collectively here to bring real advantage to deprived areas?" How do the Government see their role in providing that focus to try to bring all those agencies together?

**Hardip Begol:** I am not passing the buck here, but if it is to do with local areas and lots of small organisations in particular areas overlapping or fighting against each other, I think local government should be at the forefront of looking at that. Lots of local authorities have very good voluntary and community sector policies in relation to that very local approach. Some of our local planning and devolution on that is an opportunity for everyone to get engaged and that should flush out whether people are duplicating activity that is going on locally.

I would not want to stop people who are very keen on particular issues giving time and energy in relation to starting initiatives that support the local community in a particular area and say, "Actually, you either have to join this organisation or we don't want your support". The local authority can play a really good convening, place-making role in relation to those issues.

**The Chairman:** I fear that time is up. We are incredibly grateful to you for your patience with us and your interesting answers and your time. Thank you for coming.

HM Government – Mark Holmes, Deputy Director, Labour Market, Department for Business, Energy and Industrial Strategy, Sinead O’Sullivan, Director, Career Learning, Analysis, Skills and Student Choice, Department for Education, Iain Walsh, Director, Labour

**HM Government – Mark Holmes, Deputy Director, Labour Market, Department for Business, Energy and Industrial Strategy, Sinead O’Sullivan, Director, Career Learning, Analysis, Skills and Student Choice, Department for Education, Iain Walsh, Director, Labour Market Strategy and International Affairs, Department for Work and Pensions and Lindsey Whyte, Director, Personal Tax and Welfare, HM Treasury (QQ 38–55)**

Tuesday 11 September 2018

[Watch the meeting](#)

Members present: Lord True (Chairman); Lord Bichard; Baroness Blackstone; Viscount Chandos; Baroness Crawley; Baroness Greengross; Lord Hollick; Baroness Jenkin of Kennington; Lord Price; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 4

Heard in Public

Questions 38 - 55

### Witnesses

I: Iain Walsh, Director, Labour Market Strategy and International Affairs, Department for Work and Pensions; Mark Holmes, Deputy Director, Labour Market, Department for Business, Energy and Industrial Strategy; Sinead O’Sullivan, Director, Career Learning, Analysis, Skills and Student Choice, Department for Education; Lindsey Whyte, Director, Personal Tax, Welfare and Pensions, HM Treasury.

Q38 **The Chairman:** Welcome, and welcome to the others coming in. From the entry of others, it is clear that the session is now open to the public. As you know, a webcast goes out live and will be accessible subsequently on the parliamentary website. I should tell people that there will be a photographer here, for 10 minutes or so, taking photographs for use in House of Lords publications, but they will not have any sound or words attached to them. They are just mugshots, I say with fear.

A verbatim transcript will be taken of the evidence you present. That will also go on the parliamentary website and, as you know, given that many of you have given evidence before, you will have an opportunity to make minor corrections for clarification or for accuracy. Obviously, the sooner you can let us know about those, the better.

We are expecting a written submission from the Government. I understand that you are working to a deadline that will allow you to reflect the content of these discussions and questions, before putting in the submission. Without more ado, as we are running a little behind, perhaps you would like to introduce yourselves for the record and for some of us here. Then

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we will begin the questions. Thank you very much for coming.

**Lindsey Whyte:** I am the director for personal tax, welfare and pensions in HM Treasury.

**Sinead O’Sullivan:** I am the director for career learning, analysis, skills and student choice in the Department for Education.

**Mark Holmes:** I am a deputy director, for labour markets in BEIS.

**Iain Walsh:** I am from the Department for Work and Pensions, and I am the director for labour market and international affairs.

Q39 **The Chairman:** Thank you. Your wide representation reflects the wide potential ambit of this inquiry, and we will hear from colleagues on housing at a later date. Perhaps I could begin with a wide question in a sense, but it goes to the heart of the matter if we are considering intergenerational fairness. That is really how, in your experience, the Government consider the interests of different age groups and age cohorts when making policy decisions. What consideration, in your experience, is given to how specific cohorts are affected throughout their life course as a result of policy? We are trying to explore whether it is just a snapshot for this year or whether you are considering that age-based policy-making.

**Lindsey Whyte:** Intergenerational fairness is a fundamental consideration for us across the Government’s macroeconomic policy. As the Committee will be well aware, our fiscal strategy is rooted in repairing the public finances and managing down the debt. That is a critical element of ensuring that we are not passing an unsustainable debt burden on to future generations. Although we have made considerable progress in reducing the deficit and public sector net debt is forecast to have its first sustained fall in a generation this year, debt remains at around 85% of GDP, which is still high. If it does not come down further, and interest rates evolve as the OBR has forecast for the long term, that debt burden for future generations will begin to look more unsustainable. That is a critical part of our wider approach to strengthening growth in the UK economy and improving our economic resilience, including through boosting productivity, which we believe is the best route to strengthening living standards for all generations and ensuring that the economy is passed on to future generations in a sustainable form.

Issues of intergenerational fairness are a core consideration right across our policy spectrum, whether that is spending policy, tax or regulation. We would routinely assess the impact of all our policies in line with the obligations of the Equality Act and that commitment to equalities issues. Where possible, we do that through quantitative analysis, although, in many cases, that can be very complicated to do so we work very closely with other departments. On the tax side- I know we might want to come to that in more detail later- that is through the policy partnership with HMRC.

We tend, in the modelling we do, to use static analysis, which shows the impact on people of different ages now. We do not do any of the generational accounting that you might be referring to in terms of paths for different cohorts, although we try to keep very close to developments

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in academia and the work that various think tanks, such as the IFS, are doing in developing that capability. Where departments such as DWP have that capability in specific policy areas, we would work very closely with them to understand the implications of any measures being announced in fiscal events.

**Iain Walsh:** I will add a couple of linked things from a Department for Work and Pensions perspective. When you are thinking about pensions, or policies that relate to pensions, which have such long-term effects, we have to think about the intergenerational side quite a lot. I suppose one theme, certainly over the last 10 years or so, has been about considering how we make the overall welfare bill sustainable. What is the right level and where are the different payments impacting on different age groups? That is an area where we think of the system as a whole, as well as individual policies.

We look at, say, the raising of the state pension age, set alongside the triple lock as a policy. What is the impact on spend for future generations, depending on the amount of people who are getting a pension and how much they get when they are receiving it, and how do you trade those off? A policy that impacts on working age but eventually will be relevant to people when they reach pension age is automatic enrolment. How do you encourage more private saving through employee schemes? That, again, would be an example of how we are thinking about impacts down the decades and the generations.

**The Chairman:** That is helpful. I do not think the Committee would be surprised by the importance of looking forward, in terms of not, to borrow a phrase, “robbing the future”. One needs to be conscious of future planning. You mentioned the Equality Act. Obviously, age is a protected characteristic under the Act, but different ages are not. Would I be right to sum up by saying that, effectively, you look in the broad sense at the evolution of policy, but you are not saying, “This is not very good for 30 to 40 year-olds” or “for 50 to 60 year-olds”? The kind of cohort work that, say, the Resolution Foundation looked at would not be an everyday part of policy-making? Am I understanding you correctly there?

**Lindsey Whyte:** I believe we would look to understand the implications for different age groups, in line with the legal requirement. There are areas of policy in which we specifically support individual cohorts. The lifetime ISA is an example of that, where we have to properly understand the implications and impacts of that policy being targeted at a specific age group to promote the objective of savings for that particular group. For us in the Treasury, the cohort or generational analysis is much more complicated, and the data is much less rich, so we do not have the modelling capability to do as much of that, although there are some specific policy areas where, across government, we are able to do it.

**Iain Walsh:** Sometimes, we would be looking at the performance and how different groups are faring. We are not looking at it specifically because it is part of the equalities impact. If you take labour market outcomes and look at how different age groups are faring in terms of the proportion of people in work, you get a bit of a curve. Younger people

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have slightly lower employment rates than the average. People aged 50 and above are slightly below average. People aged between 24 and 49 are slightly above average. It is not a surprising line in that sense, but if we are thinking about where we might devote our individual policies, by the nature of things in our department, we are more likely to think about whether there are people under 24 or above 50 who might need an extra boost, simply because their employment performance is a bit lower. That is driven by outcomes and where we think we can give the most effective assistance.

**The Chairman:** That is almost a cue for Baroness Tyler, but I see Baroness Thornhill wants to come in.

Q40 **Baroness Thornhill:** I do not think we are going to cut across each other. It is just a particular thing. I understand what you are saying about looking at things over the life course, and I guess there is an attempt to balance it out over the life course, but there is a particular issue in local government at the moment, which is around social care. We know that the baby boomers are the largest generation, cohorts of subsequent generations are smaller and they are going to have to pay for that. On that particular issue, knowing that certain local authorities are literally going to the wall at the moment and this is a serious crisis, I just wondered how much that is impacting on thinking with regard to the generations and funding. I would say that that is quite an imminent crisis situation.

**Lindsey Whyte:** We would certainly recognise the pressures on social care and are very alive to the specific issues for individual local authorities. That will be a critical element of the spending review that is due in 2019. The Government also have a commitment to publish a Green Paper later in the autumn looking further ahead in terms of social care and the increasing costs of social care. We published a bit more on this just before the summer, across government, in a report called *Managing Fiscal Risks*, which is a response to a report that the OBR did on fiscal risks. That picks up not only the implications of the ageing population for parts of public services, particularly health, social care and pensions, but some of the wider demand pressures on social care that are not population related, so there is a little more information in there.

**Baroness Tyler of Enfield:** I just wanted to pursue the more general points that the Chairman was making and a couple of your responses. Looking back over all the evidence, including evidence to previous Select Committees that have been looking in this area, it seemed unclear to me, the extent to which promoting intergenerational fairness is a key goal of government policy. Relating that, Lindsey, to what you were saying, I am not really clear how the Government are modelling the effects of decisions on future generations. I think you were saying there is not really the data to do it. How do they do it at the moment? Do they have plans to improve that?

**Lindsey Whyte:** I will say a bit about the modelling that we do. We would look at individual measures for a fiscal event, using, as far as we can, the micro-simulation model we have to look at tax and benefit reforms, which would give us a snapshot of the implications for different

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age groups. We then also model cumulative distributional analysis. We do that by equivalised household income decile. That gives us the overall impact, where we take into account tax and benefit measures, but also wider elements of public services.

We are not able to do the tracking of an individual cohort through their lifetime, to get to a situation where we could say, “This particular cohort over the course of its life has been a net beneficiary of the state” or “a net contributor to the state”, and then compare that to people of previous generations. That is the bit where there is very limited data about people’s lifecycle, and when they go in and out of work, for example.

**Baroness Tyler of Enfield:** I think that was picked up in the oral evidence to the Work and Pensions Committee. Are there any plans to develop this sort of modelling?

**Iain Walsh:** On particular policies, I mentioned earlier the state pension age, but I could have mentioned the new state pension and auto-enrolment. For policies that have such a long-term and significant impact, we have modelling systems. One is called PENSIM, which models ahead many decades into the future. We have estimated the impacts of those different policies, the different designs of those policy changes and what they might be like in generations to come. We will do that for some of the bigger, longer-term policy measures we are thinking about, but we will not do it for all of them.

Q41 **Baroness Tyler of Enfield:** If I could pursue this, from the areas you work in, are there policy areas in which the impact on different generations feels particularly unfair or unjust at the moment? This goes back to the extent to which the Government see this as a key part of their policy-making. To what extent are the Government trying to address these imbalances in their policy-making?

**Mark Holmes:** As Iain has already mentioned, the labour market performance of different age groups is different, and the Government try to reflect that in policy. For example, the national minimum wage rates are different for under-25s, and that reflects the fact that younger workers, who are by necessity less experienced, more vulnerable to economic retrenchment and more likely to end up unemployed. The evidence is that, if they are workless for a significant period of time, they suffer long-term scarring effects.

The Low Pay Commission has consistently been more cautious about the levels at which it recommends the national minimum wage be set for under-25s and those in the first year of their apprenticeships. Likewise, the national living wage, which the Government set on a trajectory towards 60% of median earnings by 2020, applies to those over 25.

Equally, you could look at the recommendations in the Taylor review of modern working practices. To the extent that they are about rights and transparency for people working in more casual ways, the recommendations there are likely to have a disproportionate impact on younger workers because more of them are working in casual ways. At the same time, that is by no means the only focus of the review. There

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are recommendations about flexible working that will benefit all kinds of people in different ways. There are recommendations about pregnancy discrimination, which, by nature, are targeted at a slightly different age group; there are others about worker voice, and so on. It is not just about the gig economy focus that has attracted the press attention.

**Baroness Blackstone:** I want to ask a question specifically about the minimum wage. Is there any policy debate about what level that should be at for different age groups? The traditional view has been that very young people should have a lower minimum wage than somewhat older people, but has any consideration been given to whether that still stands, and whether there should be more differentiation across a wider range of age groups?

**Mark Holmes:** Yes, the Low Pay Commission does that every time. The brief that is given to the—

**Baroness Blackstone:** I am sorry to interrupt. What about in government thinking?

**Mark Holmes:** The Government have pretty consistently accepted those Low Pay Commission recommendations for the levels at which they are set. The commission that is given to the Low Pay Commission for the national minimum wage rates is to essentially raise them as fast as is consistent with avoiding unemployment. The reason why the LPC then recommends a lower rate for younger workers is that there is a greater risk of unemployment at that level, so it is balancing the risks and the benefits in different ways for different age groups. The brief for the national living wage, as I said, is different.

Q42 **The Chairman:** We are going to expand out into the jobs market shortly. Before we round up on this topic, the Work and Pensions Committee of the House of Commons recommended that the Government undertook a “forward-looking assessment of the intergenerational distribution of private income and wealth”. That was a clear recommendation. We are hearing evidence, I hope, from Mr Field later in this inquiry. The Government did not accept that recommendation. Instead, they said that they welcomed the work being done by the Resolution Foundation.

That is all very well from my perspective as a taxpayer, but does that not risk giving disproportionate voice to one particular organisation, the Resolution Foundation? That is not a question for policy, but is there not a risk of making that into policy? I am not asking about the policy decisions of Ministers, but is there not a risk in privatising consideration of future distribution between cohorts by farming it out to the Resolution Foundation? I am only going from the response of the Government to Mr Field’s inquiry.

**Lindsey Whyte:** We recognise the work of the Intergenerational Commission and the Resolution Foundation is a really important part of that work, but we would always meet a range of stakeholders across all the issues that we are covering in the span here, both in developing policies and in the way we think about the future development of our modelling capability.



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**The Chairman:** I will not press you any further on that, but perhaps, when you submit your evidence, there might be some indication of whether there would be any advance on the response to Mr Field’s committee. Shall we go back to jobs, on which you were very kindly opening up in response to Lady Blackstone?

Q43 **Baroness Greengross:** We know we need to boost our skills very widely across all sectors. We know that is an imperative. I just wondered what the industrial strategy thinks about doing that differently for different age groups, because the needs are different and our education system has not necessarily recognised those differences. I wondered what you think should be done to make sure that sector deals include support for training once people are in work, so that we can boost the skills where necessary across the board.

**Mark Holmes:** Perhaps I could say a word about the industrial strategy and sector deals, and then hand over to Sinead to say more about the training aspect specifically. The industrial strategy is about building an economy that works for all and, of course, that includes people of all ages and across all parts of the UK, on the basis that, if we can increase productivity while sustaining high levels of employment, we will be increasing quality of life for everybody. By virtue of the fact that it takes a long-term approach, looking out to 2030, it is building the economy that our children will inherit, if you like, so it is by nature intergenerational in that respect.

You may be familiar with the way that the framework of the industrial strategy has been organised, with five foundations and four grand challenges, as well as local industrial strategies and sector deals. The people foundation takes as its starting point, I suppose, the changing nature of the labour market, the fact that we are leaving the EU, the ageing society and high levels of employment, and, as you say, comes to the conclusion that we need to upskill the workforce across different sectors and across the country. There are a range of different policy levers for achieving that with different age groups, because some of the people we are talking about are entering the labour market for the first time; some are already in it, so we are talking about in-work training; and some are re-entering it, so you get into retraining.

In terms of sector deals, the challenge has been an open one to sectors to approach government with suggestions for a long-term partnership that enables the growth and productivity of those sectors, based on co-investment. Many of the approaches that have been made by sectors so far have involved significant commitments on both sides, (government and industry), on training. I am sure that is very much what government would like to see. It is not a prescriptive approach from government, but the nature of the deals is that they are agreed, so there is clearly an opportunity for government to achieve some of its priorities in that way.

**Sinead O’Sullivan:** If I take the construction sector deal as an example, where we are spending about £34 million on 20 construction hubs around the country, it is very specific about offering a range of support to people in different circumstances, so offering apprenticeships certainly, but also

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offering retraining, particularly for older workers. We want to make sure that, across the working generations, there are opportunities to gain greater skills and improve employability and productivity.

It is probably worth me mentioning the national retraining scheme that was announced last year, which is targeted ideally at adults already in employment who are potentially at risk because they are in a sector that is declining. We want to offer a combination of training and high-quality information, advice and guidance, to help them navigate the system and encourage them to take on additional training.

As part of that, we have some pilots in train across the country looking at flexible learning. For someone in employment, or someone who is older or has caring responsibilities, whether children or elderly parents, your traditional Monday to Friday school or college experience does not necessarily work, so we are looking at flexible ways for people to undertake their training. We are also trying to see what improvements we can make to our outreach activities, primarily in the careers advice and guidance area, and we are looking at ways that might more successfully get adults back into training by reducing costs. All those pilots will hopefully feed into the national retraining scheme when it is set up.

**Baroness Greengross:** I wondered if, on the whole, these are well supported, especially the retraining of older workers. Do you monitor how much of this is taken up? Is it monitored?

**Sinead O’Sullivan:** The national retraining scheme is still in development, but we are monitoring what individuals are doing to take up opportunities in the pilot areas, what motivates them, what works for them or does not. I am sure there will be certain things where we will find we were not successful. As part of developing the national retraining scheme, we are also talking to employers about what motivates them and the quid pro quo for them releasing their employees to do the training, or indeed taking someone on as an employee mid-training. Yes, we are investigating this. For the national retraining scheme, we are not yet at a point where we can produce the detailed design.

**Baroness Greengross:** The problem in this country is always productivity. Are you going to be monitoring how much all this training is taken up, if it is taken up, and how successful it is in terms of productivity?

**Sinead O’Sullivan:** That is the intention.

**The Chairman:** This is important. Without being anecdotal, long ago, in the age of Noah’s ark, when I led a local authority, the Treasury would come along wanting a deal. There were a lot of tick boxes, but they tended to be things that were done at the time, and then afterwards there was not so much readiness for interrelation. It is reassuring to hear that there will be monitoring. I know that Baroness Jenkin wanted to pursue the very important point you raised about flexible working, so perhaps we should take that now.

Q44 **Baroness Jenkin of Kennington:** Could you just tell us what the Government are doing to support both employers and employees to reach

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agreement on flexible working, whether you know which age groups are more likely to be asking for it and whether that has changed over the last period?

**Mark Holmes:** If I start with the statutory position, the right to request flexible working was extended in June 2014 to all employees with 26 weeks’ service. The Government expected at the time that that would lead to another 80,000 requests per year for flexible working. It was intended as a signal, really, that flexible working is normal and is not just something for particular types of caring activity. The evaluation of that change is due next year, so at the moment we do not have any figures on usage or whether that change has met its original objectives.

We have figures, though, from the work-life balance survey conducted in 2011, and the previous one in 2006—so they both predate that change—as to how much, in any case, employees were asking for flexible working, aside from any statutory rights to request. In my experience, I have worked with people on just about every form of flexible working that I have heard of, but I have yet to see a statutory request. It is perfectly normal to have an agreement on flexible working arrangements without ever referring to the legislation at all.

Those figures are fairly out of date. We are conducting more survey work to inform the evaluation next year. They at least tell us that, in the time before the extension of the right to request, requests for flexible working were already on the increase. The proportion of people who had made a request in the previous two years was 17% in 2006 and was up to 22% by 2011. In 2011, that was fairly evenly spread across age groups. It was slightly higher, at 26%, among 25 to 39 year-olds, slightly lower, at 18%, among 50 to 59 year-olds, and 21% either side of that and in between.

**Baroness Jenkin of Kennington:** That was some eight or nine years ago. Do you anticipate that that will change and will go to the higher end of the spectrum?

**Mark Holmes:** I feel fairly confident it will have changed, but I do not know how. I will wait for the figures.

**Baroness Jenkin of Kennington:** When did you say they are likely to come? It is four years since the change.

**Mark Holmes:** We are beginning the survey work now and the evaluation is due next year.

**The Chairman:** It is unlikely to be in time for the benefit of this inquiry. Will there be any interim evidence that you might be able to share with us in due course?

**Mark Holmes:** Until we have done the survey work, I will not have any figures to share, I am afraid.

**The Chairman:** Okay. You cannot be more precise about when that will have been done.

**Mark Holmes:** I can certainly check on that point, but I would be very surprised if there is anything before next year, I am afraid.

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Q45 **Baroness Crawley:** From the figures you have, what is the breakdown as far as gender is concerned in requests for flexible working? Do you know that?

**Mark Holmes:** I do not have that to hand, but I am sure we can provide it.

**The Chairman:** It would be helpful. The Committee in earlier discussions has heard evidence that this is likely to be changing, so we will be looking for evidence from others. We have already heard some in respect of this.

**Iain Walsh:** Just to make a very brief point, from the DWP side, a flexible workplace is something that we strongly support, particularly from our claimants’ perspective, be they people who are older, people with caring needs or people with health conditions. Although it may be slightly tangential to this inquiry, the rollout of universal credit, and some of the changes connected to that, would be relevant from the supply side, if I might put it that way. Because of the way the current benefits system works, there is a particular focus on people working 16 hours or 30 hours to fit in with certain benefit rules. Under universal credit, that will enable people to look for hours of work that fit their circumstances more flexibly. I understand that flexible working is about more than how many hours you work, but we would expect the rollout of universal credit to spread the hours out across the spectrum between very low and full time, because we are taking away some of the specific spokes in the system.

**Mark Holmes:** I have realised I focused on the age breakdown aspect of Baroness Jenkin’s question and forgot to explain what the Government are doing to support employees and employers. The Government have convened a flexible working task force with a number of government departments, several significant business organisations, the TUC and a number of well-respected interest groups, to look at the question of how we can establish flexible working more as a norm and a beneficial way of operating for employers, for employees and for the economy.

I chair that task force jointly with Peter Cheese of the CIPD. We began the work in March, with a view to feeding into the evaluation of the right to request next year. The Prime Minister issued a challenge last October to employers to advertise all jobs as being available on a flexible working basis, unless there is a solid business reason not to do that. At the task force, we have taken that as our starting point to look at recruitment and then follow on with other aspects of the employment life cycle.

Aside from statutory requests or what the data tells us, we have been looking at the business case for an individual employer to offer more flexible working and to see it as a normal way of business. Particularly at a time when employment rates are at near record highs, it will, out of necessity, be part of what employers are doing to look at retaining people in their workforce who might otherwise have left and bringing people into the workforce who at another time might have stayed out of the labour market altogether. Flexible ways of operating are likely to be especially important.

Q46 **Lord Bichard:** Can we go back to skills and productivity for a moment and

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unpack them a little? Mark Holmes and Lindsey Whyte have already said that productivity is really important, as of course it is. It is slightly worrying that we are 15% below the average for other G7 countries. We are 25.5% below Germany and 22% below the US and France, measured on output per hour, so our productivity story at the moment is not impressive. We are moving towards a situation where, increasingly, our labour market is going to consist of older people, and 45% of people over-50 in this country have had no formal training since they left school, so this issue of lifelong learning, skills and the link to productivity becomes very important.

You have given us some examples of initiatives in the industrial strategy paper, but the reality at the moment is that there has been a catastrophic reduction in part-time HE in this country, over the last eight years: 47% when I had a look at it last week. There has been a 67% reduction in people pursuing the so-called other undergraduate degrees and a significant reduction in older people getting involved in HE of any sort. Are you confident that the initiatives you have talked about in the industrial strategy, such as the so-called national retraining scheme—currently focused on digital and construction, I think—will tackle the fundamental problems that we currently have in lifelong learning? It looks to me as if our bold claims to be creating a learning society are not looking too impressive.

**Sinead O’Sullivan:** I did not touch on higher education when I spoke earlier, and you are right that the proportion of people taking part-time higher education courses has fallen. We have a review going on of post-18 education at the moment, which is looking at a variety of things that we can change to try to attract people to take a more consistent approach to lifelong learning.

**Lord Bichard:** This is the review led by Philip Augar.

**Sinead O’Sullivan:** That is right.

**Lord Bichard:** When is it going to report?

**Sinead O’Sullivan:** We are not expecting it to report before the end of the year. The Government’s response is due in 2019.

**Lord Bichard:** But, in answer to my question, are any of you satisfied that the current proposals are going to address the situation that I have outlined, which is catastrophic? It is not just catastrophic in terms of productivity, but it makes it very difficult for older people to be productive in the labour market and therefore to get jobs, because their skillset is increasingly out of date. That is why it is important to this Committee.

**Sinead O’Sullivan:** We have some particular initiatives that are aimed at older workers, not the least of which is some work being done by the National Careers Service to help a wider group of people who are vulnerable to making poor choices about their employment offers and opportunities, particularly focusing, for example, on those aged 50 or over who are either already unemployed or at risk of redundancy, to help them navigate both the education and training system and the employment opportunities available to them, to ensure they can continue to be productive.

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Quite a lot of work has gone on over the last year by the National Careers Service to develop an understanding of how that works well. They have worked with 350 businesses; they have worked with thousands of individuals, to ensure that people in that category are able to access the right information and the right options to help them stay productive and in the labour market, and indeed to train where appropriate. The national retraining scheme will be targeted not just at adults aged 50-plus, but those aged 25 and over who are out of the more immediate pipeline.

**Lord Bichard:** The national retraining scheme has £64 million currently focused on digital and construction. Is that going to change the landscape that I described?

**Sinead O’Sullivan:** Quite a lot of work is still being done to develop this in a more comprehensive way. I do not necessarily believe that £64 million is going to be the total budget, but that is what we were given in the early days to make a head start on our work with the construction industry and, as you mentioned, with the digital sector. We are still working up what the detail of that scheme will look like with the intention that it should make a difference, an absolute difference, to adults who are already in the workplace and may need to retrain.

**Lord Bichard:** As a final supplementary, the industrial strategy was published 10 months ago, last November, but you are saying we are still looking at the national retraining scheme. Mark Holmes, could I ask you this, as I think it is in your area of responsibility? Is the industrial strategy council now in existence?

**Mark Holmes:** I am sorry; I do not have that information with me. It is clearly in my department’s responsibilities. It is not in my own.

**Lord Bichard:** You are not aware of whether we yet have an industrial strategy council, which was a pillar of the White Paper.

**Mark Holmes:** I am sorry; I do not know that. I will certainly confirm afterwards.

Q47 **Lord Hollick:** I just wanted to follow on from this particular point. The industrial strategy had at its heart the advent of artificial intelligence, which is going to be highly disruptive of the workplace and, as the strategy acknowledges, is going to require far more investment in lifelong learning. The demand, not just in the two sectors that are being talked about but right across the economy, is going to be significant. The nature of the waves of application and the introduction of artificial intelligence will mean that, every five or 10 years, certain jobs will disappear and, we hope, new ones will arrive. I really want to emphasise the point that has just been made. There is a need for much more substantial investment, and there is no sign of it yet, following on from the industrial strategy.

Another aspect of artificial intelligence is that there is forecast to be a significant net loss of jobs. As a result, that is going to put a lot of pressure on the competition to get jobs. If you look at those with lower skills, is that not likely to drive down wages, particularly for older people and younger people who are trying to get into the first level? There is a twin threat coming from artificial intelligence, which is sort of acknowledged in the

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industrial strategy, but the remedies and the policies to deal with it are yet to be either promulgated or put into practice.

**Mark Holmes:** My sense is that commentators differ on whether there will be a net loss of jobs from the advent of the greater use of artificial intelligence. You described it as a threat. The fact that it has been nominated as a grand challenge in the industrial strategy is also describing it as an opportunity. The absolute ambition is that we steadily move the UK towards a higher-skilled base of jobs, so it is more likely that the jobs that artificial intelligence will make redundant are those that are low skilled, which goes back to the point that you started with: it is another reason that we need to be upskilling the workforce.

**Lord Hollick:** History does not support that, because the introduction of automation to date has got rid of a lot of mid-skilled jobs in manufacturing and the like, and replaced them with call centres and other much lower-skilled jobs.

**Mark Holmes:** There have been several commentaries on what we think might happen as a result of greater automation, such as the snappily titled PwC report *Will Robots Really Steal our Jobs?*

**Lord Hollick:** The point I am making, to echo Lord Bichard, is that there has been rather a deafening silence since the publication of the industrial strategy, which identified some of these problems. I know the Government have other things on their mind, but this is probably one of the most significant changes that will take place over the next 20 years.

**Sinead O’Sullivan:** There is quite a lot of work going on, though, to develop technical and vocational skills, working in partnership with employers, in the expectation that that will more effectively address their skills shortages and skills needs going forward. There has been quite a significant investment in improving the quality of apprenticeships. We are about to introduce T-levels. Much of that is targeted at the younger end of the labour market, although we have people participating on apprenticeships up to and over the age of 60.

**Mark Holmes:** I think I am right in saying, Sinead, that the proportion of apprentices who are over 25 has been steadily growing.

**Sinead O’Sullivan:** That is true.

**Mark Holmes:** It is now higher than you might think. To the extent that the premise of Lord Bichard’s question was that the situation we find ourselves in requires some radical policies, the apprenticeship levy was a pretty radical intervention to persuade employers to focus more on training, including in-work training, because not all apprentices are new entrants.

**Lord Bichard:** I have to ask, in the light of that comment, whether we are now going to achieve the apprenticeship target for 2020.

**Sinead O’Sullivan:** Everybody is working very hard to deliver as many as possible, while also raising the standards.

**Lord Bichard:** I am sure that is the case. What is the projection now?

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**Sinead O’Sullivan:** I do not have that with me but I do not think anybody has taken their foot off the pedal.

**The Chairman:** It would be nice to know the latest position when you follow up. We have been told in evidence by Professor Stephen Machin that, in this country, the position is rather as Lord Hollick described: when technology replaces jobs, people tend to go to less-skilled jobs or, often, no jobs; whereas, if you look at Germany, Switzerland or Austria, some suffer the same fate but, equally, a proportion go to more-skilled jobs. That is the challenge we are looking at.

Q48 **Lord Price:** To some extent, you have answered some of my very specific questions about the National Careers Service and the Government’s aim to facilitate longer working lives. You have said that 350 businesses have taken part, and thousands of people.

**Sinead O’Sullivan:** It is a very specific pilot that the National Careers Service has been doing, with the aim of addressing the needs of older workers.

**Lord Price:** That is right. I was interested in probing around mid-life training or retraining, much as Lord Bichard has touched on. I was struck yesterday: I was in a cab, and the cab driver told me he had been driving for 23 years but, two years ago, he decided that there was not enough money and he was retraining as a train driver. He had sold his house to afford that. I did not have the heart to tell him that I went to Siemens in Germany a year ago and they are now developing driverless trains, but I am struck that, in my old industry, retailing, up to a million jobs will go over the course of the next seven years. I have heard Sir Jeremy Heywood say that 300,000 to 400,000 jobs will go in the Civil Service because of technology and AI over the next few years.

I suppose my question is this: do you think we are doing enough to prepare and equip people for that future, given that we are, after a year, dealing with 350 businesses and thousands of people, whereas this change is going to affect millions and millions of people. They are, at the moment, the most productive people in terms of tax take, and they are providing the support for both the older and the younger generation. How do we square that?

I am also very conscious that, when we talk about the most productive countries in terms of efficiency, they often have much, much higher levels of unemployment than the UK has. You can compare France and the UK. To what extent have you thought about the trade-off between greater productivity and unemployment, and how does that fit into the intergenerational fairness question?

**Sinead O’Sullivan:** The concept of a national retraining scheme is intended to address the risks that the Chancellor and others see in the future of artificial intelligence negatively affecting certain sectors. I keep describing it as something that is in development, not least because we have, in the past, also tried to encourage greater lifelong learning, with mixed results. We are really determined to design this in a way that will attract the individuals to invest their time to do the retraining, and attract employers to get involved in it, because, frankly, not many individuals



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will invest their time and effort in the training if they do not see a direct link to employment opportunities.

There is a third element to this for us. There is a real danger that, in designing this from the centre, you create a one-size-fits-all approach. We are working quite hard with mayoral combined authorities and a number of LEPs to try to make sure that whatever we design can be adapted for the local labour market. If we say, for example, that the solution to people leaving retail is to give them all computer skills, it does not necessarily work in certain parts of the country, depending on what the labour market looks like. We are trying to put quite a number of pieces together in designing this scheme in order that it makes a material impact and can be monitored, as you asked us earlier, for its impact on people’s ability to change sector or to upskill within the sector.

**Lord Price:** What is the ambition in terms of how many people you can give a mid-life MoT to?

**Sinead O’Sullivan:** The mid-life MoT is a Department for Work and Pensions initiative rather than the national retraining scheme.

**Lord Price:** I cannot believe they are going to deliver it on their own.

**Sinead O’Sullivan:** No. Indeed, the project I described that the National Careers Service has introduced is in partnership with DWP, because we see the need for information, advice and guidance as a key part of that mid-life MoT. We are coming to the end of the pilot and it is due to be evaluated this autumn, so I hope I will have a better sense of the answer to that specific question—I do not know when you want to publish—later in the autumn. I can confirm that as part of the written evidence.

**The Chairman:** You can get in touch with the clerks. Perhaps we can have an answer on the MoT from the appropriate department.

**Iain Walsh:** What I will say on that is relatively brief, in the sense that it was a recommendation in the Cridland review and it is something we are looking at. The MoT is a wider basket of things. It involves skills but it is also around people thinking about their financial situation, health and other things, so it is a package of things that it was recommended we consider for people of a certain age. We are working through, with other government departments and elsewhere, our response to that recommendation. There is not too much that I can say concretely at this time, compared to the point that you are making.

It is perhaps worth picking up, maybe from Mark, the issue about the trade-off, if there is one, between unemployment and productivity.

**Mark Holmes:** I said earlier, in comments about the industrial strategy generally, that the ambition is to increase productivity while sustaining high levels of employment. That may prove to be a challenge but it is very much the Government’s intention. It will involve work from across the whole of government and across industry. It will involve decades of work. The strategy is looking out to 2030, as I said. It will involve embedding a culture of career-long learning. It will involve addressing regional disparities, building on local strengths and doing more for

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underrepresented groups. If that sounds like a tremendously ambitious and all-encompassing framework, that is a pretty fit description of the industrial strategy.

**Lord Price:** Your view is that we can keep unemployment under 5% and move to being one of the most productive countries in the world.

**Mark Holmes:** It would not be wise to put particular figures on it, but the ambition is very—

**Lord Price:** For the individuals who are impacted, that is what they need to feel there is some reassurance about: that we understand the impact, and that millions and millions of people are going to be impacted over the next seven years. It is great to have an ambition—I am all in favour of ambitions—but what are you going to do? I would love to hear the Treasury’s view on whether you feel that that is an achievable goal or what the trade-offs are going to be.

**Lindsey Whyte:** Productivity is one of the long-term structural challenges for the economy. It requires a very comprehensive and multifaceted response. We have talked particularly about the skills and human capital element of that, where we are doing our best to target the areas in which government can have the biggest impact, and to design interventions, in the way that others have talked about, that take into account as far as possible the sectoral and regional implications of automation, or other changes in ways of working, in the development of the labour market.

That is one piece of the picture. Our labour market is starting from a position of strength in terms of the levels of employment, including increasing employment for older workers, which is a really important part of the picture, and encouraging people to stay in work longer, for all sorts of reasons. We have relatively low unemployment, although there is still quite a lot to do for specific groups. It feels like we are in a reasonable position of strength from which to achieve that ambition, but it is not a straightforward one. Productivity is a very long-standing structural challenge.

**Mark Holmes:** We know there is more to do to address productivity. Treasury and BEIS have jointly begun undertaking a business productivity review, which was announced by the Chancellor in May. That is under way. The call for evidence has had over 120 responses, which broadly agreed with the evidence base, and we are moving forward toward conclusions from that in the autumn.

**The Chairman:** We will have to move on to tax for the last half hour or so. Before that, following on from this, I know that Lady Crawley wanted to ask about the role of employers in all this, so we will briefly address that before we move on to taxation. This Committee likes statistics, so perhaps you could let us know the statistics on take-up of these mid-life career reviews when you respond to us subsequently, and against the targets.

Q49 **Baroness Crawley:** This is, I suppose, specifically for DWP, but please jump in, if you feel you would like to. We have been told that the Department for Work and Pensions released the *Fuller Working Lives*

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strategy in February 2017, which aims to support people through longer working lives. What is your assessment, given that it has been well over a year now, of how employers have been able to take this up? This is a partnership strategy. It is supporting employers. How have they been able to take it up, looking at the different actions within the strategy? How, especially, have small to medium-sized businesses been able to respond to this strategy?

Within the strategy, there is an action that looks specifically at women in the workplace. We know there is an issue: if you look at women’s working profile historically, through their lives, because of temporary and part-time work, they often end up with a much lower pension than their male colleagues. What have employers done to respond to this action? In partnership with employers, we want to ensure they value what women bring to the workplace. How have you monitored whether employers value what women bring to the workplace more now than they did before February 2017?

**Iain Walsh:** There is a lot in there. As you say, it is important to note that the *Fuller Working Lives* strategy is an employer-led approach, but with government facilitating. The things Mark mentioned earlier about supporting flexible working, with us in DWP encouraging older workers or women to pick up that point, to support them in looking for work, are part of the overall picture. Within that, yes, there is the role of employers.

As you will know, we have a team led by Andy Briggs from Aviva, supported by Business in the Community, which has been holding a series of roundtables, workshops, conferences and general communications with the sectors in order, at one level, to raise the issues and the factors that older workers might face. As you might imagine, we have already touched on skills and issues around caring, retraining, apprenticeships and digital skills. A lot of this is about spreading the messages. The sorts of issues that come up are not particularly surprising, but it is about trying to get employers to raise those issues, because that will have more resonance with them.

We can put more of this in the written evidence, but we could quote quite a few examples of different businesses with programmes that we think are quite effective. Three or four of them are around Barclays, which is doing something about training, work placements and older apprenticeships. There are others who recognise the value of older workers in terms of passing their skills on to younger workers. St Leger Homes is an example there. Jaguar Land Rover is a bit more in the MoT space, where it is helping older workers to think not just about continuing their working lives—that is part of it—but other issues around wealth, health and fitness.

Aviva, where Andy Briggs comes from, has a particular focus on caring. When we look at older working, some of the time, and perhaps on average, more women are older workers. Quite a lot of the issues are about the barriers that individuals face, and caring is one of the biggest issues that are raised. Can we get a system where people feel able to

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continue their working lives while balancing things that matter to them a lot outside their working lives? That is a particular factor here. Aviva are looking at the possibility of having carers’ leave.

A lot of this is about a wider point, which is how employers think about the things that are going on in the wider lives of people, and how they enable those individuals to think, “Yes, I want to work, but can you design work in a way that fits with our other responsibilities?” Those are all important areas.

It is very interesting: on the participation side of women and the trajectory over their life course, when we are talking about the 18 to 24 age group, as you will know, it is very similar between young men and young women. It is around the childbearing age that the difference tends to happen, so addressing it there is the first key point.

There are a number of things. This is not directly related to *Fuller Working Lives*, because it is about the younger age group. The changes that have been made over the last 10 years or so, under which we start trying to help parents move back to work when their child is at a younger age, are particularly important when you are talking about generational change. If I go back about 10 years, when I first joined DWP, it was the case that, if a child was up to the age of 16, we essentially did not encourage people to look for work. That is now down to three. Some people felt that was a relatively tough policy, but it has been over successive Governments. That is helping to impact things on the participation side. Then you come to the next thing, maybe 15 years further on, when you start getting to the caring side and looking after your parents. That is when *Fuller Working Lives* comes in.

If I was to look at it from the participation side, we have already mentioned that older workers’ employment rates are still behind those for the 25 to 49 age group, but they are at record levels now, at slightly over 70%. It is quite a similar picture with women. The female employment rate is about 71% now, compared to 75.5% as the overall average, so the gap is closing. We want to close that gap even further.

Finally—sorry, it is quite a long answer—there is still more work to do, particularly in terms of the gender pay gap. You know that quite a lot has been talked about there, and that is certainly a particular challenge, which often arises even more acutely when women return to work. Do they come back at a lower level than they were at before? We are doing some joint work with others to try to help that situation, but there is more to do.

**The Chairman:** If you could flesh some of that out in the response that you have offered, that would be good. I want to move on to tax, however, because this is a very important aspect of our inquiry.

Q50 **Viscount Chandos:** The government budgets and the national accounts are drawn up on, essentially, a cash basis. What work is being done to move to a fuller recognition of assets and liabilities? In particular, how does that affect the analysis of intergenerational issues? Ms Whyte, when you responded to the first question, you said the primary focus in reducing the

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deficit was to reduce the burden on future generations. How confident are you that, without looking at the unrecognised liabilities, the burden is genuinely being reduced?

**Lindsey Whyte:** We are doing a considerable amount of work to strengthen our understanding and management of the wider set of risks across the balance sheet. Of course, managing departmental expenditure and annually managed expenditure in the way that we do through spending reviews is a very important part of that, in terms of managing borrowing, but we are looking beyond that to the wider balance sheet. Quite a considerable amount of work has been done in that area, in a few ways.

We have been working with the OBR and the ONS to develop a wider set of metrics for the balance sheet, to try to increase the transparency and understanding of issues within the balance sheet. We are starting with the whole of government accounts, which give a very comprehensive view, but also introducing some new measures, including looking at public sector net financial liabilities, and looking at debt excluding the Bank of England, to give the best, most transparent picture we can.

We have also been taking a more active approach to managing the Government’s assets. The most recent examples of that have been around the assets and liabilities that the Government took on in response to the financial crisis and looking at our strategy for exiting those commitments. Quite a bit more is set out in the document that I mentioned earlier on, the *Managing Fiscal Risks* report. I would be very happy to give more detail on any of the elements of that in the evidence that we give.

One thing I would particularly flag up is that, at Autumn Budget last year, the Treasury also announced a review of the balance sheet. We recognise that balance sheet transactions have had among the most significant impacts on some of our metrics, such as debt, in recent years. That review is under way. It is based in the Treasury, but drawing on expertise from right across government, including GAD and the finance groups [should be Finance Leadership Group], and working very closely with departments to understand and explore their balance sheets, with a view to looking at three things: reducing the cost of our existing liabilities and the return on our assets; looking actively at where there is scope to dispose of assets and liabilities that do not have a public policy purpose any more; and looking at the risks around assets [should say ‘and liabilities’] that remain on the balance sheet. Where we are taking risk, are there ways to increase the compensation that the Government receive for that?

That review is ongoing and we are due to provide an update at Budget later this autumn. The fundamental answer to your question is that we really recognise that broader point about the importance of the balance sheet, and we are very committed to improving our understanding of the risks and our management of those risks.

**Viscount Chandos:** To take one example, which is student loans, the Economic Affairs Committee a couple of years ago looked at the proportion

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of the student loan portfolio that is likely not to be paid back. In analysing the economics of higher education, is that—in a sense—contingent liability or impairment of the asset considered?

**Lindsey Whyte:** The way that student loans are represented on the balance sheet and their classification is a very significant financial issue for us in the way we present the balance sheet. I am afraid I am not equipped to answer technical questions about exactly what that looks like, but it is certainly a very significant part of the balance sheet to understand, and we would happily include a bit of that.

**The Chairman:** We will be pursuing that at a later stage. We have noted the report of the Economic Affairs Committee, and Lord Chandos is right to, so please note that we are concerned about that aspect.

**Lindsey Whyte:** Absolutely, I will do.

Q51 **Lord Hollick:** Another oddity of the way we do the public accounts is that we make no distinction between capital investment and funding revenue. Take two issues that come out of the industrial strategy, which are central to productivity and competitiveness: fibre optic to the home, where we are at 3%, compared to the OECD, which is well over 50%; and housebuilding. Both of these are income-generating investments, yet the rather disadvantageous government accounting treatment treats them as the same as expenditure on current revenue. Are we missing a trick, given that other OECD countries do not take this approach, and failing to use the Government’s balance sheet to invest in the long term, to the benefit of the economy and productivity?

**Lindsey Whyte:** On the very specific questions around housing, I would need to look into the specifics of the accounting.

**Lord Hollick:** Other OECD countries take borrowing to build houses, which are going to generate income, as a different category of borrowing, and do not get into the rather large list of borrowing that you referred to in your opening remarks.

**Lindsey Whyte:** Yes. Over many years, there has been debate about the right way to account for housing debt. I cannot claim to be completely up to speed with where we are currently are in relation to that, but I would just reiterate that we are really increasing our focus and understanding of the whole of the balance sheet, and we will be providing a bit more of an update on quite how we are doing that at the Budget.

Q52 **Baroness Blackstone:** I want to ask you about differentiation in taxation by age. Can you tell the Committee a bit about what assessments the Government have done of doing this?

**Lindsey Whyte:** I would perhaps start by saying that the personal tax system we have is a progressive system, where we think of the principles of equity and fairness being about ability to pay. We relate that to income and have tended to move away from the age-related income tax rates that we have had in the past, because that does not so directly impact your ability to pay overall within the system.

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However, within that, there are objectives that we seek to achieve through the structure of the tax system. Perhaps I will describe a few of those, some of which relate to policies we have already touched on. For example, through the pension tax system in particular, we seek to smooth the burden of tax for people throughout life and enable them to smooth consumption. The most significant thing there is the taxation of pension contributions, which are tax free at the point of contribution. In terms of what that is worth, the latest figure for 2016-17 was about £54 billion, in terms of income tax and employer NICs relief.

We have a number of incentives within the system that seek to support policy objectives for specific cohorts that sit alongside that. For example, we talked earlier on about the labour market. The national insurance system has exemptions for younger workers and apprentices, and for older workers over the state pension age, to try to support the wider set of government incentives that encourage youth employment and longer working lives. We also seek to support intergenerational transfers of wealth, through the lifetime gifting that we have and various other things. I understand you might have some questions about stamp duty, for example, and how we support first-time buyers and the transfers as people choose to downsize.

There are quite a lot of parts of the tax system where it can make sense to try to support a specific policy objective for a specific age group or cohort of people, underneath the overarching principled approach to the personal tax system that I have described.

**Baroness Blackstone:** There are, however, a number of inconsistencies, are there not? One that is often cited—and it has been cited by a Committee that I sat on, which was considering the sustainability of the NHS—is that people who are still in employment after they have reached pensionable age and are claiming a state pension are not required to pay national insurance. That is a really bizarre position to be in. Why are the Government not addressing this?

**Lindsey Whyte:** As you know, national insurance is linked to the contributory principle.

**Baroness Blackstone:** It is a form of taxation, is it not? Sorry to interrupt you; I apologise.

**Lindsey Whyte:** The specific link to people over the state pension age is that, beyond the state pension age, you can no longer accumulate rights to the state pension, so there is a real challenge in applying national insurance contributions to people who are no longer able to accumulate rights to the state pension and are, in fact, within drawdown of the state pension.

Secondly, linking back to what we talked about earlier on in terms of longer working lives and that cohort of people, we have strong incentives to try to encourage more people to stay longer in work. Financial incentives such as the national insurance contributions, both for employees but also, crucially, for employers, can have a significant behavioural impact there, potentially.

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**Baroness Blackstone:** There are two points to be made. It is intellectually questionable to argue that, because it is a contributory system, you cannot continue asking people to pay national insurance when they are taking a state pension. It is a form of taxation, and that is how it is used by your department. That is a well-established fact.

The second point that needs to be made is this. It is perceived by many younger people as inequitable that, once you take a state pension, even though you might be earning quite a high salary, you are not paying national insurance contributions. Surely, that should be taken into account, just as much as your point that it might act as a disincentive to some people continuing to work. I would be very interested to know what the real evidence is that it acts as a disincentive to people continuing to work. My expectation would be that people decide whether they want to go on working on the basis of many other factors than whether they are paying national insurance contributions. I doubt it has much impact at all. If you can show the evidence that it does, fine, we should really take it seriously.

**Lindsey Whyte:** On those two points, there is quite a live public debate about the role of national insurance at the moment. That is absolutely the case. There is different evidence within that debate and different views about the intergenerational fairness, if I can put it that way, of national insurance above the state pension age. There is different evidence about young people’s views on that particular question, which is live as an external debate at the moment.

On your second point, I entirely agree that there is a huge range of factors that will affect individuals’ decisions over whether to stay in work for longer. In terms of the national insurance element of that, financial incentives will make a difference for some people. In particular, the employer contribution can make a difference to employers, but I do not have a specific impact assessment of that to share, although I could give you the revenue impacts. A 1% increase in people above the state pension age choosing to stay in work is worth something in the order of £600 million. I will double-check that figure and confirm it, but I believe that is the case.

**The Chairman:** That would be kind.

Q53 **Lord Bichard:** I just wanted to link together the issues of tax, skills, productivity and older people. Other countries provide subsidies or tax incentives for people to retrain or to participate in government-approved courses. Has that been considered? Is it being considered? Is it something that you think might be helpful?

**Lindsey Whyte:** We have a consultation that was published at the Spring Statement, looking at self-funded training, for example, so there are elements of that within the tax system that we think about. I would reiterate that tax and tax reliefs are one lever in a set of government interventions, so we would constantly try to assess whether a tax intervention will have the biggest impact in terms of that, and look to assess that against the revenue implications of further tax reliefs and questions around, for example, deadweight cost. We are specifically



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looking at the issue of self-funded training through a consultation at the moment.

**Q54 Lord Hollick:** The Resolution Foundation, the National Institute of Economic and Social Research and others have pointed to the great but unsurprising disparity in terms of wealth ownership between retired or older people and the rest of society. The inheritance tax and all the various methods of reducing the impact of inheritance tax could be addressed if there was the introduction, which some have suggested, of a receipts tax. That would then provide much greater funding for social care and other costs of old age. Is that something that is being considered? Is it being looked at? If it has, why was it not pursued? Was it politics or was it the fact that it was not considered to be a reasonable tax? Could you just give us the Treasury’s take on receipts tax?

**Lindsey Whyte:** Yes, certainly. You are right: there have been a number of proposals for different types of wealth taxation, whether it is that specific proposal—the lifetime receipts tax—or similar proposals, for example, around land-value taxes that have been put forward in the past. The key thing about those is that they are very dependent on the valuation process, so there can be really considerable complexity, not only in doing the initial valuation to establish a tax like that, but then in ensuring that there is an ongoing set of valuations. There are certainly big questions around complexity and the cost of doing that, which would need to be taken into account.

The other key thing in that space that would need to be properly thought through is around the fairness and equity issues that would arise through that process. You might, for example, have a number of individuals who benefit from windfall gains or windfall losses, and it is very difficult to anticipate that.

Perhaps going to your point about the revenue, it is by no means certain that moving to tax on that basis would necessarily result in an increase in revenue. There is a huge amount of complexity and detail in the design. It is very difficult to predict that at this point.

**Lord Hollick:** I am puzzled by your point about complexity of valuation. Cash is fairly easy to value; equity investments are; properties are very easy to value; businesses are quite easy to value. Where does the difficulty come in?

**Lindsey Whyte:** It is more complex to value some of those assets. In terms of residential properties and the scope for revaluing those, plus putting in place some sort of appeal process for people who disagree with the valuations, it is a very complex and resource-intensive operation. In a different area of tax policy, it has not proved possible, for example, to do a full revaluation for council tax for many years, as you would know. That is not to say that it would be impossible but, given the scale of the resource, the time and the wider set of challenges around that, it would be complex.

**Viscount Chandos:** Whatever the complexity, the valuation has to be done now, but it does not necessarily trigger a tax liability. For a lifetime gift,

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there is going to be a valuation issue then, but the change from a donor-based system of taxation to a receipts-based one is nothing to do with valuation; it is about when a tax charge is triggered. Of course, the problem with inter vivos gifts now is that, if the donor survives seven years, they are tax free, and that is, in many people’s eyes, clearly inequitable.

**Lindsey Whyte:** The gifting regime at the moment is based on tax-free lifetime gifts, as long as the donor survives for seven years after the gift. Some work has been commissioned by HMRC, which is in train at the moment, to help us better understand the implications and issues around that gifting regime, and how it is used. The Office of Tax Simplification is also looking at inheritance tax as a whole, to try to address some of the questions about simplicity within it. I realise that there are different views about how you would interpret fairness within that.

Q55 **The Chairman:** I should say, from the chair, at the risk of being sat on by those who have asked questions on this subject, that I am aware of those who are not massively enthusiastic for the plundering of what families have accumulated in their lifetime. I would not want you to think that there is not some policy difference, potentially, on the question, but it is valuable to hear what you have said. I was going to ask a final question about the impact of stamp duty on housing availability. We are running out of time—maybe I will pursue that with your housing colleagues—but it was described as a classic bad tax by Lord Willetts to this Committee, and I agree with that. As a former local authority leader, one sees the availability of housing blocked by the unwillingness to pay stamp duty. Have you done any assessment of the behavioural and social impact of the current levels of stamp duty on occupiers of houses, i.e. to get downsizing going? It is just one quick final question, and then we will let you go.

**Lindsey Whyte:** I have two points on stamp duty. First, the whole system has been reformed to move it away from the slab system into a slice system, which has resulted in a reduction for the vast majority of people who pay stamp duty land tax, and has addressed some of the concerns that you have alluded to. I would also flag up, more recently, the first-time-buyer’s relief, specifically to try to support those who are entering the housing market for the first time, although, as you rightly say, it makes sense to consider stamp duty as one of a whole swathe of government interventions, and the interventions in the supply side are a very critical part of that picture.

**The Chairman:** In my part of the world, most starter homes have disappeared because they have built up or built out to avoid stamp duty, but we will pursue that with your housing colleagues.

**Baroness Thornhill:** This is just a quick request. Mark, you mentioned the apprenticeship levy and the radical nature of it. Throughout today, Chair, you have asked for different pieces of information. I would be interested to know if there is any data at all on how employers have used the apprenticeship levy, particularly in the light of the fact that we have talked a lot about the ageing workforce today. One of the most depressing statements I have heard through our inquiry was that from Kathryn Mackridge about younger workers being the most qualified, but feeling they

HM Government – Mark Holmes, Deputy Director, Labour Market, Department for Business, Energy and Industrial Strategy, Sinead O’Sullivan, Director, Career Learning, Analysis, Skills and Student Choice, Department for Education, Iain Walsh, Director, Labour

were unable to access training that would get them into better jobs or secure jobs. I would be interested in how employers are using the levy, to see whether anybody is looking at their particular difficulties.

**The Chairman:** That is good. As I said, we like statistics. We love aspirations but we like performance. We are very grateful to you for your performance and your patience, first in being kept waiting by us and then in giving us five minutes’ injury time, to keep you from your well-earned sandwiches. Thank you very much for coming in and giving evidence to us today.

## **HM Government – Kit Malthouse MP, Minister of State for Housing, Ministry of Housing, Communities & Local Government (QQ 191–210)**

Tuesday 11 December 2018

[Watch the meeting](#)

Members present: Lord True (The Chairman); Lord Bichard; Baroness Blackstone; Baroness Crawley; Baroness Greengross; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Lord Price; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 21

Heard in Public

Questions 191 - 210

### Witness

Kit Malthouse MP, Minister of State for Housing, Ministry of Housing, Communities and Local Government

Q191 **The Chairman:** Welcome and sorry to have kept you waiting a couple of minutes. I have to do the preamble which is to say that the session is open to the public and is going out live on the parliamentary website. You will, as you know, get a verbatim transcript which you can make corrections to for clarification or accuracy. I am the Chairman of the Committee. The rest of us are identified here and I will call them by name—it sounds like a baptismal ceremony—when they come in. Perhaps for the record you could introduce yourself and we will get on with the questioning.

**Kit Malthouse MP:** I am Kit Malthouse, Member of Parliament for North West Hampshire and Minister for Housing.

**The Chairman:** Thank you very much, Minister, and we are very grateful to you for attending. Perhaps I could open with a sighting question to allow you to make a preamble. Our remit is to look at intergenerational fairness and problems that affect different generations. From your perspective, how do you think that housing may be contributing to what are perceived, at least, as intergenerational imbalances; problems for the young, problems for the old? On the basis of that perception, what are the Government doing to address it? Are the Government doing enough to ensure an adequate quantity of affordable housing for each and every generation? Could you take us through your outlook?

**Kit Malthouse MP:** Thank you for inviting me. I know you have seen my officials before me and you might have seen them before I even got the job, so it is good to come and cap it off, if you like.

There is no doubt about it that if you look at the straight flat numbers from a housing point of view, the undersupply of housing over the last few decades, combined with the dynamics of the housing market and the changing demographics in the UK, has contributed to the fact that younger generations now face a very different housing market than that

facing people who are in their 50s, 60s and 70s. We have seen that in the rise in number of people living in rented accommodation, the drop in home ownership and the increase in the number of people living in households, as children, in effect, stay living with their parents for longer and longer. People who would otherwise have left home when they were in their late teens or early 20s are now living with their parents into their 30s and 40s. It is different in different parts of the country and the problem is exacerbated in London and the south-east where there are greater affordability problems. All that has come together to create a very strong perception—and reality—among younger people that they do not have the same housing opportunities that the generations before them had.

You do not need to go very far to learn that. If you spend any time with somebody in their 20s and ask them how they think the property market is treating them or is going to treat them in the future, you will get very quickly a sense of growing resentment about the way they feel they are being treated. Certainly there is survey evidence that shows that something like 70% of young people think they will have to win the lottery before they will own their own home. It is definitely a major issue and absolutely critical, and the Prime Minister was quite right when she first came into office to focus on this as one of the big moral imperatives and missions for the Government she is leading.

We are trying to come at it broadly in two ways. The first is to try to correct the longstanding undersupply of all types of housing. Our general philosophy is that we want a thousand flowers to bloom and that anybody who wants to build should be building. We have used our funding and regulatory regime to try to stimulate that. As you all know, the Government have made a huge financial commitment to the housebuilding market of all types. They have committed between £44 billion and £45 billion to housing and housebuilding in its general sense. We are targeting the private sector market specifically with infrastructure assistance. We are releasing hundreds of thousands of homes by spending many billions of pounds on enabling infrastructure and programmes such as the Garden Communities programme, new settlements, new towns, et cetera. There is a huge amount going on around enabling more development.

In the shorter term, we have taken some steps to try to skew the market towards younger generations to make it easier and more effective and financially possible for them to access homes. That includes Help to Buy, which I know you want to ask me about later, and stamp duty relief and things such as skewing the financial balance away from buy-to-let landlords towards those who may be competing to own the same home who would not otherwise have had the same tax advantages. We have introduced the interest disallowance and extra stamp duty. It was the case that a buy-to-let landlord going for the same two-bedroom flat as a young first-time buyer couple previously had significant tax advantages. We have been trying to level up that playing field.

In the longer term, the solution is basically more houses. What you hope is that over time house price inflation runs below wage inflation and financial products emerge, as they are doing, which enable the release of

intergenerational equity. The Government can do something about that as well to get more people into housing.

There is a lot for us to do in the private rented sector as well. That is an option that a lot of people choose and prefer. It is definitely the case that at different stages in people's lives they want to do different things. I have been in and out of renting and ownership myself. People have different circumstances and we need to provide a big menu of options for people to choose from. Back in 2012, for example, there was no institutional private rented sector. The Government used some guarantee capacity to stimulate that and now we have about 125,000 units either built or coming out of the ground to cater for that. It is a new sector that has been stimulated. In the public or semi-public sector—housing association and council house building—particularly at the affordable end, we have put £9 billion plus £2 billion of long-term funding into strategic partnerships with housing associations into the Affordable Housing Programme and taken the HRA cap off local councils so that a new generation of council houses can be built. We hope that that will mean, as I said right at the start, that anybody who wants to build can now build, and we have all the tools we need to get us to 300,000 houses a year, which, if we can get there over the next few years by the mid-2020s, and sustain it, should help to correct that imbalance.

**The Chairman:** Thank you very much. That is very broad and we will be pursuing a number of those topics, including the private rented sector. I think the latest figure we had from your officials is 217,000.

**Kit Malthouse MP:** No, the latest net additions is 222,190, which is an increase on the previous year, which was 217,000. The early indications for next year, so the leading indicators—EPC certificates and new home registrations—are looking pretty good, so fingers crossed, although you never know, next year will be good.

**The Chairman:** Are you telling the Committee you will hit the target?

**Kit Malthouse MP:** There is many a slip 'twixt cup and lip and we are dealing with the dynamics of the housing market as well. Thus far the trajectory looks okay, but it is no secret that the housing market in London is softening and, therefore, we need to be very careful about what the investment patterns look like, particularly in the private rented sector, and what we can do to help to keep levels of activity up. Critical to that of course is the local authority activity. We are pushing hard for local authorities to get their plans in place and that is stimulating quite a lot of ambition.

It is quite interesting that there is now a general acceptance among the vast body of local authorities, of which you were a leading member, that this problem needs to be solved and that they need to do their bit. We are getting a lot coming forward with very ambitious housing plans in particularly critical parts of the country. For example, the councils in Oxfordshire came together to do a deal with us where we have given them a couple of hundred million pounds for 100,000 houses by 2030 over and above their planned allocation. You will have seen we have put some money into infrastructure in the DLR expansion which will release many thousands of homes. We have just closed our Garden Communities

prospectus for the second time. We are supporting 23 at the moment but have invited applications for more. We had 100 applications for new settlements, effectively. There is quite a lot of ambition out there, but the issue is bringing the public and private sector together to ensure that we can maintain levels of activity through a market which is naturally going to fluctuate.

**The Chairman:** Lord Price has a supplementary.

Q192 **Lord Price:** Minister, do you do any scenario modelling of what might happen if there was an economic downturn or if interest rates went to 4% or 5%?

**Kit Malthouse MP:** No, I have not seen that model myself. There may well be one somewhere in the bowels of the organisation. We definitely try to forecast. One of the things I have asked the department to do is to think about how practically we get to 300,000 by the mid-2020s, from both ends, building up from the bottom and forecasting from the top. That work is ongoing. It is very hard to forecast, not least because we do not have a unified housing market in the UK. Within the capital there are probably 20 or 30 different housing markets which function in a different way. Across the whole of the UK, or certainly across the whole of England, which is my responsibility, there are many dozens of different pockets of market. Forecasting that is quite difficult. It would be lovely to be able to do it, but I am not sure we can.

**Lord Price:** I saw a pretty challenging report, I think it was last year, saying that just a three percentage point increase in base rates would mean that something like 20% of people with mortgages would find themselves unable to pay for them. One wonders what the knock-on effects of that would be. I cannot remember who wrote that.

**Kit Malthouse MP:** To be honest with you, now you have asked me the question, I am scrolling back in my mind and seeing within the great reams of paper what I have seen from a forecast point of view. There is definitely a forecast that shows us getting to 300,000. Whether it takes into account fluctuations in the market, plus or minus, I cannot recall, I am sorry, but I am happy to write to you afterwards.

**Lord Price:** If we had an economic downturn, which we hope we will not have, the impaired ability of the private sector to invest in housing would impact significantly on your target.

**Kit Malthouse MP:** It is true. One of the things I have been quite keen to do, notwithstanding whatever forecast there may or may not be—as I say, I am keen to give you an accurate answer so I will park that and write to you with the forecasts we have—is to send very long-term signals about the Government’s commitment to the market. We will face capacity issues in getting 300,000. It will be a question of whether we have enough bricks. Some 300,000 houses a year is quite a lot of output from where we were at a low of about 134,000 just after the crash. Sending a signal to people who are committed to building brick factories and all the other things is key—for the larger housebuilders in particular, and that includes housing associations.

For instance, you will have seen that we made a £2 billion commitment to housing associations beyond 2022 so that they can plan long term. It means they can bid for money up to 2028-29—a 10-year horizon for bidding—which gives them a lot of security and enables them to make big commitments from a land and output point of view. Similarly, in the private sector, as I say, we are making these big infrastructure commitments. The Housing Infrastructure Fund stands at £5.5 billion, with an extra £0.5 billion put in in the Budget. These are very long-term projects where people can see investment by the Government well into the future, and they can start to make their own plans to invest beyond the cycle as well.

**The Chairman:** In this section on looking to the future various people want to come in and I will start with Baroness Tyler.

Q193 **Baroness Tyler of Enfield:** I am interested in the analytical base and the modelling capacity of the department to look at and to think about intergenerational questions. As you say, we had your officials a little while back and certainly one of them said that the department was keen to ensure that its analytical base gave it the capacity to look across generations. He also acknowledged that the department's strength lay more in geography than in people and he talked about linking up a bit with the DWP's database on people. My specific question is on how you would rate your department's current ability to plan for the long-term interests of different generations. Are you confident that your department has the ability to model the effect of policy, be it housing or other policies the department has, on different cohorts as they age?

**Kit Malthouse MP:** The departments work very closely together. Previous to this job I was at DWP, which of course does a huge amount of population modelling. We work very closely with it on that. There is always room for improvement in these things and as the demographics become more and more acute, with an ageing population, we will have to pay a lot more attention to that.

The question, though, in the back of my mind is what the product of it would be. One thing we have to be slightly careful about is whether we could sit in Whitehall Haussmann-like and plan housing across the whole of the UK for all these different markets that we are talking about. That is not our objective. You are right that we need to understand what the effect of policy might be, but in the end we want to get to a situation where local authorities particularly, which are best placed to be able to make decisions about the formulation of housing in their area, are paying attention to these particular issues, and are therefore designing and deciding through their plans what type of housing they think they need in their particular area.

Part of the issue comes down to the type of housing that you build, because quite a lot of modern housing is not very adaptable. If you look at housing from previous eras, for example Victorian terraced housing, quite a lot of it over the last 120 years will have been whole houses, bedsits, two-bedroomed flats, divided, extended or reduced. It is adaptable in a way that modern housing is not quite so much.

**Baroness Tyler of Enfield:** I think we are going to come back to that a bit



later. Can I press you for a minute because quite a lot of evidence we have received as a Committee has been that the Government, frankly, do not have the modelling and analytical capacity they ought to have? For example, we have a spending review coming up, so there are critical decisions to be made about policy priorities and money, and neither the Treasury nor spending departments currently have the analytical base to say what impact this is going to have on different generations. You talked yourself about a sense of resentment that some young people have. How seriously are you taking the intergenerational issue? Do you feel you have the analytical base to take it seriously?

**Kit Malthouse MP:** As I hope I outlined in my first answer, we are taking it very seriously. I am one of the few Ministers who is not complaining about money. I have nearly £45 billion to give out of the door on housing. It is an enormous commitment by the Government on, as I say, what the Prime Minister sees as one of the critical issues that the country faces and has faced over the last 20 or 30 years that has not been addressed. There is an enormous commitment to it.

From an analytical point of view, I have my market intelligence people and we have a body of analysts in the department who work very closely at gathering data from across government and who actively plan for the interests of different groups. The question is how you deliver that on the front line and, as I say, that is really where the local authorities come in.

**The Chairman:** We are not disparaging £44 billion. It is less than one railway line. We take note of that. I want to bring Baroness Blackstone in on looking to the future.

Q194 **Baroness Blackstone:** I should begin by declaring an interest because I chair the board of a large-ish housing association. I want to pick up on something you said earlier in a reply to Lord Price, which was that it would not be until the mid-2020s that we reach the 300,000 target. It strikes me as a little unambitious to take as long as seven years to get there, given the huge crisis that we have, and given what you said earlier about young people, their anger in some cases, resentment in others, perplexity in others about the fact that they cannot get into the housing market. That does not necessarily mean ownership. They cannot get decent rented housing either. Why are you not attaching more urgency to reaching that target? If you were to attach more urgency to reaching it, what would you do?

**Kit Malthouse MP:** Please be under no illusion: we are attaching enormous urgency to reaching the target and there is masses of activity taking place to propel, prod, stimulate and assist all the different areas of activity into faster activity. I have promoted “more, better, faster” as my short mission statement and “faster” is critical to it.

The expansion in capacity that is required is not to be underestimated. This is an enormous change. I have said elsewhere that, if you think about it, 300,000 houses a year will require, by my estimate, about 1 million houses in construction at any one time, which will require between 4 million and 5 million in the planning system. That is an enormous expansion in output. For the last few years, the housebuilding industry of all types has gone through the largest expansion in output for many

decades. Just to get us to the post-crash low, considering how much capacity was wiped out—50% of all small builders—is an enormous undertaking.

There is urgency and you are quite right that we need to get to that target as quickly as possible. To be honest with you, what I would do to go faster is broadly what I am doing. The department is working through an acceleration plan. We are looking at what barriers there are in the way that we can remove.

We have enormous activity going on across government in, for instance public sector land, which I know you want to ask about later. We have just published a new National Planning Policy Framework which will enable local authorities to be much more assertive about what they want in their area. Through the Letwin review we are looking at new models of delivery and our new settlements project is stimulating, thankfully, a very large ambition. We are also looking at some big banner projects. We are looking at a million homes across the whole of the Oxford/Cambridge corridor.

Please do not get me wrong: there is enormous ambition and an enormous urgency to address it, but there is a capacity issue. The bulk of it will be delivered by the private sector market. We have three large players in the private sector market, a big gap and then quite a lot of small ones. There are not so many of the small builders, who used to build a huge proportion, because they have not regenerated post the crash.

One of our key tasks is to stimulate the re-emergence of that sector. We have a £4.5 billion Home Building Fund and a huge proportion is targeted at SME builders to try to get them up and running, because they will look at smaller sites and can be more nimble and agile and get stuff up and going. We want lots more of them. We need more Lawrie Barratts to emerge. Lawrie Barratt was an estate agent who thought he could do a better job, who emerged from nothing to start developing and marketing his houses, and now Barratt Homes, a couple of generations later, is the largest housebuilder in the country.

The other area where we are very keen to stimulate more activity is in new technology because we think that will help from the productivity point of view. We are putting quite a lot of effort and money behind stimulating offsite manufacture and new technology in housebuilding because we think that markets holds an enormous amount of promise. Accord Housing Association has just opened a factory in Aldridge in the Midlands which is going to be producing 1,000 homes a year. A number of private sector builders have now started looking at this and are creating factories where they can start modular buildings as well. I am hoping for acceleration, and next year is looking pretty good.

Q195 **The Chairman:** A number of people want to come in on housebuilding, but may I ask about affordability? We have heard people say in evidence that the market might provide lots of dinky executive homes in the Thames Valley, but how are we going to get affordable homes for young people? What are the Government doing about that?

**Kit Malthouse MP:** We have the Affordable Homes Programme of £9 billion, with another £2 billion now pledged for long-term planning. In the affordable homes bracket, I guess you would include social renting and, as I said earlier, we have taken away the HRA cap, and we hope that local authorities will now start to build a new generation of council houses.

Within the affordable homes bracket there are a number of projects that people can access for rent and for ownership. Shared ownership is an area which is enormously popular. Most housing associations will tell you that when they market shared home ownership schemes, they sell like hot cakes and they are very pleased with it. We announced some measures in the Budget to make that more attractive and we are looking at what we can do to make it more attractive still by changes to staircasing and some of the regulatory requirements around it.

There is a fair amount going on in the affordable housing programme, too, and I know that a lot of the housing associations, certainly the big ones, the G15, have very ambitious housebuilding programmes now. L&Q, which is one of the biggest, has just bought a landholding company which gives it access to land for 95,000 units. Obviously, it can see many years of work going out. My job is to make sure they accelerate it and get it built as fast as possible.

**The Chairman:** Do you assess this for proportion? Looking forward to the long term—and I am not going to test you by asking you what that is because there are definitional problems here—do you have an ongoing view of what proportion of forward housing is going to be in this kind of bracket?

**Kit Malthouse MP:** I have been asked this question before and I have neatly avoided trying to give a view. Obviously, as I said to you before, it is for local areas to decide what they think is appropriate in terms of percentage and what they think they can do within the other parameters that their housing market presents. There are some parts of the country where land prices and values are such that they can do a high proportion of affordable housing. There are others where there are viability issues and, certainly, if you are looking at brownfield land, there are significant remediation costs which also have an impact. It is very hard to give an overall target for the country. That is really for local authorities to decide and is dependent on what they think the local need is.

**The Chairman:** We want to move on to planning shortly but you are stimulating a lot of interest in this critical area so I am going to let this run.  
Baroness Greengross.

Q196 **Baroness Greengross:** May I start by apologising for being late? I was chairing a meeting over in Portcullis House and people were delayed.

We are looking at intergenerational issues here and if we could get more older people in this country to be interested in various forms of retirement housing, whether it is purchase, rented, housing association or whatever, this would, in fact, deal with an enormous number of our problems because housing would be available for the young. We do not even ask local authorities to plan future needs by looking at their older population. Do you think that we could do more to get local authorities to measure potential need for this type of housing—let us call it housing with care—in

all sectors because, first, that helps other services, such as the health service and social care, and, secondly, it would release a lot of housing for older people? There is none of that sort of planning. Could the Government say, "As a local authority, you must assess the numbers of people in your area who are getting older and might need this sort of housing with some form of care in later life", which would release a huge amount for the young?

**Kit Malthouse MP:** As part of the NPPF and the plan-making process, local authorities are supposed to do precisely that.

**Baroness Greengross:** But they do not.

**Kit Malthouse MP:** We are in a transition phase on planning. Lots of local authorities are bringing forward their local plans. These plans go in to the inspectors and will be assessed as to whether the evidence base is sound for the policies that they decide to produce. We have encouraged local authorities to think about exactly that: the formulation of the housing they need. There is a plan-led approach from local authorities.

There are two ways to come at this. First, there is a regulatory side which government can look at, and we have started work, for example, looking at building regulations around accessibility and adaptability. We are chewing over the social housing Green Paper which we published earlier in the year and will come back in the spring on it. We have said, "Should we look at the decent homes standard; what can we do on that?"

The second area is about having a much bigger market. If we have a much bigger, more stimulated market with lots more participants in housebuilding, they are likely to start to compete on product or to specialise on product. In older people's housing, there are only one or two companies operating at the moment at any scale, but you would hope that if you could stimulate a bigger market they would see the market opportunity and you would get more people bringing forward the kind of appropriate housing that you are talking about. At the moment, because the market is restricted as to the number of participants, there is a ubiquity of product. A regulated, plan-led and bigger market altogether will solve the problem over time.

Q197 **Baroness Jenkin of Kennington:** You did not mention self-build in your list of different building options. Young people in particular—and I must admit my heart sank a bit at the thought of the Barratt boxes—want something more individual. What is your thinking on that?

**Kit Malthouse MP:** We are very keen to see an expansion of self-build. It is relatively small scale at the moment, but there is enormous potential. In parts of the continent it produces enormous amounts of housing. Some areas of the country have grasped this. We require local authorities to keep a register of people who want to self-build so that, when plots become available, they are able to find them. The market is producing lots of products—Plotfinder and what have you—and there is a place for it in plan-making.

For example, I would recommend a trip to see Graven Hill in Bicester, which is the largest self-build and custom-build site in Europe. I think there will be 1,400 homes when it is finished. Effectively, you can go

there and buy a plot and they put in the foundations for you to your design and you build the house you want. I was there a couple of months ago and it is extraordinary to see, because you get a Cotswold cottage next to a Swiss chalet next to a flat pack house from Poland. One house is made from wooden pallets painted black. It looks like a Stealth bomber. In my view, just the effervescence of that site will make it a conservation site in the future. It is a bit like Portmeirion and there is all manner of stuff coming out of the ground. You get a sense of community ownership there because people are investing. I met one chap there who did it because he has seven children and he needed a house that worked for them and he was able to build it. This is enormous potential there. As I say, it is not for everybody and it needs to come as part of a plan-led system for local authorities to make space for it in their plans.

**The Chairman:** I have a cousin who self-built and stayed in the same place for over 50 years because he built it for all ages and all parts of life. I wanted to bring in Lord Bichard here.

Q198 **Lord Bichard:** Minister, you have talked about the challenge the 300,000 figure presents you and the capacity of the sector to deliver. Surely one aspect of that must be skills. We have heard quite a lot about the problems that young people face in getting access to skills training and finding jobs which are secure. Here we are talking about a long-term national target which ought to provide real opportunities as well as challenges. What is your strategy for dealing with the skills issues that that presents?

**Kit Malthouse MP:** We have a large apprenticeships programme which will hopefully help us produce the people we need.

**Lord Bichard:** With respect, the apprenticeship programme is not really flourishing greatly at the moment, which must be a concern for you.

**Kit Malthouse MP:** We are also putting pressure on the industry itself to start to take responsibility for apprentices. In the good old bad old days, the industry itself had an informal apprenticeship scheme. Every bricklayer had a hod carrier who was learning to become a bricklayer. Much of that has gone by the by. The industry should take quite a lot of responsibility for itself and we are starting to see that emerge, too.

Much of the productivity challenge, and you are right to raise it, can be addressed by technology as well. There are robot bricklayers out there which will build a house four or five times faster than a human being. Push-fit plumbing is changing the nature of plumbing. Pretty soon, we will have far-field electricity, so you will not have wires in the wall; it will be projected to the light bulb and it will just light. There will be technology changes as well.

You are right about the challenge and I am having a discussion with colleagues about what we can do from an apprenticeship point of view to stimulate that. This is the same issue faced by the hospitality industry in that there is a perception among young people that there is no career progression, and that also needs to be addressed. They think they will start at the bottom and stay at the bottom. The industry needs to show that you can progress, because a lot of young people want to see that before they will commit to a long-term career.

**Lord Bichard:** You say the industry is beginning to respond to the need for more skills training. What evidence do you have of that and, if you have it, could you let us have it?

**Kit Malthouse MP:** I certainly can let you have it, yes. In the short number of months I have been in the job, I have had constant conversations with the industry about capacity generally, and a number of companies are moving towards creating their own capacity lines—although not necessarily in skills—because they can see the issues. For example, I think the famous interview with the former chief executive of Persimmon Homes was on the day it was opening its own brick factory to make its own bricks for its own supply chain. We hope the industry will do the same with people, but I am happy to drop you a line with some examples.

**The Chairman:** I think that would be helpful. It is no secret that the Committee has not been entirely impressed by the apprenticeship position across the board, so anything you can do to get a nice tick for your department would be helpful.

**Kit Malthouse MP:** I will write to you generally about apprenticeship schemes.

**The Chairman:** We need to move on to planning and when we do I should tell you, Minister, with no offence to you, that Lord Price has to leave to go to an engagement. Before we move on to planning, I know Baroness Crawley wants to come in on this section of the questioning.

**Baroness Crawley:** It is about capacity but it links in with planning so you can carry on to planning.

**The Chairman:** If you hear a rustling to your right, it is not because the Committee is dissatisfied with your evidence; it is Lord Price carefully staging an exit. Baroness Thornhill, would you like to open up on planning?

Q199 **Baroness Thornhill:** It is really good to have you here to ask you some of the more political questions. I am asking my questions as a former mayor of a local authority for 16 years who was dubbed by my opponents the “pro-development mayor”. I was on message in that regard, but I faced every day the reality versus the rhetoric and it related to the balance of power.

You have said quite a lot already about the ability of the local authority to develop a local plan, and you quite rightly set a lot of store by that in terms of answering my friend’s question that it should be in the local plan. In Hertfordshire, we are experiencing, to put it quite bluntly, the developers having the whip hand about what goes where and when. That is across a range of authorities, I think it is important to take that on board. Most planning meetings feel like a battle. You have the battle between the council and the community and the battle between the planners and the Government’s desire to deliver. I believe the planners have got that message very strongly, so much so that they feel disempowered in turning things down. You also have the bottom-up stuff that is coming through. The ability to plan the kind of mixed community that you and I and everyone here would see as desirable is not actually the case when you get into the grit.

I was interested in your comment about viability, for example. Councils feel they have had the rug pulled from under them in terms of being able to argue for social housing, if that is what they need. I was concerned recently to find that only four—one being my own, thank goodness—of the Hertfordshire councils asked for a CIL levy. The CIL levy we are all asking for is massively lower than Surrey asks for.

What is the role of government in tooling up councils to have these big and difficult arguments to realise the potential and the delivery, and how are we going to take communities with us when, as I say, it is the single hottest political issue in any local authority where you are facing significant building, where the developers and the council really want to deliver?

**Kit Malthouse MP:** The way the system is supposed to work is that local authorities in their plans are able to be clear up front about what their Section 106 affordable housing requirements will be, what their design requirements will be, where the development is going to go and various other bits.

Their ability to deliver that hinges on whether they satisfy the inspector that they have a five-year land supply. If you want to run the table on planning in your area as a local authority, it is in your interest to have a big and generous land supply for five, six, seven, eight, 10 years. If you have that, and you get to a situation where you have a 10-year land supply, effectively, what you say goes, because if developers come forward, for example, and say, "You might want 40% affordable housing, but the viability on this site means that we can't do it", you are able to say "So you can't do it. I have 10 years' worth of land supply; I will go to someone else who can". In effect, you are able to run not quite a Texas auction but whoever wants to bring development forward has to satisfy your requirements rather than the other way around.

I was a local authority councillor and member, as you know, for eight years, and one of the frustrations is the planning system has become, because local authorities are a bit timid on land supply, this game of poker where it is a question of who is willing to go to the planning inspector. I keep saying to local authority leaders that, if you can get a big land supply, if your plan is authoritative and you are clear on what you want, first, you become bullet proof and, secondly, developers are in fact, although it is counterintuitive, much more likely to develop because they have certainty. You have removed a lot of the planning risk for them because they know what is available. Fundamentally, they are able to factor all those costs into the land value because they know them up front.

Within any development appraisal there are, broadly, two moving numbers. The gross development value is broadly fixed because you take your price in the local market. You know what your build cost is and you have your margin plus or minus. The Section 106 and the land value are the two moveable bits, and, too often, it has been the Section 106 that has moved. The new NPPF is designed to give local authorities exactly those tools to be clear up front what these requirements are. They will be factored into the land value. If you have your land supply, particularly if

you have a valid local plan and neighbourhood plans, the risk of any appeal is going to be extremely low. That puts you in charge.

On the flip side, the NPPF puts in a housing delivery test which says, “To give you that, we have to make sure you are keeping up numbers”, which gives you carrot and stick to get out there and be ambitious about housing.

**Q200 Baroness Thornhill:** Can I take you up on the housing delivery test? What actual powers does a local authority have? Having granted planning permissions, and we all know there are many more planning permissions grants than have been built out, and that is a fact, what powers does a local authority have to ensure that Persimmon or Barratt or Joe Bloggs builders actually deliver? Councils have this responsibility on the delivery test, but do they have the power and the tools?

**Kit Malthouse MP:** The power emanates from the land supply and, so long as you have your land supply, there are a couple of things you could do. We are encouraging local authorities to give shorter planning permissions, so instead of three years or five years, two years, and, if nothing happens in two years, you are able to take the site out. “I have 10 years-worth of land supply. I can take it out. Sorry, chaps, this is now not going to be housing; it will be a country park or something”. You only need to do that a couple of times and you will change people’s view. Secondly, you can now take into account people’s delivery record in planning decisions. If people are coming forward and not delivering, you can take that into account as well.

If you have further ideas about what more we could do to stimulate this, I would be happy to look at them. The Letwin review looked at this idea of land banking and it has broadly concluded that it is not happening. You would expect particularly larger housebuilders to have a supply chain of land available which is at different stages of progression. While a large housebuilder such as L&Q might have 95,000 plots available, it will not have the balance sheet available to build them all at the same time. You can see why you would have a work progression.

I can see the frustration, in that you grant permission, you go through the political difficulties of getting permission and it does not happen, and that is a problem. If you have suggestions about how we could make it happen, I would be happy to look at them.

**Q201 The Chairman:** Can I ask about planning fees? I am old hat now because I retired in 2017, but my authority was losing £1 million a year on planning, basically subsidising developers because of the caps on fees. What is the case for the Government not allowing local authorities to recover real costs? Government lectures local authorities on weakness in planning but many of us—I say “us” and mean “them”—institutionally were not allowed to recover costs.

**Kit Malthouse MP:** “Lectured” might be a little strong, my Lord. We have increased planning fees by 20% and we are assessing the additionality of that at the moment. One of the issues is whether the money that is raised by planning goes into planning. I have said in other forums that if it becomes clear that capacity in planning departments is a brake on development, we will have to look at that again. That is broadly



where we are. We now have these planning agreements where local authorities can enter into a planning agreement with a developer and charge higher fees for a better service, but I recognise that lots of people have said to me that the capacity of planning departments is a difficulty.

There are different models of planning, which is part of the problem. You get to a situation where a local authority may very occasionally get a large and complex planning application, a new settlement or whatever it might be, that needs a level of expertise and a senior planner which it would not necessarily have on a day-to-day basis. It might be worth exploring some sort of option for local authorities to share and pool that kind of central expertise, because if you have a senior planner and they are only getting the sort of work they need to do once every five years, it becomes not very cost effective to keep them.

**Q202** **Baroness Jenkin of Kennington:** We have heard a certain amount of evidence to show that investment in design pays off. What is the Government doing to improve the design of properties to ensure that they are suitable for an ageing population? Secondly, is the Government satisfied with, or indeed even aware of, the number of local authorities that have specific planning policies for older people? What are you doing to support more of those local authorities' planning, because of course lack of planning is one of the reasons preventing people from downsizing?

**Kit Malthouse MP:** In its widest sense, design is a big emphasis for us, not least because we think that if we can get the design right—and the level of volume output we need is going to require an enormous amount of acceptance by those communities which will see mass housebuilding—hopefully, that will diffuse the normal levels of objection. However, I think you are asking more about specific design for elderly people.

Baroness Jenkin of Kennington: Yes.

**Kit Malthouse MP:** No, it is not satisfactory at the moment. Irwin Mitchell did some research which showed that two-thirds of all local planning authorities have no older people's accommodation policy in their local plan. That needs to change; you are quite right. As I said earlier, we have started work on reviewing building regulations on accessibility and we are going to look at that more. As I say, we will be having a look at the decent homes standard as well. In the end we hope that local authorities recognise the need. One of the things I hear quite a lot as I travel around the country meeting groups is, "Where have all the bungalows gone?" While a bungalow is a relatively inefficient use of land, which is why they are not built, it is a proxy for, "Where has my downsizing adaptable one-level space gone?" It is a good challenge and we will have to see what more we can do to stimulate that kind of housing.

**Q203** **Baroness Blackstone:** Should planning policy encompass specific provision for first-time buyers, and, indeed, for young people wanting to rent because they cannot actually afford the mortgage to buy?

**Kit Malthouse MP:** Yes.

**Baroness Blackstone:** Should planning policies take that into account?

**Kit Malthouse MP:** Yes. As I said earlier, we hope that local authorities will look at what their need is—not just overall numbers but what the different sectors of need are—and will reach a general policy on affordable housing of all types. Within that are rented, affordable rented, social rented, shared ownership and discounted market sale: a variety of different products.

**Baroness Blackstone:** Are you handing this over to local authorities? I wonder whether there is a role for central government in trying to push in this direction and encourage local authorities to embrace this.

**Kit Malthouse MP:** First, we want local authorities to embrace it; they have to. We want them to be clear in their plans about what they think their local requirements are. On the other side we are able to stimulate activity, so by putting £9 billion into the Affordable Homes Programme we are able to give housing associations, and indeed others because councils can bid into it too, the capacity to go out and compete and build, particularly given that a lot of it will be countercyclical and some will be able to build when others are not. We can come at it from both ends, but in the end it comes down to the local authority having a really good sense of what it wants and needs in its area and what it can deliver through the plan.

**The Chairman:** We will come back to publicly owned land. I must say from my perspective as a former local authority leader in a tight urban area which did not have a housing stock, looking at publicly owned land not being developed was one of the most frustrating things, and I know this is an area which Lord Bichard wants to pursue.

Q204 **Lord Bichard:** I want to pursue it for the very reasons you have mentioned, including the importance of land supply; and one source of land supply is publicly owned land. You even have a director responsible for freeing up publicly owned land for development. When we asked for information on this, we were told that by September 2016 you had sold land with the capacity for 13,817 houses, which is the last figure we have, and you have a target for releasing land which will deliver a further 132,000 homes. We have no timescale on that. It would be really interesting to know over what period that figure is intended to be reached. The 13,000 represents, if you take 40 units an acre, about 350 acres, and the 131,000 you are looking to release, or have the land available for over a longer period, looks to me like 3,500 acres. It does not feel like a vast contribution when you think of the land that is currently held by the NHS, the MoD and other government departments. My question really is: are you satisfied that that is making a sufficient contribution to this urgent national priority? Does your department know what land is held by other government departments and exactly how do you challenge whether that land is required to be held by those departments rather than released for housing supply?

**Kit Malthouse MP:** I am in the middle of a programme of work on government-held public sector land and related matters and part way through a series of bilateral meetings with my ministerial colleagues to go through and review where they are on their programmes and the deliverability of their programmes—and, critically, to put them to Homes

England, which obviously has a wider remit in the area where the land will be held to see what more can be done. I am pushing quite hard at that door at the moment. I guess we will be publishing some numbers on public sector land at some point in the near future, but at the moment, as I say, I am part way through a review of the programme.

**Lord Bichard:** Do we have figures on what land is held, say, for example, by the Ministry of Defence or the NHS?

**Kit Malthouse MP:** As part of the programme, all the departments had to come up with a list of what they thought was deliverable or what land might be available.

**Lord Bichard:** The question I was asking is: do we have a record of the land they own, not the land they are saying they will give up, and, if we have a record of the land they own, how do we challenge whether or not they need it all for their particular purposes and do we have targets for releasing it?

**Kit Malthouse MP:** It depends what you mean by “own”. For example, the Department of Health would say that it does not own the sort of land you are talking about; it is the property of the trusts that operate the hospitals. That is where ownership sits.

**The Chairman:** But we have a national emergency here that you have said we have to get through.

**Kit Malthouse MP:** Yes.

**The Chairman:** We want to help you cut through that “Yes Minister” stuff.

**Kit Malthouse MP:** I understand. That is the review I am going through at the moment. As far as I am aware, all departments should have a list of all the land that they own or they have access to or is owned by subsidiaries or whatever it might be. I cannot speak for all departments as to whether it is completely accurate or not; I am sorry.

**Lord Bichard:** How are you going to ensure that they are challenged? This is a national priority. Surely you should have the power to challenge the list of land that they are going to make available. Do you have that power from the Prime Minister’s Office or from the Cabinet Office?

**Kit Malthouse MP:** That will be a decision. The way the structure works is that we have a housing implementation task force which is chaired by the Prime Minister. The public sector land programme reports into that and I am responsible for that report. I am currently working through the programme with my ministerial colleagues to put the next report up to the housing task force, and the Prime Minister will then decide what she wants to do with the data.

**Lord Bichard:** The first question I asked was: are you satisfied with the figures your department has given us?

**Kit Malthouse MP:** To be honest with you, I am never satisfied. “More, better, faster” is my refrain. If I was satisfied, I would not be injecting the sense of urgency into the programme that is required. As I said, I am sitting down with colleagues and pressing and pushing and challenging on a regular basis on what kind of land they are bringing forward and

whether, frankly, they can be more innovative about land. For instance, one of the areas that is quite interesting is if you look at the DfE, it does not have much land, but as part of school redevelopment it might be able to produce, and has in the past produced, accommodation as part of the redevelopment of the school. There are some innovative routes that we might look at to squeeze out the maximum amount of juice from the lemon that we can. I am in meetings challenging the department on that basis right across the piece. That is ongoing work.

**The Chairman:** Could local authorities be helpful here? Why cannot local authorities apply for permission on this dead, neglected public sector land and take a cut in the profit and put the boot on the other foot and make the public owners explain and defend why this land should not be developed?

**Kit Malthouse MP:** Do you mean make a speculative application on land they do not own?

**The Chairman:** Yes, and delivery. If permission is granted and, say, Network Rail refuses to develop, why not let the local authority move in and develop it and send 20% of the profit?

**Kit Malthouse MP:** I think it is true that anyone can apply for planning permission on anyone else's land, so it would be perfectly possible for me to apply for planning permission on your back garden.

**The Chairman:** You can do that, Minister, but you cannot send your navvies in and get the development built.

**Kit Malthouse MP:** It is certainly an assertive approach.

**Lord Bichard:** You could apply for planning permission on land which the NHS owned and you would release land supply, so why do you not do that?

**Kit Malthouse MP:** In theory that is possible, but for the moment I think a negotiated outcome is likely to be more productive. It is certainly a good challenge.

**The Chairman:** Thank you very much. We will move on to housing and start with the private rented sector, which is important. I would like to bring in Baroness Crawley.

Q205 **Baroness Crawley:** Minister, this Committee feels very strongly that the Intergenerational Foundation's evidence rings very true about the private rented sector. One thing it has said is that tenants enjoy virtually zero legal protection from being evicted if they are renting under an assured shorthold tenancy agreement, which of course predominates in the private rented sector. We have a Contact Group that runs parallel to our Committee and we meet from time to time. It comprises members of the public from across the age ranges that we are interested in. They have said very clearly that if we are ever going to achieve intergenerational fairness, it is important to start getting some fairness for young people in the private rented sector. They are talking about the situation where often people have to have £3,000 up front to be able to rent accommodation that is absolutely dire. What can the Government do? I know you have initiatives on the go and you have a consultation out on longer tenancies. We would very much appreciate knowing your response to your longer tenancy consultation

before we report at the end of March. What can you accelerate, in your own words, on this vital issue?

**Kit Malthouse MP:** On the longer tenancies, apparently we are going to set out our conclusions in the new year, so I will signal to the department that you would like to see them before March. It falls to my colleague Heather Wheeler, who is the Minister responsible for the private rented sector, and she will be dealing with that, but I will certainly let her know. We would broadly agree that standards in the private rented sector are not high enough and that there needs to be better and more professional treatment, if you like, of those who are in that sector. There are a number of things we are committed to do—banning letting fees, capping tenancy deposits, making sure that everybody is in a client money protection scheme, and making sure that landlords are in some kind of redress scheme. There is quite a lot of regulatory stuff we can do to raise standards. We are supporting the Homes (Fitness for Human Habitation) Bill, a Private Member's Bill by Karen Buck, which will swing the balance of power back more towards the tenant.

**Baroness Crawley:** We had that in our House last week.

**Kit Malthouse MP:** Good. We have our rogue landlord database which will give people more transparency about how their landlord treats other tenants and if there have been any problems in the past. That database will take a little time to populate because it takes time to get investigations and what have you. We have done quite a bit on safety. Quite soon we will be introducing five-yearly electrical inspections. We are looking for a slot in the legislative timetable to land that. We are looking at carbon monoxide and smoke alarm regulation. We have extended mandatory licensing to protect tenants from overcrowding in smaller HMOs. There is quite a lot that we can do on it. There is a working party under Lord Best looking at agents generally and how we could better improve qualifications and standards for managing agents. On the other side, there is quite a lot that can be done to up the game of local authorities from a regulatory point of view.

**Baroness Crawley:** Can I just stop you there? I agree that, yes, the local authorities' game should be raised as far as regulation is concerned in this sector, but I know a little about trading standards, for instance, and I know that in the last 10 years, 60% of trading standards expertise has been lost to local authorities simply because of austerity cuts. Where are you going to get the people to add to your rogue landlord database, for instance, if you do not have the boots on the ground to go round and find these people?

**Kit Malthouse MP:** We will refresh our guidance and we are providing training in local authorities, if they are bringing new people in to acquire these skills. We have a £2 million fund to try to assist them in upskilling people who might be brought in. If expertise has gone, getting it back is going to be hard. We have a £2 million fund to aim at innovation and boosting enforcement work generally. As I say, if we come at it from all ends, from a regulatory point of view, swinging the pendulum more towards tenants, and we are able to enhance and boost local authority regulatory capacity, hopefully we will reach a better place than currently. The landlord industry bodies, the RLA and others, are keen to co-operate

and for there to be a general raising of standards because they recognise that there are reputational issues as well. For the health of their sector they want it to be generally perceived as a good thing to choose from an accommodation point of view, and we are quite keen to help them do that.

**Baroness Crawley:** We were particularly worried about the figure of 500,000 children who now live in the private rented sector in shorthold tenancies. It has consequences for their education and friendship groups if they are constantly moving. Do you have any contact with the Department for Education on this particular housing issue?

**Kit Malthouse MP:** I have not personally but, as I say, I cannot speak for Heather Wheeler, and she may well have done. We are looking here from a consultation point of view at longer-term tenancies to see where we get to in spring.

**The Chairman:** It would be helpful if your officials or colleagues could let us know if that is happening. We are very grateful to you, Minister, for the generous time allowance but I would like to bring the session to a close not too long after 1 pm as one or two members might have to go. Could we have a short section on the financing of the market? Lord Holmes wanted to come in here.

Q206 **Lord Holmes of Richmond:** What are the Government doing to support innovation in intergenerational mortgage products?

**Kit Malthouse MP:** It is a good question.

**Lord Holmes of Richmond:** Thank you.

**Kit Malthouse MP:** There is nothing that I am specifically aware of that we have done to stimulate it, although I am aware it is appearing. Lloyds Bank is a big employer in my constituency and I was there a couple of Fridays ago. We were talking about the housing market generally, and it said it has a product that will allow, in effect, parents to support their children if they are in a position to do so through releasing equity in their homes and transferring it. There are emerging products, as you would expect. Naturally, the competitive market would move into these areas and produce a product that caters for it. We work with the finance industry in other areas to try to ensure that the products we produce are mortgageable. For example, on shared ownership, there will have been work in the past with councils and mortgage lenders and others to ensure that shared ownership is mortgageable, so the generations that want that can access it. Similarly, with Help to Buy, its structure works from a mortgageability point of view. One product that sits in the affordable housing bracket but has not been used very much—a small number of lenders offer it but there need to be more—is in discounted market sale. These are homes that are sold at a perpetual discount to the market that therefore do not have the shared ownership rented bit—it is a pure discounted market sale. There is more that we could do there.

From a provision point of view, we have a working group at the department which is looking at ensuring that modular building is both reputationally good and comes with a stamp of quality to it, so that it is mortgageable. The finance industry is involved in that group to ensure

that when these modular houses start to appear in any number that they are mortgageable and there is a product for people who want to access them. There is a bit of work going on but it is probably a good challenge for me to go away and think about what more we can do.

Q207 **Baroness Blackstone:** I want to pick up on Help to Buy. There has been a lot of criticism of it, partly because there is very little evidence that it is adequately targeted on those who really need it. There is quite a lot of evidence that the people who are benefiting from Help to Buy are relatively well off among young people and many of them will have supportive families. There is a longer-term question which is: once the supply of housing has improved, is Help to Buy going to continue? My sub-question is: would it not be better to focus more on shared ownership anyway? You have said quite a lot about it, which I greatly welcome as a chair of a housing association that does a lot of shared ownership and a lot of development too. Would it not be better for central government to focus more on supporting that and ensuring that mortgage companies provide the mortgage backup that is needed rather than putting this money into Help to Buy which probably has been one of the factors that has increased the cost of housing?

**Kit Malthouse MP:** I have not seen any evidence that that is the case. The first review that was done of Help to Buy did not indicate there was an impact on prices. I stand to be corrected, but that is my recollection of it. Help to Buy has been enormously popular, and I have had people coming up to me and thanking me for the Help to Buy scheme. It has a place. In answering your question about the long term, it was announced in the Budget that there would be a new Help to Buy scheme focused on first-time buyers only and there will be regional caps to ensure it is targeted correctly. The Treasury has not indicated that there will be anything beyond that at the moment, so the implication is that it is a bracketing down. You would hope in the long term that if my aspiration comes to pass and we can get to 300,000 sustainable houses a year, the price imbalance will correct itself, and that kind of assistance will no longer be required. That is quite a long-term project.

In terms of the balance of power, it is possible for us to do two things at the same time. I would be quite keen to see all manner of assisted home ownership expand, and that includes Help to Buy, shared ownership and discounted market sale. As I said at the start, we want a thousand flowers to bloom and our job, so far as I can see, is to create a generous menu of options from which people can pick rather than a small number. It is not a one size fits all. People have different requirements at different times in their lives, different financial situations and different choices, and we need to make sure that the market is producing all those.

**Baroness Blackstone:** I accept that. However, it is surely important that in your role you ensure that the money that is going into these different types of programme is really helping those young people who are least able to help themselves rather than those who can help themselves. Surely it is also important that any programme of this sort does not end up purely as a demand-side initiative that ends up with higher prices.

**Kit Malthouse MP:** As I say, I am not sure that Help to Buy has done that. There are various opinions about Help to Buy. All I can tell you is that it is widely popular. You will have seen the stats on who is using Help to Buy and what income bracket they are from and all the rest of it. Obviously, the new scheme is focused much more on first-time buyers, but let us see how we go.

**The Chairman:** We will be reporting on that and we take note of what you have said. What happened to the big buzz words of “starter homes” that Mr Cameron used to go on about all the time?

**Kit Malthouse MP:** That is a good question.

**The Chairman:** Let us move on to communities briefly. I know, Minister, that it is not part of your direct brief, but it is an area you have very kindly agreed to answer two or three questions on in our last 10 or 15 minutes. It is important to us that in intergenerational communities people should work together and have a sense of place. I will perhaps take just two or three questions and I want to bring in Baroness Crawley first.

Q208 **Baroness Crawley:** Recently, some members of the Committee took a trip up to Doncaster to look at some of the work it was doing with communities, and in some cases quite deprived former mining communities. One of the things we were struck by was the willingness of that local authority to involve the community in service provision. We saw that of its 24 libraries, 20 were run by a community organisation which was not directly connected to the local authority. Do you see a role for central government in spreading best practice in that type of community involvement?

**Kit Malthouse MP:** Yes, there is a role, although from my experience as a councillor, the Government have to be slightly careful about what role they take because it is very easy to show up with your size 10 government boots and trample all over organic community activity. The value of it is that it is organic and self-generated, and, while we can provide assistance and gentle coaxing, we have to be careful not to be too assertive.

**The Chairman:** We have heard in evidence that community housing organisations are potentially important. You have a community housing fund.

**Kit Malthouse MP:** Yes.

**The Chairman:** We have heard criticism in evidence that that is only guaranteed to last until 2020. Is there any prospect of it running beyond that?

**Kit Malthouse MP:** I have certainly had people lobby me about extending it because they are not sure they are necessarily going to get their bids in or their money in under the wire, and we will have to take that under consideration.

Q209 **Baroness Tyler of Enfield:** I am interested in what the Government feel they are able to do to support mainly local community initiatives that are aiming to bring the generations together—and we have had quite a lot of heart-warming evidence about schemes going on on the ground—and to



reduce loneliness and some of the rather negative stereotypes you sometimes have between different generations if they are not mixing and meeting and understanding in a spirit of reciprocity. I am interested in what the Government can do. On a specific point, we have had, and it was very welcome, the Government's loneliness strategy, and the first loneliness Minister—Tracey Crouch—was appointed. She is no longer a Minister and I am not quite sure who has taken on that mantle. Could you tell me what sort of conversations your department might have had on those sorts of issues, either at ministerial or official level, to bring together what MHCLG is doing with DCMS?

**Kit Malthouse MP:** I have to confess that that falls outside my ministerial expertise. While I could hazard a guess, I do not think that would be proper. I know that a DCMS Minister was asked to come and my apologies that I cannot answer that. As far as I am aware, we have a loneliness strategy that has been launched, as you say, and there will be the natural cross-departmental working you would expect, but I cannot give you any detail. I am very sorry.

**Baroness Tyler of Enfield:** Would you be happy to write afterwards?

**Kit Malthouse MP:** I will be more than happy to drop you a line and tell you what it is.

Baroness Jenkin of Kennington: I think it is Mims.

**Kit Malthouse MP:** Mims Davies has taken over from Tracey Crouch so she would have that responsibility, yes—to answer that question.

**The Chairman:** We understand that and appreciate your seeking to help. Your department must have a view on the issue of place. Perhaps we can conclude with some questions from Lord Bichard on that.

Q210 **Lord Bichard:** We—or, at this stage, I—tend to take the view that generations can support each other within communities but, in a way, we have lost the active community that we had in the past. Various attempts have been made to rediscover that. I was responsible for one of them, Total Place, 10 years ago. That was after the 2010 general election. It became the Troubled Families Programme. That withered on the vine. It was overtaken by the Big Society. That withered on the vine even quicker. There seems to be a creative policy vacuum at the moment around how you can help to develop active communities. I entirely accept the point you made a few minutes ago that you need to be very careful not to trample over communities that are active, but I am left with the feeling that government could do more to incentivise and to encourage communities to support different generations within a place. Do you share that view? Are there thoughts in the department about how the place could be helped to be more active or is this now not on the policy agenda at all?

**Kit Malthouse MP:** There is a lot of thinking and effort going into the design element of what we are talking about to ensure that we have active and busy high streets and housing developments that work from a community point of view and are not sterile and unanimated. A lot of work goes on. Part of the Building Better, Building Beautiful commission that we have launched will be looking at how we make sure that a neighbourhood is well designed and works and hangs together and that

people are able to interact. There is quite a lot of theory around the notion of urban design and the generations interacting. Jane Jacobs wrote about urbanism. Her book is called *The Death and Life of the Great American City*. She talks quite a lot about the notion of a front door and a street, meaning that there is much more ownership of the public space, and generations are much more likely to interact. In its simplest form, older people are more likely to sit outside and younger people more likely to play in the street: therefore, the two will naturally interact. There is quite a lot that can be done around urban design and form that will make a community work where people live together and have to naturally socially interact.

The trickier bit is the cultural element you are talking about, where we have seen, not just in this country but across the world, more cultural atomisation as people withdraw into their homes, because that is broadly where entertainment is, and participate less. There is a very famous book written a while ago now called *Bowling Alone: the Collapse and Revival of American Community*. I do not know if you ever came across it, but it charted the fall in the number of bowling clubs in the US. Nearly everybody was in a bowling club and now hardly anybody is, and people are now bowling alone rather than in a club. It was put down to various cultural changes in a society where people were atomised. We have seen that with other phenomena. Anybody, like me, who has a rural constituency gets alarmed about the health of the local pub. While these things can be community assets and the community wants to support them, they become unviable from a business point of view broadly because people are not using them, and that is because people are not congregating in a pub as they would have done in "The Archers", or whatever it might be.

As to how we tackle that cultural phenomenon, I am not sure anybody has yet come up with a specific solution—but, as I say, if you are able to produce ideas, I would be more than happy to have a look at them. I know that DCMS through its civil society programme and loneliness programme has a number of programmes and funding which are designed to help stimulate this sort of activity and certainly get the third sector involved in convening and stimulating some of these groups to come together. Some of them will be, I hope, very successful. There is a programme the Government are funding around uniformed youth groups which naturally brings young leaders and young people together—the Scouts and Guides and all the rest of it. I have to say when I was at City Hall we did something very similar where we helped to stimulate the uniformed youth groups to go into areas they otherwise would not go, as part of our youth crime strategy. We thought it was a way of bringing people together much better. There are a number of programmes, but it is an overall cultural challenge for us all, this idea of the atomisation and retreat into the homes of people rather than social congregation out in society.

**The Chairman:** There is a feeling that some older people still like to go to the high street, so perhaps I could finish with a slightly impish thought from the Chair, which I have tried on others. The Government, on behalf of the taxpayer, own enormous numbers of boarded-up lovely buildings in the

high streets and small towns of Britain, including closed branches of the NatWest Bank, which has been bailed out by the taxpayer at enormous cost. Why can the Government not give some creative support, with community resources disappearing, to these buildings which the taxpayer owns being used as multi-purpose community facilities? It is an outrage to see these publicly owned assets boarded up year after year. Might you and your colleagues consider that?

**Kit Malthouse MP:** I cannot answer specifically for the bank branches, but it is definitely the case that there is a big focus now on the high street. We have our high street fund of £600 million-odd, where we are looking for innovative bids from local authorities and others who want to rejuvenate the high street. Also, we want to think about a more mixed economy on the high street—and you will have seen the Timpson review into high streets—and whether we should be allowing more flexibility in the high street to accommodate more activity. In my constituency I would like to see more residential in and around my high street, particularly, as you say, Chairman, more residential for older people because they are more likely to want to walk and socialise and use the shops and all the rest of it. If we can bring all those together, there is a chance to stimulate those high streets. Some high streets work very well and nobody has divined why some do and others do not.

**Lord Bichard:** There are some problems in getting people involved in their communities around having facilities available, particularly as they have become very expensive to let and to hire. It was interesting that one of the Contact Group representatives last week suggested that perhaps we should give some tax incentives to organisations that make their buildings available for community purposes. There are one or two examples of local authorities doing that voluntarily. Should we look at that? My concern is that there does not appear to be any longer any creative thinking into how we build active communities.

**Kit Malthouse MP:** I am not sure that is necessarily true. Some may not, but there are lots of areas of the country—certainly speaking for my own—where there is a lot of creative thinking about what we can do about our town centre.

**Lord Bichard:** I was meaning nationally.

**Kit Malthouse MP:** Our job is to assist and provide the tools and to share best practice. In the end these things are really valuable if they are owned locally, and local authorities generally need to lead the charge on rejuvenating their areas. It is quite hard for the Government to do it from Whitehall, but we can provide the funding, tools and some of the ideas that might be required.

**The Chairman:** Thank you. Obviously, we would want to help you to be proactive in any way we can, Minister. We discussed earlier the bureaucratic difficulties in the NHS. It must be so frustrating for you, and we respect your commitment to all that you want to do to get things done. Anything this Committee can do to help you cut through some of the red tape, we would wish to do.

**Kit Malthouse MP:** Perhaps you should speak to my colleague Jake Berry, who is Minister for the Northern Powerhouse and has the high

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street brief. You might find it interesting to talk to him because he has some strong views.

**Baroness Greengross:** If you look at the canal and all round Paddington, it was partly national development and not all through Westminster Council. It is brilliant with the table tennis and the big television.

**Kit Malthouse MP:** Sorry, where are you talking about?

**Baroness Greengross:** Around Paddington.

**Kit Malthouse MP:** That was all Westminster Council. I was deputy leader at the time.

**Baroness Greengross:** I know it very well.

**The Chairman:** I think it might have been intended as a compliment.

**Kit Malthouse MP:** Thank you. That is very kind.

**The Chairman:** I know it is not usual to get these in Select Committees, but we would like to pay you the compliment, and we are extremely grateful to you for coming and being so patient.

**Kit Malthouse MP:** Not at all. Chairman, I am slightly conscious that I gave a vague answer at the start about forecasting which I will clarify in correspondence.

**The Chairman:** It is going to be an area that we will report on.

**Kit Malthouse MP:** I also gave a vague answer about apprentices and apprenticeships, which I will also clarify in correspondence.

**The Chairman:** We will be very grateful for that. Thank you very much for your time. Now we will all go and congregate in a pub.

**Kit Malthouse MP:** Exactly—be social.

**The Chairman:** The session is closed.

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**HM Government – The Rt Hon Anne Milton MP, Minister of State for Apprenticeships and Skills, Department for Education, John Glen MP, Economic Secretary to the Treasury and City Minister and Lindsey Whyte, Director, Personal Tax, Welfare and Pensions, HM Treasury and Alok Sharma MP, Minister of State for Employment and Iain Walsh, Director of Labour Market Strategy and International Affairs, Department of Work and Pensions (QQ 211 –239)**

Tuesday 18 December 2018

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Members present: Lord True (The Chairman); Lord Bichard; Baroness Blackstone; Viscount Chandos; Baroness Crawley; Baroness Greengross; Lord Hollick; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Lord Price; Baroness Tyler of Enfield.

Evidence Session No. 22

Heard in Public

Questions 211 - 239

### Witnesses

I. Alok Sharma MP, Minister of State for Employment, Department for Work and Pensions; Iain Walsh, Director of Labour Market Strategy and International Affairs, Department for Work and Pensions; The Rt Hon Anne Milton MP, Minister of State for Apprenticeships and Skills, Department for Education.

II. John Glen MP, Economic Secretary to the Treasury and City Minister, HM Treasury; Lindsey Whyte, Director, Personal Tax, Welfare and Pensions, HM Treasury.

Q211 **The Chairman:** Good morning. I am very sorry to keep you waiting for a couple of minutes. I am extremely grateful to you for giving your time to come here.

**Anne Milton MP:** It is a pleasure.

**The Chairman:** That is nice. This not a House of Commons committee, so you may not feel the same afterwards. As you know—you might not—I am Nicholas True, Chair of the Committee. We will not introduce everybody, because you will know some of us. If not, we are identified like at a modern party.

Otherwise, as you know, we are going out live on the parliamentary TV stream. A verbatim record will be taken, which you will have the opportunity to correct for fact or accuracy. You can also make comments. There is a limit to what you are allowed to put forward, but since we have the privilege of talking to the Government, if you would like to add points

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of major clarification, we will certainly consider them.

Without more ado, for the record and because we are live, would you like to introduce yourselves? We will then go on to questioning. Thank you again for coming.

**Alok Sharma MP:** I am Minister of State for Employment.

**Anne Milton MP:** I am Minister of State for Apprenticeships and Skills.

**Iain Walsh:** I am an official in the DWP, covering labour market strategy and international affairs.

Q212 **The Chairman:** It is nice to see you again. I get to ask a sighting question, which gives you a chance to set before us what you feel.

As you know, we are looking at issues of intergenerational fairness. That is our brief, although we all accept that intra-generational issues exist, which we must be aware of. Some of the key issues that we have been looking at are skills, flexibility, preparing young people for an adequate working life and preparing older people for longer working lives. From a broad perspective, how do you think the labour market is contributing, if you think it is, to perceived intergenerational imbalances? If you think there are problems, what are you doing to address them?

**Alok Sharma MP:** Thank you, Lord Chairman. From our perspective, the key issue for any Government is to make sure that they maintain a strong economy, at the end of day. That will benefit everyone, irrespective of the generation they may be in.

For a number of years, we have seen a very strong set of figures coming into the labour market. As Employment Minister, it has been a particular joy for me to be able to talk about very strong figures every month. Earlier this month, we saw that we are at a joint record on employment rates—75.7%—but it is particularly pleasing that we are seeing all cohorts of the labour force moving forward.

Going through the generations, the unemployment level for young people has just about halved compared to 2010. We have seen near-record highs of employment—almost 72%—for the over-50s<sup>6</sup> and near-record highs of employment for women and ethnic minorities, who are performing very strongly in the labour market. It is the same for people with disabilities and health conditions: we have seen almost 1 million such people come into the labour market since 2013. We are seeing a pretty strong labour market.

We are certainly not complacent. You are absolutely right: it is very important to drill down and see what support we can provide to individual groups. When it comes to young people, my department is working with Anne's department on the youth employment support programme and traineeships. A lot of work is going on for older people on apprenticeships and the national retraining scheme, which I know Anne will be able to talk about. A lot is going on.

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<sup>6</sup> While the employment rate for those aged 50-64 is 72%. The employment rate for those aged 50 and over is 42%, since most people over 65 are retired

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Underlying all that is the same issue that always comes up every time we look at the labour stats: people are in work and are getting into work, but what about what they are earning? It is pleasing that for the past nine months we have seen wages outpace inflation. Clearly, we would like to see that trend continue. We are providing support across government to help people with the cost of living, but a key issue for me—I am sure we will touch on this later—is progression in the workforce. It is one thing to have a job, but are you stuck in a low-paid job, and what are we as the Government doing to support you in moving up the pay scale?

**The Chairman:** Thank you. We will certainly look into that, because even the Government acknowledge that progression is not the same for some younger groups as it was for previous generations. I am not being offensive; you are absolutely right to point out those facts. President Trump makes similar speeches in the United States about every part of the workforce succeeding.

Our inquiry also has a Contact Group, as we call it, where we talk to members of the public. We also visited Doncaster recently. As a preface to the questions that will come, you will know from your experience as Ministers and MPs that the perception out there is that young people do not have the same prospects as preceding generations. We have heard from members of the public across the age spectrum in the evidence we have taken that there seems to be a lack of security going forward. We are not knocking back your comments on the current position; they are fully accepted by the Committee.

Let us move on to the drilling down into detail that you invited and look at whether we have the evidence to do so. Baroness Crawley wants to pursue that.

Q213 **Baroness Crawley:** One of the things we have heard about in the evidence put to us is the difficulty in long-term planning for government departments; with the way the budget process goes, there is an immediacy about the planning that happens in departments. We feel it is important that departments have the tools and the data to be able to look across the generations—from the young, through to the middle-aged, to the older members of the population—and see, through modelling, the effect that your policy has on them. As far as generations are concerned, modelling is not where most departments are at the moment. However, the DWP has to do some of that because of its work on pensions.

In giving oral evidence to the Work and Pensions Committee inquiry on intergenerational fairness, Steve Webb, the former pensions Minister, highlighted the fact that the DWP has pension simulation models, which it uses extensively for modelling the new state pension. First, can you tell us a bit about that and how that can be spread across different policies in your department? Perhaps Ms Milton can then tell us about how she sees modelling for long-term planning in her department.

**Alok Sharma MP:** Steve Webb is right, having been the Pensions Minister. One of the models that he will have looked at in particular is PENSIM. I will describe it. Basically, it produces a representative sample of people of pensionable age and their incomes until 2060 and beyond.

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You are absolutely right that the aim of the modelling is to see what happens to people as they move through the years and to see, as a result of that, the impact on them when they arrive at the end of their working life. That helps us to set policy when it comes to pensions and auto-enrolment.

We use other models, too. The policy simulation model, again, looks at tax and income-related benefits systems and the impact of different policy decisions.

From our perspective as the Department for Work and Pensions, what feeds into all this and into people having a positive outcome is that we help them to get into work. Going back to the point I raised earlier, not only do we get people into work but we help them to progress up the ladder with the appropriate interventions. The modelling that is being done in the department at the moment to look at the impact on pensions is one thing. In a way, what is equally important—in some ways, one could argue that it is even more important—is the work that we are doing to make sure that we support people into better-paid work.

We have started randomised control trials, and earlier this year, in September, we published some of the initial findings, which, depending on the level of intervention when dealing with people who were unemployed, showed the impact on their earnings. The initial work that we have done shows, maybe as one would expect, that the more support and intervention you provide, such as giving people advice and getting them into the jobcentre to talk to work coaches, the more they earn. I will give you some numbers. We found that the group with the highest level of intervention was earning, on average, £5.25 more a week than those with the lowest level of intervention.

This work has just started. In Budget 2017, we got about £8 million from the Treasury to look at other models that would work. The reality is that there is not a great deal of evidence across the world about what interventions work. I was at the Employment Ministers' meeting at the G7 earlier this year. All my G7 counterparts are facing the same sort of issues, and I certainly did not get the impression that we were behind the curve on this. On the contrary, I think people found the work that we were doing very interesting.

From my perspective, the modelling work that we are doing long term is absolutely right, but it is the systems that we are providing short term that will make a lot of more difference to where you end up by the time you get to retirement.

**Baroness Crawley:** Can you see that intensive intervention being upscaled in the economic climate we are in and with the possibility of Brexit, and so on? Can you see that going from your randomised trials to being policy?

**Alok Sharma MP:** I might ask Iain to intervene on this. This is not just about the potential impact or otherwise of Brexit over the next few years but about what we think will work longer term in helping people to progress up the work ladder, and the pay ladder in particular.



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**Iain Walsh:** There are two quick points to make. On the point about intensive support for those in work, the honest answer is that that will all be part of our Treasury discussions on the spending review, in the sense that we have existing evidence that the money we spend on people out of work produces positive returns in terms of employment outcomes and the benefit money saved, so there is a good case for investing there. In a world where, as you said, there is less evidence, we are now trying to establish the evidence base to determine the things that are most effective and for which we can therefore make a case for investment.

The second quick point to make is that when it comes to some interventions, including for those in work, we try to track them for a reasonably extended period. We cannot wait 40 years before we determine what is a good outcome, but if you track them for 12, 18, 24 months you might find that some interventions become more effective over time and others less so. There is an optimum duration, which we are continuing to do with that trial.

**Anne Milton MP:** My job is to improve the skills of the population of all ages, so it is important for me to put this into context. I was at the WorldSkills event in November last year, and at a conference of 50-odd Ministers, and everybody agreed that we tend to believe that we are the only country with a skills shortage. However, there are skills shortages everywhere in the world. My job is to improve on that here.

I deal with those people, post-16 and in technical and further education, and the really important point is to look back in order to make models for the future, because there is no doubt that successive Governments have wanted to improve technical and vocational education. I am quite old, and the words "we want parity of esteem" have echoed through my lifetime but never become a reality, despite those Governments' best intentions; they wanted to make it better and it never quite worked. We would be unwise not to look back and see why it did not work and what went wrong. For me, there were two significant reports: one was Alison Wolf's, the other was Lord Sainsbury's. A lot of our changes have been based on Sainsbury's recommendations. So we have those.

I hope that young people at 16, after 11 years of education, have all the basic skills they need and are ready to launch into a career, be it through university or not. The reality is that not all do have, certainly not today, so I am picking these people up because many of them are skilled, able individuals. Education does not work for a significant minority of young people.

Added to that is a group of people for whom education did not work and who have no qualifications or maybe lower level qualifications, and for whom Alok and I share an objective. They might be in low-skilled, low-waged jobs. They might be in jobs that are doing quite well.

The future modelling is about what is coming down the tracks at us, and what is coming down the tracks like a great juggernaut is that 35% of jobs will not exist in 10 years' time. There is huge change in the workplace. I remember when I first went into this job saying to somebody at the first discussion, "When computers started being used

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routinely in offices, what happened to typing pools? Where did all those people go?” There used to be lots of people involved in typing. The truth is that whatever was going on at the time they managed to go into other spheres of work—maybe into marketing, or whatever.

What matters to me is that, at 16, young people have skills, but that if they do not we manage to give them those skills, we provide opportunities for them to get them. Similarly, I am a firm believer—I declare an interest in this—in older people having a great deal to contribute. One should assume that people might well want to work certainly up to their 70s, and many people beyond. There is a cohort of 50-plus who have productive years ahead of them.

There are two imperatives for me. The first is the economy; it is important that we are productive, and we are not as productive as we should be. But there is a very personal side to this, which is that people deserve to have an opportunity to use the skills they have and to have a satisfying and rewarding life in a job, in a career.

This Committee’s inquiry comes at a perfect time, because we are currently doing a great deal of data analysis, and we have a huge number of pilots on the go, focused in particular on older people. Alok mentioned the National Retraining Scheme. We have the post-18 review, which is reporting sometime next year. We are looking at Level 4 and 5 qualifications; we do very few of these in this country. We are also looking at resilience and the regulatory regimes that are in place in the further education sector to make sure that they are fit for purpose and enable us to deliver what we want. This inquiry is a perfect opportunity for the Committee to feed into the work that we are doing.

**The Chairman:** We are trying our best. We certainly agree with some of your comments, including, sadly, the observation on the systemic failure of this country with regard to parity of esteem.

We will come on to looking at aspects of skills and education, taking adult first and then the specific case of young people. But we will explore the data issue a bit more first with a question from Baroness Blackstone, because it has been put to us that it is very important.

Q214 **Baroness Blackstone:** Coming back to information and data, the Select Committee on Work and Pensions said that the information and data on intergenerational fairness was scant. We have had evidence from people such as Frank Field, who suggests that unless we have better data we will never bottom out on this problem.

What are your views on that? What have you done since the House of Commons committee reported on this question? For example, have you thought of publishing more information on generational breakdowns in your households-below-average-income dataset so that we can understand better how different cohorts can be compared? At the moment, it is very hard to do that.

**Alok Sharma MP:** That is a very good point. Of course, we publish that dataset and make it available for researchers. The issue is that it goes back only 22 years. When we talk about generations, we can cut it in a

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certain way by asking what 20 to 30 year-olds were earning 20 years ago and what they are earning in 10-year cycles. You can certainly extract that data, but if you are talking about generations in a wider sense and comparing baby boomers with Generation X, for instance, that information is not yet available to us.

The IFS has extrapolated data going back 50 years—I am sure you will have looked into this—but I do not think it has been able to do that on a generational basis. I am happy to stand corrected if somebody from the IFS writes to say something about that. It has extrapolated data only on a very high-level basis, looking at issues of wages and poverty. You raise a perfectly reasonable point about the comparison between generational cohorts. That would be interesting to look at, but we cannot do so, given the data we have right now.

In the households-below-average-income dataset, we are looking at a large number of people—some 20,000 households annually, I think. Before that, we ran a dataset that looked at a significantly lower number of households, which I presume is what the IFS projected back on. I agree that this is very interesting to look at, but it is a question of making sure that we have enough data to do so, certainly on an intergenerational basis.

**Baroness Blackstone:** You have to plan for that. Are you planning on getting that data? Otherwise, we will be in exactly the same position in 10 years' time.

**Alok Sharma MP:** The data is being collected as part of the HBAI dataset. Unless Iain says something different, whoever our successors are, sitting here decades from now and asking that question, it should be possible to publish some of that information.

**Iain Walsh:** This particular dataset has been going on since 1994. As long as we continue with it, we will build up more years. The Minister is saying that at the moment we could provide some sort of breakdown of what has happened over the past 20 to 25 years. That might be of some interest, but it is obviously not over a long generational span.

The view of the analysts who oversee it is that the data that existed before 1994 under a different survey—the family expenditure survey—had a lower sample size, as the Minister said; I think it was about 3,000 households. Although at an aggregate level you could say how high incomes were, you could not break it down into different age bands, for example, because it would be too risky.

There are two parts to this. We could certainly look at what value there may be in publishing stuff that covers breakdowns for the first 22 years. In the longer term, we are obviously building up the stock that will allow more generational comparisons to be made.

**Anne Milton MP:** I want to add something. "Joined-up government" is another phrase that has been bandied around all my life. Alok and I are now working quite closely because our portfolios overlap. The data that we hold and the work being done by the OECD and other organisations on the outcomes for people who went to university—looking at what

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degree they did, for example—is now a lot more focused than it used to be.

It is particularly relevant in my portfolio. I think it is true to say that people who have a degree and go into a non-graduate job do less well than people who do not go to university and then follow a similar trajectory. We should be combining these interesting datasets. Close proximity of working is really important to make sure that we get this right.

**The Chairman:** I worked in the DHSS as a special adviser in the 1980s. We had statistics in those days, which we used to pour over, although not necessarily the specific type that you are referring to. The Committee feels that if the Government do not seize this, there is a risk of this issue getting privatised and it being left to certain think tanks to drive questions and debates about intergenerational issues. Is there not a risk of that?

**Alok Sharma MP:** If we as the Government make datasets available, as we do, you will always have think tanks doing analysis and coming to a set of conclusions based on that. I do not think that will change. You are absolutely right that when you were a special adviser the department would have used all sorts of information at the time.

For me, the key thing is having a consistent set of figures that you can compare on a like-for-like basis. That is why I hope that we will stick with the HBAI dataset and continue it. We will then be able to see trends rather than relying on third parties to project back based on different datasets.

**The Chairman:** Thank you for that. Let us move on to the core issue of skills. We will then go on to the workplace. We will start with skills, looking at the adult end of that issue. I should say that Lord Bichard told us that he was going to arrive late because he had another engagement first. There is no offence there, so please do not feel bad that he has just walked in.

Q215 **Lord Price:** In the evidence so far, we have heard that different cohorts are facing different issues. One emerging issue for those in work, mid-career, is that they can expect to live longer and work longer. We have heard from business groups that such people will need to be retrained. At the same time, we have heard evidence that technology will rapidly change the workplace. The Minister has already told us that 35% of today's jobs will not be around in 10 years' time. We have also heard that there needs to be in a drive for increased productivity in the UK, which undoubtedly means embracing technology and reshaping the workforce.

We have also heard that adult education has fallen by half over the past 10 years. We heard from the Department for Education that the Government have put a scheme in place for national retraining. Based on everything that we have heard and the likely impact of all that, it would be helpful to hear from the DWP whether it has some sort of understanding of the scale of that impact. The BRC is saying that 900,000 people in retail could lose their jobs over the next five or six years, for instance.

What scale of the retraining needed are we looking at? In your mind, is it a business responsibility or a government responsibility to retrain those

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people? Given the scale of the task and where responsibility will fall, do you feel that you have enough resource for your National Retraining Programme to meet the need?

**Alok Sharma MP:** On the point about the scale of the issue, Anne referred to some of the stats that are out there on jobs and the impact on jobs. If we look back through the ages, the positive thing is that after every technical revolution we have ended up with net more jobs. The question is whether they are different jobs from the ones that were done before. Again, if we compare the jobs people have now with the ones people had 10, 15 years ago, it is clear that the repetitive jobs are the ones that are most at risk and that the jobs that are much more cognitive and much more human-facing are the ones you will see a growth in.

Our perspective on this is from talking to employers and working with them on making sure that people over 50 have an opportunity in the workforce. Lord Price, you talked about the National Retraining Scheme, and I am sure that Anne will have a comment on that and on other issues. But one of the things that has been very important for us is that, if you look at the cohort of people who are in work, once you get over 50, quite quickly as you get older your propensity to be in work starts to fall off.

There are a number of reasons for this. You could be in the very lucky position of not needing to work and you have the financial means to be able to retire. The other is that you may end up having caring responsibilities and you want to work flexibly but that is not available to you. Last year, we launched something called the Fuller Working Lives strategy in DWP. This is government working together with employers to see how we can assist older workers. As you will also know, there has been a lot of focus on a mid-life MoT, which John Cridland talked about in his review, and I can talk a bit about a lot of the work that has been going on on that.

On the question of support for older workers, there is obviously the National Retraining Scheme, but there is also the National Careers Service. One of the sets of people it is focused on in particular is those over 50 and unemployed or at risk of being displaced from the workforce. The National Careers Service is in just about every jobcentre. It provides support in the form of careers guidance, which is complementary to the work that is carried out by our DWP colleagues.

Apprenticeships are much more in Anne's area, but again we are seeing more encouragement for older people to go into apprenticeships. Historically, we have always had the view that apprentices are for young people. They do not need to be.

There are bits and pieces that we are doing, and I am very happy to talk about the mid-life MoT, in which we ask people in effect to take stock of where they are when it comes to their skills, their health and, in particular, their plans for the future and their finances. Anne might want to add something about national retraining and other schemes.

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**Anne Milton MP:** The apprenticeship levy made businesses very grumpy. When I came into this job they were all very grumpy about it. There was a feeling that if they put enough pressure on government, government would back down, but we did not because it is a way of funding apprenticeships. I will not bore you with all the detail, although I can if you want all the detail.

An apprenticeship is defined as a year-long and 20% off-the-job training, with an endpoint assessment. Previously, apprenticeships were a much-abused system and a bit haphazard. They did not give the apprentice a currency that they could trade in the marketplace, if you like. What has been very interesting has been the unintended but very welcome consequences of the levy, because for some of the big levy-payers it is a considerable sum of money.

So apart from companies in the sectors that have always had a good and established tradition of apprenticeships—engineering is the obvious one—companies are not only taking in younger people at the bottom, at Levels 2 and 3 and maybe at 16, but are looking at their workforce and saying, “If you’re a retail supermarket, we’ve got 20 people who work on the tills. We’ve got this pot of money. What opportunity is there to upskill those people?” They are all ages and with all-previous-skills backgrounds, and all of them have a different life story.

I have seen some remarkable work in offering apprenticeship training opportunities, up to degree level, to people who are often part-time workers, often with caring responsibilities. The drive for the employers is, “I’ve got this training budget. I want to spend it”, with the added benefit that “I, as the employer, will get something out of it”. We have seen a marked change in behaviour.

Interestingly, I had a phone-in the other day on LBC about apprenticeships. The presenter was absolutely amazed, because everybody who phoned in was older; they were people who had been offered an apprenticeship in the workplace. In terms of upskilling, that is a really positive thing.

The apprenticeship standards which the companies follow are designed by employers, so they are fit for purpose. This is not the Government deciding the content of an apprenticeship but the employers; it goes through a process. We can also lay on top of that the national retraining scheme. We are currently doing a huge amount of work and working very closely with the CBI and the TUC; I think we put £28 million into the TUC’s unionlearn. They have a very good track record of in-work training.

What is really important to note is that this group of people, possibly low-wage, possibly with jobs that in danger of automation, are very diverse. All of them face different barriers or a multitude of barriers to training. The concept of lifelong learning strikes fear in my heart and always has done. It does for a lot of people. You leave school, you do whatever you do, and you do not want to go on learning, maybe because you found it negative, you feel you have done your 11 years, 13 years, or whatever it was, and you do not want to go near it again.

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These people may have had a poor experience of education. They may have found it very negative, very demeaning, they lost a lot of confidence through it. They may have got through all right but really do not want to go back and do any more. There are people who need motivation: “Why should I retrain? I’ve got a job. It might not be brilliant, it might not pay a lot, but what is the motivation?” The only thing that will motivate quite a lot of people is the pretty certain prospect of a job at the end of it. People have problems with money, and if the training requires time off they cannot afford to take the time off.

There is too much focus on the money, however, because it is not about the money alone. If you are a household with two people earning and you have two or three children, simply the practicalities of doing additional learning, apart from the money, make it very difficult to do. You are juggling two jobs, you are juggling kids—taking them to school and all rest of it. We are doing a whole number of pilots to address all those things.

What is clear is that the National Retraining Scheme will have to come up with something that is quite bespoke. There is no doubt that online learning offers brilliant opportunities, but we have to be very wary. It is a bit like people who go to the gym in January; they join up, they are full of enthusiasm, and then they do not go in February. You are very enthusiastic, you have read all the promotional material, you start your online course but you never finish it.

**Lord Price:** You have done a brilliant job at setting out that you understand the issue and that there are challenges and problems, but may I press you on two things? First, do we understand the scale of the issue we are facing? 35% of jobs are going. How many millions of people do we think will have to be retrained over the next five years? Do we have a handle on the quantum?

**Anne Milton MP:** I do not. I should think that BEIS does. What I know is that it is not entirely predictable.

**Lord Price:** I do not think that BEIS does. It is certainly not what we have heard from them. I do not think that anybody has sat down and said that.

**Anne Milton MP:** My starting point would be the 35% of the population who are working.

**Lord Price:** 34 million people are working, so about 11 million or 12 million people need to be retrained.

**Anne Milton MP:** That is right. There are also other obstacles, such as access to the internet.

**Lord Price:** So that is the first thing. I am sorry to interrupt.

**Anne Milton MP:** Please do. I could go on for ages.

**Lord Price:** The second issue is the cost and whether you think that it should be paid for by the taxpayer, in one form or another, or whether you feel that businesses that are restructuring and making people redundant have a responsibility to pay for the retraining of the people being made redundant. To what extent should this be taxpayer-paid or state-paid and

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to what extent do you think that businesses should pay for this retraining?

**Anne Milton MP:** How much of taxpayers' money goes into this is essentially a matter for the Treasury. We put in £64 million, and I think the Chancellor has announced another £100 million. That is to get the scheme off the ground. If I had to guess, although I do not want to second-guess the Treasury, I would say that this is about co-investment.

The interesting thing about the apprenticeship levy is that businesses now see it as the pipeline for their skilled workforce, so there is a question mark about redundancy. If I am changing my business model due to AI or automation of any description, I still need people to work in it. I need people who have been upskilled to work in the new environment. If I am working in an area where there is a skills shortage, I am probably better off upskilling the existing workforce than going out and looking for a new workforce, which is in short supply because we have record levels of employment. Although Brexit comes into this, we have a favourable collision of two things: Brexit concerns over access to workers from other countries and an opportunity to upskill through the apprenticeship levy.

For me, and for all government departments—BEIS in particular—it is important to make sure that we are not just solving the current skills shortages but looking ahead. It has to be a prospective look, too. From looking at what is happening on the high street, we all know that business sectors are sometimes slow to respond to the juggernaut coming down the tracks. We must make sure that we put the impetus on them to look ahead at what is coming.

**Lord Price:** Who do you think might be able to give the Committee some sort of handle on the quantum and the cost, aside from the policy of who pays for it?

**Anne Milton MP:** Until we know exactly what is needed—we are doing that work at the moment—we cannot make a forecast about the cost.

**The Chairman:** £100 million across 11 million workers is a bit smaller than the Christmas bonus, is it not?

**Anne Milton MP:** That is for the first stages. I am not sitting in front of you saying, "We know that 60% of that cohort can learn online without any additional support. We know that 10% need face-to-face support. We know that 20% need to do it in centres". We do not know that yet. Until we know what this bespoke product is, it is impossible to forecast the cost. That may well be something that we would consider in a spending review.

**The Chairman:** If there is any way in which you could volunteer some thoughts on that before we produce our report, that would be helpful. As Baroness Blackstone said, we have heard in a lot of our evidence about the feeling that there is a lack of data and lack of a sense of what is coming down the track.

Two colleagues want to come in on adult skills. I am a bit concerned about the time; we have about 35 minutes left for this part of the session. Let us



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have some brief questions from Baroness Greengross and Lord Bichard. Then we must move on to young people and the workplace.

**Q216 Baroness Greengross:** I have a very brief question for the Minister and the skills Minister. Do you differentiate between the over-50s and the over-60s, for example, and publish those differences? I am very interested in looking at some of the work that responsible business does. We get results on 50-plus people. Very often, there is a huge difference between them and 60-plus people, who are doing better in employment, particularly self-employment.

**Alok Sharma MP:** We provide those statistics. I do not know whether we provided them in any written evidence to the Committee. If we did not, I am sure we can provide you with information on what happens in employment for different age groups banded above the age of 50. The overall conclusion we reached was that, as you get older, your propensity to be in work starts to trail off, and there comes a point at which it does so quite rapidly. We use 50 as a cut-off point, because that is the point at which we start to see this happening.

I should have mentioned that we also have an older workers champion. We have a committee made up of business folk and representatives who sit together; I have regular meetings with them too. We talk about issues such as how we can encourage businesses to retain, retrain and ultimately recruit people over 50.

Going back to the point raised by Lord Price about whether this is the job of government or of business, this is ultimately a collaborative process, as Anne said. When I talk to employers, they recognise absolutely that there is what they would describe as a war for talent. We have record levels of vacancies in the country right now. For many businesses, making sure that they retain older people in the workforce is very important. At the end of the day, a lot of those people have a huge amount of experience, are loyal and can quite often act as mentors to younger members of the workforce. I would be very happy to share the statistics with you.

**Baroness Greengross:** There is a differentiation, which is quite interesting. Very often, it reverses what we assume will happen. That is what I am interested in.

**The Chairman:** We must make a bit of progress. Let us have a brief question and a brief response.

**Q217 Lord Bichard:** I will make my question as brief as I can. I am sorry I was late; I was on the other side of the table at the Public Accounts Commission for a happy couple of hours.

It is usually a good idea when you are running a business to step back from the anecdotes and conversations and look at the facts and the data. The data here is really worrying, is it not? We have fewer people involved in continuing education. Part-time higher education is going through the floor. We are not hitting apprenticeship targets. Any concept of lifelong learning, even if the Minister does not like the term, is regressing at a time when, as Lord Price said, we need people to have the skills to get the jobs. It does

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not matter whether they are young or old.

We are hearing from a lot of young people that they feel very insecure because they have not come out of school with skills; employers are telling us the same. We are also finding that a lot of old people are insecure because they do not have the skills for a different generation of jobs.

Is there no concern in government about this data? It seems to me that this Committee will keep coming back to this crisis of failure to equip people with the skills that they need to work and to increase our productivity, which has also gone through the floor.

**Anne Milton MP:** Of course it is of concern. It is what lies behind a lot of the reforms that have been made. The apprenticeships system is taking off. As I say, we have had a very grumpy business sector and public sector for a year. Yesterday, I held a round table with a mixture of public sector employers and businesses, both small and large, and they have now accepted that this is the way to go. In fact, the lead-in times of this—I was not in post when all this came in—are possibly much longer than anybody anticipated.

It is not until apprenticeships are embedded in your workforce planning that they start to take off. In one big NHS trust, 20% of its recruitment last year was for apprenticeships. It reckons that it will spend the whole of its levy by 2020. It has taken it a long time to get there, because it has required a change in its HR function and universities and further education colleges to adapt to the way employers want to work.

Yes, there is huge concern. We have devolved 50% of the £1.5 billion adult education budget to combined authorities and delegated it to the GLA. It will be important for us to see what they do with that at the local level when they have some control. One of the problems has been that we have a lot of people in work, so education is not necessarily a priority. I do not know whether Lord Bichard heard me when I spoke about barriers. There is huge concern here.

We are bringing in T-levels, which will hopefully change things for the upcoming cohort. The first three rollouts will be in 2020. My job is to make sure that we do everything possible to enable young people and the older workforce to get as many skills as possible. That is absolutely critical. The oldest apprentice I met was 69.

**The Chairman:** Is that all right? Are you satisfied, Lord Bichard? We really must move on, because we have half an hour left and we want to cover young people.

Q218 **Baroness Blackstone:** I am not. This question goes to the young as well as the old. It is all very well saying what you said, but it is utterly unconvincing when we see that further education, the main deliverer of skills education and training, has been absolutely trashed by your Government. There have been huge cuts: something like 25% of the staff of FE colleges have either had to leave because the colleges cannot afford to pay them or have wanted to leave because they have not had a pay increase, whereas secondary school teachers have had quite reasonable ones. I find it very difficult to accept everything that you said in that

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**Anne Milton MP:** If I may, I will disagree with you a little. As I have said in the House, I will be the first off the blocks to say that FE funding has fallen behind. I know how challenging it is. There was a very big focus on universities way before this Government or the previous one, although a lot of that was during the Government before. The ONS changes to how student finance is reported will put FE and university on a similar footing. I have no doubt about that.

The apprenticeship levy has brought some money in, but I am in no way saying that it is enough. I am saying that I have the building blocks in place. Absolutely, FE needs more focus. The trouble is that there is an intellectual snobbery about FE; there always has been. There is no parity of esteem, because a lot of the people who run things and report on things went to university. It is hard to find a niche for this sector, although it is absolutely critical. I ask you please to accept what I say.

Money is another issue. We need it to make sure that the sector is sufficiently funded, but we also have to have the building blocks in place. I do not think that the finger can be pointed at a single Government.

**The Chairman:** That sounds as though you want help from this Select Committee.

**Anne Milton MP:** Yes please.

Q219 **Baroness Tyler of Enfield:** I will focus specifically on younger people and the apprenticeships system, because the Committee is very concerned that younger people are not getting a fair deal, whatever route they choose. It would be fair to say that the Committee has heard a lot of evidence from people with real concerns about the apprenticeships system and its funding, regulation, quality standards and the problem of matching employers' needs with those of FE colleges. There is a feeling that nobody has got a grip here.

Specifically, the apprenticeships system includes both post-16 and post-18 training and regulates them in the same way. You said that you are looking at the regulatory regimes at the moment. Do you feel that the current system of regulation is working? Have you considered moving the oversight of higher-level apprenticeships to the Office for Students and regulating the lower-level post-16 apprenticeships under a new regulator alongside further education? That system would focus on the type of education instead of differentiating solely in terms of the level.

**Anne Milton MP:** It depends on which bit of regulation you are talking about. Forgive me, but I feel that I have got a grip on this.

**Baroness Tyler of Enfield:** I said that because some of the evidence we received suggested that no one was matching up FE colleges and employers at the local level.

**Anne Milton MP:** This was a huge change. I did not know anything about it until I came into the post, but protecting the term "apprenticeship" with 20% off-the-job training was a massive job. That was a burden for employers, who found that quite difficult to get to grips

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with according to the Institute for Apprenticeships. Hindsight is a wonderful thing, but if I look back I think that insufficient action was taken at the time. I do not think that anybody realised just how it would pan out.

I am not saying that the system is perfect. My bottom line is that I will make any adjustments to make this work, as long as the money in the apprenticeship levy is spent on the purposes for which it was intended. I spend my life talking to businesses. At a round table yesterday, I asked them, "What could we do to make this work better for you?" It is the same for an SME with two employees and a company that has paid £200 million into an apprenticeship levy pot. At the moment, we are looking at the regulation that you might be talking about, which relates to quality assurance on end-point assessment.

If I may, I will ask you to remember that it is proper that this evolves. One of the biggest mistakes that Governments make is deciding on a course and not being moved off those tracks. They are stuck, whatever comes at them. The important thing is that we will adapt and move this on. There are issues with training provision; we do not have enough training providers out there and we have gaps in some areas. Overlay on to that the skills advisory panels, which will report in different areas.

I have to say that in areas where it is doing well—I listened to Hertfordshire County Council yesterday—the local authorities are really good enablers and facilitators. Obviously, combined authorities have a natural affiliation there. They get businesses together so that we can make sure that the skills provision is there for the training. We are looking at businesses pooling their levies. As you rightly say, we need to make sure that the quality assurance on end-point assessment is fit for purpose. Do we give that to Ofqual? At the moment, we have four organisations doing it. It feels messy. Professional bodies are one such group; they might not be so happy to have that quality assurance taken away from them.

We need to make sure that it makes sense. My bottom line is always that I have to be able to explain it in simple terms to somebody.

**Baroness Tyler of Enfield:** I want to press you very quickly. Is the model that I suggested, which differentiates between post-16s and post-18s, an option on the table?

**Anne Milton MP:** You are focusing on age. You could also focus on Levels, for example having Levels 2, 3 and 4 under one regulator and Levels 5 to 7 under another. One has to be careful. I am very nervous about age ranges. For some reason, we always look at 19 to 24 year-olds in education. We should be looking at 19 to 30 year-olds, to be honest. There is a danger in using age groups, but using Levels is not unreasonable.

**The Chairman:** I will bring in Baroness Jenkin here, because more basic questions on apprenticeships have been coming up in our inquiry.

Q220 **Baroness Jenkin of Kennington:** An increasing head of steam is building up—we have definitely heard evidence on this—over providing people with

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sufficient education on housing and other practical financial matters and life skills before they leave school. Can you give us your assessment of that and how the quality of any teaching might be assessed?

**Anne Milton MP:** Financial education—

**The Chairman:** People leave school not knowing how to budget, or what it is to buy a home or to rent.

**Baroness Jenkin of Kennington:** There is also the housing option.

**The Chairman:** How can this be?

**Anne Milton MP:** Indeed, Lord Chairman, how can it be? Financial literacy is compulsory in schools, and Ofsted will treat it like anything else. Schools can include teaching financial education in PSHE if they want to. There are a number of online tools; Young Money and Martin Lewis, for example, launched a free financial education textbook for secondary schools. Is it enough? The truth of the matter is that in some places it is ample, but in others it is not.

What worries me more, or equally, is that if 49% of adults have the numeracy skills of an 11 year-old or less, and 23% have the same level of literacy skills, there are certainly adults coming out of school without basic English and maths skills. One of the last statistics I saw, which will be extraordinary to many people here, was that one in five adults cannot turn on a mobile phone; they have no digital skills at all. Whatever happens in school, it is not enough. That comes back to lifelong learning and the principle of “let us keep it as something else”.

Lots of people leave school without sufficient information. I work closely with Nick Gibb. I am very keen that young people leaving school at 16 can do those things; they might then go on to college. What is clear is that although many of them have good qualifications—71% of them at Level 2—29% of young people leave school without adequate English and maths and everything else that goes along with that. We have to improve that; we know that. I have a cohort of adults who are equally disadvantaged, if not more so. It worries me and it will continue to worry me.

Q221 **Baroness Crawley:** To follow that up, the only statutory obligation in PSHE is on sex and relationships education. Everything else is non-statutory, and Ofsted does not have to report on it. If we want to increase young people’s understanding of finance, consumer issues, debt, civics and so on, surely one way of doing so is ensuring that it is statutory in the curriculum.

**Anne Milton MP:** I understand that financial literacy is compulsory.

**Baroness Crawley:** But Ofsted does not report on it, so it could be taught really badly.

**Anne Milton MP:** Ofsted reports on teaching. It is treated as equal to, the same as, any other subject in school. Your point goes wider: whether Ofsted captures all the bad teaching in schools on any subject. It is clear that, as I said, 29% of young people leave school without a good pass in English and maths. Financial literacy only works if you can do a certain

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basic level of maths. It is still not good enough. Any Minister would be mad to say that it is good enough, because it is clearly not. What matters to me is that we continue to follow that cohort and, coming back to lifelong learning, make sure that there is ample opportunity for those young people to get back on the wagon, if you like, and get those skills later in life, be it at 23, 24, 29 or 45—I would be proud of them at any time.

Anecdotally, apprenticeships are a brilliant way to do that. Recently, I met a boy who had been chucked out of college twice, and it is quite hard to be chucked out of an FE college. He is now doing a degree apprenticeship, starting at Level 2. The other day, I met a woman who has been out of work for 10 years. I am not making this better, but I am saying that she is now doing a Level 2 apprenticeship, and she says that she would like to work through all the levels and get a degree.

It heartens me that we have a way of catching those people. We have to do that. Ideally, the number of people leaving school without those skills would be tiny.

**The Chairman:** We must move on to the workplace. I feel that we should not expect any major policy changes in the present structure from your department when it comes to apprenticeships and so on. Is that the right conclusion to draw?

**Anne Milton MP:** It depends what you mean by policy. The apprenticeship levy is staying, and we are looking at how we will use it in future. We will make lots of policy changes as and when we feel they are appropriate and as long as the apprenticeship levy is still spent on the purposes for which it was intended.

**The Chairman:** But no big structural changes?

**Anne Milton MP:** No.

**The Chairman:** Let us go on to the workplace, because the young people we have just heard about go out into workplace. What do they find there, Baroness Crawley?

Q222 **Baroness Crawley:** We have heard a lot of evidence that great importance is attached to flexible working in particular, if you are looking at longer working lives. We heard evidence from Timewise that the ability to have informal breaks in work is really important, because your need for flexibility peaks and troughs during your employment lifetime. We heard from the CBI that transparency in reporting is a measure of driving change. To be fair, we also heard from the CBI that reporting on so many different issues at the same time can be bewildering for employers, especially SMEs. Do you think the Government should go down the route of reporting on who is asking for flexibility and who is denying it—all the data on that call for greater flexibility—as we do now with gender?

**Alok Sharma MP:** The starting point for this is that, under current legislation, if you have been in work for 26 weeks you have the right to request flexible working. That is available in the vast majority of workplaces.

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**Baroness Crawley:** Sorry, Minister, but how do we know that, if there is no demand for reporting?

**Alok Sharma MP:** I can share with you where we get the answers to that. A survey will have been done. I am very happy to write to the Committee on that particular point.

We have also said in recent months that we will look to see, or at least consider, whether we should create a duty for employers to advertise clearly a job as flexible from day one if it can be done flexibly. We have a flexible working task force. It is very much BEIS-led, but, of course, the DWP and some of the organisations you mentioned are part of it. From my perspective, the good news is that the task force is effectively time-limited. It started in March this year and will go on until September 2019.

One thing that it will look at is the statutory right to request flexible work and whether that has been effective. Anecdotally, from conversations I have had with employers, I can tell you that they recognise that flexible working is a really important “must offer”, rather than a nice thing to offer. They tell me that they are facing demographic changes, coming from two sides.

We talked about older workers wanting to work more flexibly because they may have want to do something else; quite a lot of the time, they may have caring requirements. Younger people might not be looking to work in the same way as those of us now in our 50s and 60s did at their age, where you go into a company and stay for a long time. People want that flexibility. Certainly, from the discussions I have had with employers—it is fair to say that many of them are large employers—I know that they are offering flexible working.

Employers are also finding that the advantage is not only for the employees. In a lot of jobs, particularly as the role becomes more managerial, the time for thinking is very limited. I do not know how Anne feels, but I certainly feel that in my job there is a limited amount of time for thinking because I am doing a lot of other things at the same time. Aviva, for instance, is very forward-thinking in this space, and it offers flexible working.

Coming back to the point about whether we ought to force businesses to publish information, I would look at this another way. We are already asking businesses to publish a lot of stuff, but if you flip that round the other way, the question for employers—who increasingly recognise that their inclusivity has an impact on their bottom line in a positive way—is whether organisations such as the CBI ought to encourage employers to do this. If, as an employer, I can show that I am doing something positive for my workforce and that attracts more people to me, that must be a good thing.

**Baroness Crawley:** As you or Anne said, there is a war for talent. This is the time to be pressing, surely.

**Alok Sharma MP:** Absolutely. From a Civil Service point of view—Iain may be able to explain this better from his own experience—and a DWP perspective, we offer flexible working. It is a very good way of retaining

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people and making sure that their worktime fits with their lifestyle. Do you want to say anything from a DWP perspective on the Civil Service, Iain?

**Iain Walsh:** I am sure that what happens in Work and Pensions is similar to what happens elsewhere in the Civil Service. When we talk about flexible working, it is not only about whether you work three days out of five or that kind of thing.

There are variations on that: some people work compressed hours, so they work full-time but might do that on the basis of a nine-day fortnight. Some people with long commutes or care responsibilities might work from home for one or two days a week. There are quite a lot of job shares, too; as the Minister alluded to, a lot of that is at reasonably senior grades. There are other variants, such as people working throughout the year but only in term time, so not working during the summer holidays. A lot of things happen in the Civil Service. It is a large employer, so it is somewhat easier for it to do this.

You talked about the war for talent. Clearly, if you want to attract people to you—and see them stay over the course of their life as their circumstances change, in particular—you want to accommodate their personal circumstances as far as possible while delivering for the business overall.

**Alok Sharma MP:** You will already appreciate this, but for an employer, having been in that position in the past, hiring a new person and training them up involves a lot of cost. It is much better to give someone who you know is very good the opportunity to work flexibly, because you will retain that talent without those extra costs.

**Anne Milton MP:** I think it is time for me to talk about flexible hiring. For a brief period of time, I was Minister for Women, for whom this is particularly relevant, because nine out of 10 of the people who take time off for caring responsibilities are women. Certainly, once we start talking about flexible hiring, we have to have a conversation about returning to work so that it becomes the norm rather than the exception.

**The Chairman:** A year ago, the Prime Minister said that she wanted employers to be encouraged to advertise all jobs as flexible from day one, unless there are solid business reason for not doing so. The take-out for the Committee is that you respect the business reasons for not doing so, and the way we legislate in this area. Is that the understanding?

**Alok Sharma MP:** I think we understand that there is a task force looking at this particular issue. This is BEIS-led, but from my perspective—

**The Chairman:** Are you agitating for legislation on the question?

**Alok Sharma MP:** Transparency is a great thing; you will get there eventually, quite a lot of the time. I am saying that I would rather turn this on its head and tell businesses that it is in their interests to make people aware of the fact that they are doing this in a way that works for their employees than try to impose something on an organisation.



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Q223 **The Chairman:** I understand. That is the second part of what the Prime Minister said. That is fine. We were going to ask you about the Taylor review, but you have just reported on that.

Briefly, do you have any idea about the timetable for conducting this further research, which could lead to legislation?

**Alok Sharma MP:** The Secretary of State set out our response to this. We published the *Good Work Plan*, although I have to be frank with you that I have not read all of it yet.

Yesterday, we also laid statutory instruments looking at a number of areas. As I understand it, again, this was BEIS-led; it laid three statutory instruments relating to five measures. The first gives agency workers a longer reference period for calculating holiday pay—52 weeks—and requires agency workers to have a statement of employment on day one to know what their rights and responsibilities are. For employees, it lowers the threshold for information and consultation regulations from 10% to 2% of the workforce, also increasing the maximum penalty of employment tribunals from £5,000 to £20,000. I understand that what has been referred to as the Swedish derogation, which allows organisations to opt out of paying agency workers at the same level as full-time employees when dealing with them, is also being repealed.

**The Chairman:** We have five minutes left in this part of the session. Lord Holmes wants to ask a supplementary question on that, and we want to ask about the MoTs.

Q224 **Lord Holmes of Richmond:** Thank you. This is not directly your ministerial responsibility, but I am interested in your view. Do you think it would be a good idea, in response to the Taylor review, to bring in legislation to put an end to unpaid internships?

**Alok Sharma MP:** We have accepted just about all the recommendations from Taylor. I do not want to speak for other departments that have responsibility for this. Again, my personal view is that one has to be pragmatic. Let me speak from my personal experience as a local MP. If I offer work experience for a week or two to a young person from my constituency, that will benefit them quite a lot and I would not necessarily want to pay them. However, if you are taking on people for longer periods, I, as an employer and an MP, would want to see you remunerate them.

**Lord Holmes of Richmond:** I declare an interest: my Bill went through all three stages in the Lords and will have its Second Reading in the Commons on 25 January. I commend you and your colleagues to support it, because it will address exactly the point you just set out.

**Alok Sharma MP:** We will give it full consideration.

**Lord Holmes of Richmond:** Apologies for a slight abuse of the Committee's time.

**The Chairman:** We have had plenty of advertising, not from today's witnesses but from others, so I think that is allowed. We must ask quickly about MoTs, because we have heard conflicting evidence.

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Q225 **Lord Price:** You mentioned earlier, Minister, that if you had time you would talk about the mid-life MoT. Can you tell us a little bit more about how you see those working, particularly in relation to low-paid workers and small businesses?

**Alok Sharma MP:** As I said earlier, I think they were a recommendation in the Cridland review. A lot of work has been going on in the private sector and the DWP to run pilots on how they might work. The three areas that it is suggested you sit down and discuss with someone approaching mid-life are their finances, how they might want to enhance their skills and their health.

This summer, a number of organisations, including Aviva, L&G and the Pensions Advisory Service, ran pilots with their employees. Some of that work, certainly with Aviva, was supported by the National Careers Service, which I spoke about earlier. The findings that come out of this will of course support how we deal with other employers. The Pensions Advisory Service has launched its own mid-life review for self-employed people, which will cover some of the individuals you are talking about. That happened earlier this month and included one-to-one advice with an adviser if required.

At the same time as we advocate mid-life MoTs for businesses, it is important that we in government set the pace on this. Earlier this year, we had pilots running in a couple of areas, in Norwich and Stockport, and put just under 300 colleagues through that. It was entirely voluntary, but it was an opportunity for them to sit down and have a personal review with their line manager. The initial feedback is that people found that extremely useful. We were also then able to offer them an opportunity to sit down with the Civil Service pension team and discuss pension issues.

Right now, we are evaluating the outcome of those pilots. The first question, as soon as you have done this, is whether people found it useful. I think a lot of people did. The second question, three months later, is whether you have acted on any of the issues raised. That is what we are going through, so I hope that we will have a much better understanding of that in the coming months. We can then impart that to the Civil Service. Again, it will be really important to make sure that we disseminate the private sector work that is going on.

**Lord Price:** And you would legislate for businesses to do that? You gave examples of the companies doing that work. Would you make requirements of an employer at some point?

**Alok Sharma MP:** It will come as no surprise to this Committee that constantly legislating for things is not necessarily my personal style. The carrot is always easier than the stick, certainly in the long term. From the organisations that have done this work, we have found that this is also part of their retention. Quite a lot of the time, whatever organisation you work for, money matters, because you want to be able to pay the bills, of course. However, it is also a question of the sort of organisation you are in and the additional support you get. If companies are offering this extra support, it is much more likely that people will stay on with them.

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I remember talking to Andy Briggs, our older workers champion and the Aviva CEO in the UK, about retention rates. He told me that retention rates improve if you offer your employees these additional services, because they think that you are a good workplace to be in.

**The Chairman:** We will conclude there. We are extremely grateful to all of you, particularly the Ministers, for your patience, your time and the work you do. Thank you very much for coming to see us this morning. If you want to add any supplementary things or clarifications, we would be very happy to receive them. Thank you.

## Examination of witnesses

John Glen MP and Lindsey Whyte.

Q226 **The Chairman:** It is very nice to see you. I am sorry that we are three or four minutes late. We may steal a few minutes of your time at the end of the allotted session. We are very grateful to you. My name is Nicholas True. I Chair the Committee. We will not all introduce ourselves. You know the score; you have done this before. We are going out verbatim. There will be a transcript, which you will be able to correct. For the record, before we go on to the first question, could you please say who you are, as we are being watched by the outside world?

**John Glen MP:** I am the Member of Parliament for Salisbury and South Wiltshire and the Economics Secretary to the Treasury. I have been in that post since 9 January this year.

**Lindsey Whyte:** I am the Director for Personal Tax, Welfare and Pensions in the Treasury.

**The Chairman:** Let us get straight down to business.

Q227 **Lord Holmes of Richmond:** Good afternoon to you both. Have the Government considered charging income tax on age-related benefits, such as the Winter Fuel Allowance? Could that be done without requiring older people to fill in self-assessment forms?

**John Glen MP:** I will start by saying that the principle behind these payments is meeting specific extra costs. They came out of a time in the 1990s when there were real challenges with pensioner poverty, and the previous Government brought in these additional payments. This Government have stated in their confidence-and-supply agreement that there will be no change to the universal nature of winter fuel payments in this Parliament. That is government policy.

In terms of the self-assessment forms, therein lies the difficulty with respect to the complexity versus the presumed gain. Given that it is outside government policy at the moment, that would be speculation, which I have been aware of in various rounds of preparation for manifestos in my previous roles. At the moment, it is not on the Government's agenda.

**The Chairman:** Are you happy with that? Does anybody else on the

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Committee want to ask about those extra benefits? Let us hear from Sally Greengross—sorry, Baroness Greengross, now that we are back in public session.

**Q228 Baroness Greengross:** It is fine. It is obviously easier for the department to have universal payments. I cannot understand why it is not an advantage to say to people, particularly anybody who makes a tax return, that all benefits should be treated as something that you have to declare. This would not raise a huge amount of money, but it would do a great deal in PR terms.

It would also make the point that you are looking at intergenerational fairness. This would include travel passes and such things, because although they are local they are paid for substantially by the Government, not by local authorities. It would send the message that older people who can afford to make a tax return should declare all benefits.

**John Glen MP:** Government must surely be about doing what makes sense with respect to costs to the Administration as well. There is a significant risk of disproportionate cost and complexity. Am I uncomfortable with the fact that seven out of 12 members of this Committee qualify for winter fuel payments? Do I think that that is a good use of money? If you were designing the system from the start, you would probably have some different views on that.

We are in a situation where, frankly, the political effect of dealing with this in the way you suggest would be challenging. Administratively, I am not sure how easily it would work, either. I do not believe that government should send signals when there is no material benefit to the public purse.

**Q229 Lord Hollick:** What is the justification for not requiring pensioners who are working to pay NIC?

**John Glen MP:** The principle is that paying National Insurance is a contribution made towards a contributory benefit. When you reach retirement age, you have made that contribution. Subsequently insisting on an additional tax when you have already reached your entitlement to that benefit does not seem to hold true.

**Lord Hollick:** As you know, the Government run their accounts on a cash basis, not an accrual basis. Therefore, that argument does not stand up, particularly when people are living far longer than they used to. From the evidence we have heard, it seems to me that it would not cause a great uproar if people who continue to work, and whose administration of their tax and so on is therefore very simple to follow, were required to pay NIC.

**John Glen MP:** I disagree. You would be breaking a system that has been in place since 1975. People have an incentive to continue working and will see more income for that, which has the advantage of helping them to save more of their pension and start taking it later. Obviously, I agree that people are living longer. This creates an incentive for people to work longer if they so wish. You cannot arbitrarily insist on an additional contribution to something you have deemed people to have qualified for.

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**Lord Hollick:** What evidence do you have that it would be a disincentive?

**John Glen MP:** If you are going to work, possibly part-time, and continue to make a significant additional payment to something where you feel that you have already reached the contribution threshold, and the entitlement to benefits, you will retain less of your income. Most people would prefer to work for more.

**Lord Hollick:** As you were the day before you retired.

**John Glen MP:** Yes, but you did so on the basis of working towards a retirement age. We have given greater clarity on the mechanism to increase the retirement age to 66 or 67, reflecting the Cridland review and the need to balance this against greater life expectancy, but I do not think that we should arbitrarily withdraw the contributory principle.

**The Chairman:** You have a cannon to the right of you and a cannon to the left of you.

**Baroness Blackstone:** I am amazed by your response, I have to say.

**John Glen MP:** Why are you amazed by my response?

**Baroness Blackstone:** Because the world has changed since 1975. Very few people now think that National Insurance is a contribution system that pays for your NHS or your pension. They realise that it is very much like a form of taxation. I am more surprised by your assumption that people would not want to continue working just because they would have to pay a relatively small amount of money that they had been paying until then; that they will suddenly say, "I am not going to go on now". There are many reasons why people want to continue working after they retire, which would counter this one issue.

**John Glen MP:** It is not the only factor, but it would be an influencing factor in their decision.

**Baroness Blackstone:** What is the evidence for that?

**John Glen MP:** We also have to look at how much revenue we would raise from something like that.

**Baroness Blackstone:** That is a different thing. You did not make that point. We will not disagree with that.

**John Glen MP:** I cannot make every point in one answer. Give me a chance.

**The Chairman:** Did you want to say any more?

**John Glen MP:** Clearly, there are a range of motivations for people continuing to work, such as additional income, but if a significant portion of that income will be taken away from people, we have to weigh up the total amount of money that the Treasury would accrue from that and whether it would make a significant difference. This is about intergenerational fairness. How much money would we accrue and where would we use it?

Q230 **Lord Hollick:** I want to pursue that point a little further. I note that a freedom pass in London is worth £3,500 a year, which is not taxed. What

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is the justification for that, particularly if you are working and not paying for NIC and lots of other things? I am puzzled by that approach. When we are looking at intergenerational fairness—that is what this Committee is about—how do we justify that?

**John Glen MP:** The justification is that this series of additional payments reflects additional costs at a time when there was a pensioner poverty angle. This Government have brought in the triple lock, and we have seen a basic pension increase. Thanks to what we have done, that situation has been reduced, but there are additional costs, such as TV licences and fuel payments. We have mechanisms for people to repay the winter fuel payment, but the challenge is making the case in an acceptable way after we have gone through a generation of people having these additional things.

**Lord Hollick:** But there is no sense of any contributory payment towards a freedom pass.

**John Glen MP:** No, but we are mixing two things. Your original question was about National Insurance. To go back to the answer to the first question, these additional payments were made to deal with specific additional costs that were brought in when there was a sense that pensioners were in difficulty. For example, at that time, the pension increased by a penny. We do not do that now.

**Lord Hollick:** As Baroness Blackstone said, we have all moved on a bit.

**John Glen MP:** As a Government, we have too, by increasing pensions by a decent amount each year.

**The Chairman:** We have to move on. Lord Price has signalled that he wants to make a comment.

Q231 **Lord Price:** One of the most surprising things is how many people have said to us that they would be willing to pay NI on post-retirement work. Most striking was Frank Field MP saying that this was inequitable, in his view, and that he would willingly pay it.

In the same way that you talked about winter fuel payments, have you thought about the possibility of a mechanism for people to pay it if they want to and think that it is fairer for them to do so, or is that administratively too hard to contemplate?

**John Glen MP:** The variable geometry of the administration for that would bring in complexity against the gain, which we would need to look at. Clearly, we keep everything under review. If a significant cost was associated with that, which I imagine there would be, it would have to mitigate any policy change in this area. We do not have any plans for change at this time.

**The Chairman:** We have spent a long time on this, so let us have a brief question.

**Baroness Jenkin of Kennington:** I am sorry to go back to the freedom pass, but we have heard evidence that at least a third of the people using it daily are in full-time work. Would it not make sense to move it to a pensionable age? It kicks in at 60, which is obviously very young. The point

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is that this would be a signal to young people that old people appreciate that they are getting the benefit when young people are not.

**John Glen MP:** Clearly, this Committee will report and make representations on this matter. I am not here to freelance on future government policy, but you have made some very fair observations.

**The Chairman:** We were going to ask about how student loan finance is handled.

**John Glen MP:** My colleague, the Chief Secretary, is on her feet as we speak.

**The Chairman:** Yes, since we started; there is that. We have heard utterly compelling evidence from some people that the way this is presented in the national accounts has been scandalous. The ONS has now come in. We will not have a long question. Will your colleague, the Minister, be signalling a change to Parliament today? Will he?

John Glen MP: She.

**The Chairman:** I apologise to Liz Truss.

**John Glen MP:** The ONS is independent of government, obviously. In the article it published yesterday it said that there is a lot to be finalised on the numbers before this is assimilated. Of course we will comply; this is an accounting change. We have complied with the rules as they exist up to this point. We will do that in line with practice in other areas.

In the past three years, we have seen the change in housing associations being classified as private, then public, then private again. We will comply with that. I would note that the change presumed from the different treatment of this portion of student loans is still less than the headroom announced by the OBR announced prior to the Budget. Obviously, we will have to take account of that in the light of every fiscal event and the OBR's figures preceding it. It is healthy that we have the ONS, the OBR and the Treasury working both in combination and independently to create the transparency in our public finances.

**The Chairman:** The Economic Affairs Committee of this House also reported on this issue. Have you taken note of that?

**John Glen MP:** I am sure that we will.

Q232 **Lord Hollick:** The counting treatment can of course lead to a distortion in policy. We heard in the previous session that those who go to university have a particularly generous form of subsidy, half of which is never paid back. We were just talking about that issue. Those who do not go to university, many of whom need lifelong learning and skills, have seen the funding going into those areas being cut by half.

Currently, you do not have to make any annual provisions against student loans that will not be repaid, but, of course, the money spent on adult education to give people the skills they need as the workplace changes can be cut and represents a saving. The treatment of these cases can drive perverse and, in this case, unfair outcomes in making money available across the population for appropriate training and skills.

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**John Glen MP:** I would say two things. Obviously, the Augar post-18 education review is ongoing. It will report in the middle of next year and look at issues of burdens and the future trajectory. To deal with debt, we have sold two tranches of student debt: £1.7 billion in December last year and £1.9 billion this year. When we do that, we have to go through the process of a value-for-money calculation. For last year's tranche, that figure was 48p in the pound of the debt. The NAO's report in the summer said that that was in line with what was expected, so we have protocols to deal with this.

The wider point you are making about fairness across lifetime learning is one that I hear very clearly. The equitable distribution of investment in skills and training is a challenge, particularly in a world where people do not work in the same industry or job for two generations and will need a significant skills upgrade. This is something in financial services that I am gripped by and talk a lot to the banks about. The Chancellor convened a group, chaired by Mark Hoban, to look at how we develop skills in that sector. The same will be needed in other sectors, too.

**Lord Hollick:** A Committee of this House on artificial intelligence, which a number of us sat on, said that this would become an even greater problem as artificial intelligence would change the nature of work every five or 10 years and people would need to retrain. It is a pressing issue.

**John Glen MP:** Absolutely. I have the DSTL and Public Health England in my constituency. I have met loads of apprentices there who do a four-year apprenticeship and go into the defence industry. I have met a number of individuals there who forfeited university because that training is more appropriate. We need to continue to work to destigmatise that, while making all routes accessible to people from all backgrounds. To me, that is the critical challenge that will endure.

**The Chairman:** That is certainly the philosophy that we have heard from others. Obviously, the skill is making it a reality. I think that Lord Holmes wanted to ask a question while we are still on the national accounts.

Q233 **Lord Holmes of Richmond:** Have the Government considered introducing a fiscal rule to address the whole of government accounts, rather than just focusing on the current deficit?

**John Glen MP:** We have to reflect on where we are internationally. In the UK, we are at the forefront of financial reporting and transparency through the publication of the whole of government accounts. We are the only G7 country to publish such comprehensive accounts as a single entity using accrual accounting. Other countries, such as Germany, do not do that.

We have a borrowing rule and a debt rule, which we are meeting early. Our configuration has the OBR always evaluating the different methods that we use in the Treasury. In July last year, it published the UK's first fiscal risks report, in which it was not held back at all; I think it found 57 challenges that we face. The Government have to respond to that.

My view is that we have quite a sophisticated set of mechanisms, both in terms of international comparison and in terms of the OBR's challenge



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about the long-term pressures that our public finances face. We do not have any plans to introduce a fiscal rule that addresses the whole of the Government's balance sheet, but obviously we will be very happy to hear from the Committee about the basis on which they think that would give additional value to what we have at the moment.

**Lord Holmes of Richmond:** Why do you think that other countries such as Germany do not currently do what we do?

**John Glen MP:** I am not equipped to deal with the public finances of other countries; frankly, I have enough on my plate doing this job as it is. All I know is that we bear favourable comparison with our G7 friends. That does not mean that we are complacent; it means that we have a rigorous set of checks in place through the OBR and other mechanisms across government.

**The Chairman:** We have heard that New Zealand had a balance sheet for its fiscal rule since 1992, so there may be other places that one could look at.

**John Glen MP:** It is a rather different scale of economy, and I imagine that the complexity could be less, but I would be very happy to look at that.

Q234 **Baroness Tyler of Enfield:** I want to ask a general question about the way in which the spending review operates and its ability to take into account things like the impact on future generations and intergenerational fairness.

We have heard some interesting evidence from witnesses suggesting that it might be a good idea to separate out government analysis and modelling from some of the political arguments and the inevitable trade-offs. There is a feeling that departments can start the spending review with quite reasonable assumptions and modelling, but by the end of the process can end up with some quite unreasonable assumptions. It was even suggested that it would be helpful to have an OBR-type body to look at the spending and some of the forward projections and help with modelling.

With that as the backdrop, do you feel that the current spending review process forces government departments sometimes to make unrealistic or unhelpful assumptions about the future? In order to support additional transparency, would the Government be prepared to publish the analytical assumptions behind departmental budgets?

**John Glen MP:** Thank you for your question. I start by saying that as a Government we should always be open to improvements and review, but the IMF talks about the UK doing the most accurate forecasting over the past 15 years, so we are not starting from a bad place.

The comprehensive multiyear spending review is a rigorous process that we will carry out next year. A range of conversations happen across government between the Treasury and different spending departments. They are iterative and can be complex, and there are lots of assumptions that go into them.

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In addition to that process we have the Green Book, which was revised in March. That provides a common framework to assess departmental bids and give guidance on optimism bias. So we are alive to the Committee's concerns on this. It is not just about that department/Treasury dynamic; there is also the issue of how we manage infrastructure projects and the business cases that go into them. There is obviously a risk that you can have so many analytical frameworks, so many checks and balances, that you do not get on with the job of working out what you need to spend.

Obviously there are certain constraints on certain patterns of behaviour that existed previously. I am not going to say which they are, but some departments are notorious for making estimations in excess of what they end up needing, and there are some that go the other way. Some are conditioned by what is happening in the economy and predictions that cannot be made at the outset, but we do everything we can to minimise that and to make them as accurate as they can be.

**Baroness Tyler of Enfield:** As a quick follow-up, the whole issue of intergenerational fairness has emerged as a newish bit of thinking in the last few years. Our sense is that it has not been focused on much in previous spending reviews. What sense do you have that in the spending review that is coming up there will be greater prominence for the whole issue of intergenerational fairness?

**John Glen MP:** I was on the DWP Select Committee with my good friend Frank Field when we looked at this matter in 2015-16, and it has risen further up the agenda for all parties. It is something that we will need to reflect on. It is driven by a whole range of policy interventions with respect to housing—the changes and the investment that we have made to secure more housing, which for the younger generation is a massive challenge. I believe we will come on to talk about inheritance tax and stamp duty later. Essentially, the Government were elected on a manifesto, and we need to deliver on some of those real challenges for younger people.

On the question of a single metric to compile and measure the net effects on different generations of different policy interventions overall, I struggle to think of what single metric could do that efficiently and in a meaningful way. However, the general concern of the Committee about this topic is one that the Government take very seriously.

**Baroness Tyler of Enfield:** Quite a few of our witnesses have suggested that property taxation is in need of some quite urgent reform. In fact, we have had some extremely eminent witnesses who have not liked stamp duty. I think it was Lord Willetts who described it as a classic "bad tax". Others thought it was a real problem that the tax was gumming up the prospects for older people, who felt that it was too expensive for them to move. That is particularly unhelpful, because downsizing is a very important part of what we have been talking about. Have the Government considered the intergenerational impact of stamp duty, particularly its effect on homeowners' decisions to move and downsize?

**John Glen MP:** Yes, which is why we have made significant changes to stamp duty. It is important to remember that 23% of people pay no

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stamp duty at all, while over half of transactions—51%—are less than £2,500. The main intervention that we made was to remove stamp duty for first-time buyers up to £300,000, while first-time buyers up to £500,000 pay a lower 5% on sums between £300,000 and £500,000.

I have heard the point that you are making mentioned often. I can see why it is conceptually an attractive model if you encourage people to downsize, but then we have to look at the evidence on the motivation or determinants of that decision to downsize. Take the example of somebody with a property worth £460,000 who moves to a property that is worth £230,000, a reasonable assumption if it is a bungalow or something. First, they will pay no capital gains tax. If that was an investment, they would use the capital gains allowance of 20%, so they would save tens of thousands of pounds.

From the evidence in the reports from the National House Building Council in December 2017 and the International Longevity Centre in January 2016, the actual amount of stamp duty that they would pay—£2,100 for a property of £230,000, in the example that I have given—is less than one-third of the estate agent’s fees. Most of the evidence from the National House Building Council is that it is other factors, such as maintenance costs and security, that determine people’s choice to downsize.

On that basis, the evidence that we have suggests that the decision to move from a larger property to a smaller one is driven not by stamp duty but by other factors. That is where we are at the moment. Obviously I would be happy to see what observations you make.

**Baroness Tyler of Enfield:** It is an interesting point. In the evidence that we have heard, there is a really strong perception that it is stamp duty that is impeding many people when deciding whether to move.

**John Glen MP:** The National House Building Council survey found that “very high proportions” rated easier maintenance, 74%, and reduced running costs, 70%, more highly. The same survey found that fewer were concerned about equity release, reducing their mortgages for reducing taxation. That was a considerable survey of 1,500 people over six years. I am not a statistician, so I am not qualified to know how much we should rely on that, but I think we should be led by some of the data on this.

I am instinctively sympathetic to where you are coming from with the question, but the evidence does not support that being a motivator.

Q235 **The Chairman:** You argued earlier that National Insurance would have no behavioural effect. You are now arguing that lowering stamp duty would not have a behavioural effect. So are you saying that tax has no effect on people’s behaviour?

**John Glen MP:** I am saying that if you are moving from a £460,000 property to a £230,000 one—to go back to my reasonable example—given that you are paying no capital gains tax on it and the stamp duty is one-third of the cost of the estate agent’s fees, it seems reasonable to

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assume that stamp duty is not going to create a tipping point for behavioural change.

I am happy to be challenged by other evidence that demonstrates that, but I think we have to look at the actual effect of that stamp duty against the actual costs and savings from capital gains that would accrue in that sort of transaction.

**The Chairman:** We might differ on that. I must not make points from the Chair, but as a former leader of a local authority I watched smaller homes disappear as they were turned into larger homes. Two-bedroom homes get turned into four-bedroom homes because it is cheaper to pay that money to a builder to make the home larger than to do what used to be the case, when the progression was to move from one home to another.

In my submission, there is a very clear behavioural effect in some parts of the country in enlarging equity rather than liberating it.

**John Glen MP:** The experience in Richmond and the South-East is different from that in other parts of the country. The Committee will obviously need to reflect on that when considering whether to advance a regional stamp duty regime and the effects that might come from that, because that is where that observation leads us.

I recognise that the housing market is complex. In fact, there are a series of mini-markets around the country, because there is wide discrepancy.

Q236 **Baroness Blackstone:** I am very sympathetic to what you have just said, because you have given us evidence; we did not have evidence in relation to National Insurance.

I come to the other kind of property tax, council tax, and what you think about the need to try to do something to tax people, like many in this room, who have made huge gains in the value of their asset, their house, because there have been no changes since the mid-1990s in the structure of council tax. One day, someone needs to grasp this nettle, and maybe it will be you.

**John Glen MP:** I do not know about that. In my three years working with Lord Pickles in DCLG, as it was at the time, we considered the challenge of reforming the council tax banding regime. From memory, we still rely on a system that has a valuation based in 1991. Building a consensus about how to change that in an equitable fashion is a challenge. When that was examined, we found that looking at it was not a very straightforward process. This is a topic on which we would welcome representations from this Committee. It certainly needs looking at.

**Baroness Blackstone:** From the point of view of intergenerational fairness, it is obviously a big issue.

**John Glen MP:** It certainly merits continued examination by the Government, and I would welcome representations from this Committee.

**The Chairman:** The Treasury always likes recommendations that argue for higher taxation.

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**John Glen MP:** I did not say that, did I?

**The Chairman:** Sometimes they are good ideas and sometimes they are not. Talking about another form of taxation, I want to bring in Lord Hollick again.

Q237 **Lord Hollick:** Another tax that has come in for a lot of criticism from eyewitnesses is inheritance tax. Lord Willetts called it a poorly-designed tax, while a number of other witnesses pointed out that, if you were well advised and reasonably healthy, you could probably avoid most of the inheritance tax.

The Treasury must have looked at the merits of having some other form of capital transfer tax, which may work well for people who want to give away money with a warm hand rather than with a cold hand, as it were, to help their offspring or family at a time when they need that sort of financial help. Have you looked at the merits of that, and what are your conclusions so far, or is it something that you are continuing to review?

**John Glen MP:** Clearly that would be a fundamental change to our system of how wealth transfers are taxed. At the moment, the Office of Tax Simplification is conducting a review. Given the volume of representations made, it has split the report into two parts. Part one was published last month and covers the admin of inheritance tax, and the main recommendation was the digitisation of inheritance tax.

The second part will be published in spring next year and covers wider policy issues. HMRC has also commissioned external research into lifetime gifting. That aims to estimate the incidence of gifting among the UK population, and we hope it will provide an insight into what gifting contributes to intergenerational fairness. That research is also expected to be published next year.

You are right to say that inheritance tax is currently paid by only 4% of the population. My instinctive concern is about the effect of moving from the situation at the moment, where essentially if you gift money and then live for seven years, no tax is paid, with relief tapered for three years thereafter. If you gave people a lifetime allowance on receiving gifts, as I think has been suggested, how would that interact with income tax? You could essentially make it easier for wealthier people to give wealthy children more money earlier and tax-free. And how would that change deal with the range of incomes across society? A lot of significant questions accompany this.

The regime that we have at the moment also values the fact that people are sensitive about a share of their primary asset, their home, being taken to fund social care or whatever. There is a lot of evidence of that from the last general election campaign, much to my party's cost. The subject is very complex. Significant pieces of work are being done through the Office of Tax Simplification and the HMRC-commissioned work. However, we always have to be open to looking at all options.

Q238 **Viscount Chandos:** You expressed concern about not doing anything that made it easier for wealthy people to pass money to the next generation. It seems to me that it could not be easier because of the seven-year rule. It

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is the people who can most afford to pass on assets not only in their lifetime but early in their lifetime who can do so. Yes, it is a small percentage of the population who are susceptible to it, but I was always very struck by the phrase that Janan Ganesh of the *Financial Times* wrote on the subject of inheritance tax when he said that inheritance tax was not just about collecting money but was, in his words, a secular moral code.

It seems to me that for the younger generation, whatever the tax take, the ability of wealthy older and middle-aged people to pass on money without paying any tax at all undermines any moral code.

**John Glen MP:** I was responding to a hypothetical situation in which we could see a change from the current regime to another regime perversely assisting wealthier people more. I do not think that would be desirable, given your characterisation of the current situation, which makes it straightforward to transfer money, given the seven-year rule.

When you have a system that allows people to receive money throughout their lifetime, if you do not calibrate that correctly for people at different income levels it will not necessarily have the redistributive effect that you seem to be suggesting.

**Viscount Chandos:** I am sorry, I do not follow the logic of saying that a lower band and some level of tax would be less fair than a zero rate of tax subject to the lottery of how long you live.

**John Glen MP:** The bottom line is that we would be very happy to receive representations from the Committee. You are giving a commentary on the morality of taxation without a specific example that I can see worked through, and I am concerned that there could be perverse consequences in the way that might work.

**The Chairman:** I think we understand the line of the argument. We heard from the Building Societies Association, which said that there could be some flexibility in inheritance tax, in the same way in which you can vary a will or an intestacy and give money to charity. Might it not be possible to help first-time buyers by allowing a variation of that kind instead of the money going off to finance mini-roundabouts?

**John Glen MP:** I am very happy to receive representations on this. There is some difficulty here, because I am not responsible for policy in this area and I cannot make up policy on the hoof. I am trying to respect the office that I hold but also be open to new ideas, and I welcome the Committee's investigation into this area.

Q239 **The Chairman:** I understand that, and we are grateful to you. Obviously one of the things we are trying to look at is ways in which we can help young people.

I have one brief final point to make from the Chair. Frank Field, whom you have rightly referred to in a complimentary way, said that probably the most important thing that this Committee might do would be to press the Government to collect statistical information on a cohort-by-cohort generational basis. We have heard from other Ministers, some of whom said they do a bit while others said they did not do very much. Mr Field

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said that the Chancellor could issue a minute tomorrow saying that we would be able to do that. Is the Treasury currently considering that at all?

**John Glen MP:** I am not aware of that being actively under consideration. I take very seriously everything Frank Field says, but sometimes there are issues regarding making the data points meaningful, and there is an issue to do with the cost of collecting data in that way. I do not want to use that as a refrain, because every Treasury Minister probably says that, but if there could be an indicative way of meaningfully measuring the different burdens between generations, that would be a positive step.

**The Chairman:** Thank you very much. I am sorry that we have run a bit over time. We are grateful to you for coming in. I am sorry, Miss White, that we did not have any questions for you. It was nice to see you again.

**John Glen MP:** I said to Lindsey that it was my objective to make sure that she did not have to say anything.

**The Chairman:** That is the definition of a good Minister. Thank you.

The Intergenerational Foundation, Professor Elspeth Graham and Professor Christian Hilber – Oral evidence (QQ 130–136)

**The Intergenerational Foundation, Professor Elspeth Graham and Professor Christian Hilber – Oral evidence (QQ 130–136)**

[Transcript to be found under Professor Elspeth Graham](#)



## **Institute for Fiscal Studies and Professor Stephen Machin – Oral evidence (QQ 21–27)**

Tuesday 17 July 2018

[Watch the meeting](#)

Members present: Lord True (Chairman); Lord Bichard; Viscount Chandos; Baroness Crawley; Lord Hollick; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Lord Price; Baroness Tyler of Enfield.

Evidence Session No. 2

Heard in Public

Questions 21 – 27

### **Witnesses**

Paul Johnson, Director, Institute for Fiscal Studies; Professor Stephen Machin, Director, Centre for Economic Performance, LSE.

Q21 **The Chairman:** Good morning and welcome. I am sorry to keep you waiting for one minute outside. We will try to keep to time. I am extremely grateful to you for giving your time so generously. My name is Nicholas True. I am Chairman of the Committee. You will see all the others. You may well know many of us. I just have to do the preamble, which is this. The session is open to the public. A webcast of the session goes out live and is subsequently accessible on the parliamentary website. There will be a verbatim transcript taken of the evidence and that will also go on the parliamentary website. A few days after the session you will be sent a copy of the transcript. You can check it for accuracy; obviously, the sooner you can let us know of any corrections, the better. I would be grateful for that, because the clerks will be working on it over the recess. If after the session you wish to clarify or amplify any points made during the evidence, or have additional points to make, then you are welcome to submit supplementary written evidence. This does not exclude written evidence. Let us proceed. Perhaps, because we are broadcasting now, you would like to introduce yourselves for the record, and then we will begin the questions. Again, welcome and thank you so much for the time you are giving.

**Paul Johnson:** I am Paul Johnson. I am director of the Institute for Fiscal Studies.

**Professor Stephen Machin:** I am Stephen Machin. I am professor of economics at the London School of Economics and director of the Centre for Economic Performance there.

**The Chairman:** Let us go straight in, because we are discussing the labour market in this session. Perhaps I could just start with a sighter question. How do wages differ across different age groups? In your perception, how have these differences evolved over time?

**Paul Johnson:** As you would expect, more experienced and older workers earn more than younger workers. That has always been true, but the key thing is that gap has risen over time. It was rising over the

period through to 2008. It actually got bigger still in the immediate aftermath of that period, when particularly those under the age of 30 really suffered much bigger wage falls than others. That sharp widening of the gap post 2008 has come back to where it was, but there has been that long-run change in the relativities between older and younger workers.

**Professor Stephen Machin:** It is well established in the economics research literature that obviously as people age their wages go up. As people reach the end of their working life they may dip down a bit as skills depreciate and so on. You have this kind of upward sloping age profile that people have. As Paul says, that seems to have steepened over time. The gap between the older workers in the labour market and the younger workers has widened through time, which is part of the underlying increase in wage inequality that has occurred in the UK labour market since the late 1970s. The gap between the highest paid and the lowest paid has widened out quite a lot until we reached the recession in 2008, and then it has been pretty flat since then, and has maybe actually narrowed a little bit. Clearly, younger workers are much more behind older workers in terms of their relative wages now than they were some 20 or 30 years ago.

**The Chairman:** That would be the sort of timespan you are talking of. Some people say that these factors have been accentuated post 2008, but you are in fact saying after a period we have, if you like, reverted to normal over-time progression. Are you both then saying that progression has been over a matter of decades since, as you said, the 70s and 80s?

**Professor Stephen Machin:** Since the late 1970s, yes, although there are some important compositional changes that have occurred both in that long-run change and in the more recent change since 2008 as well. One critical feature of the increase in wage inequality has been big changes in the relative wages of highly educated and less educated individuals. Younger people who have no educational qualifications now, or low educational qualifications, face a very big penalty in the labour market.

Part of the actual bounce-back since 2008 is reflecting that as well. The people who have done best since 2008 are people who are on the minimum wage. Somebody who would have been on the minimum wage all the way through, from 2008 to now, has experienced positive real wage increases, mostly because of the introduction of a national living wage, which was a big hike that took place in April 2016. A lot of those people who would have benefited from that are the younger workers, because younger workers are much more likely to be paid the minimum wage.

There is actually a compositional change due to labour market policy that has probably protected them in the last couple of years and hence restored them back to where they were in around about 2008. They fell massively to start with, but the bounce-back has been driven at least in part by the big hike in the minimum wage that occurred.

**Paul Johnson:** The other big compositional change that has happened over these decades that is really important to bear in mind is that of

course the fraction of the labour force that is highly educated and who are graduates has grown enormously over this period. The higher-educated groups tend to have steeper age earnings profiles. Their wages rise quicker with experience if they have more education. One of the drivers to those higher levels of wages for older groups is that they are more likely now to be higher educated and that is a group that sees more progression through time than the lower educated group.

**The Chairman:** Has there been any impact in relation to migration? Has that had an impact, from your perspective?

**Professor Stephen Machin:** On most of the evidence on migration, including the big waves that occurred from the A8 starting in 2004, the general consensus is that when that occurred it did not have much downward pressure on wages. That surprises many people, because it was a big supply increase. Most of the academic research seems to suggest there was not much in the way of downward pressure on everybody's wages, or indeed on natives' wages, from the increased supply shock that occurred because of the immigrant flows.

If you put that in reverse now, most of the economic research seems to suggest that wages are not very sensitive to migration flows, notwithstanding that being quite controversial in various quarters. It seems hard to see, if the migration flows go down massively, why that would put upward pressure on wages, unless there is some important asymmetry that we do not understand yet or perhaps if the fall in migration becomes really big; it is already quite big, certainly since the Brexit vote. There does not seem to be any real reason, unless you believe there should be some asymmetry, why that would have any substantive effect on wages and indeed on employment.

**The Chairman:** Now we will push a little bit deeper. I am grateful for those opening remarks.

Q22 **Baroness Tyler of Enfield:** Just to help us understand labour market trends in a bit more detail, could you just say something about how employment levels differ between the different age groups? Just to segment that a bit further, are more people in particular age groups in self-employment, zero-hours contracts or underemployed? Has this changed a lot over time, and particularly since 2008?

**Paul Johnson:** It is important, obviously, to look at men and women separately when thinking about that. Again, in the immediate aftermath of 2008 the one group where there was a noticeable increase in non-employment was in the younger age groups. Again, that has broadly evened out. If you look now, for men there is not a huge amount of difference between a 30 year-old and a 50 year-old in their probability of being in work.

One thing that has changed over the last 20 years is that there is a much bigger fraction in part-time work than was the case 20 years ago. They tend to be at the low-skill and low-wage end of the distribution, but it is a big change in the labour market. 20 years ago, almost no men were working anything other than full-time. Now, about a fifth of the lowest skilled are working part-time, which is a big change.

There have been changes in the fractions of older men who are in work, say the 55-plus, which very gradually, over a period of 20 years or so, has been increasing, but you still have less than half of men just before state pension age in work. There is still a big fraction of people in their early 60s who are not in work, and a much bigger fraction than was the case, say, 50 years ago. In terms of labour supply at that age, it is still very much down on where it was.

If you look at the much younger groups, you have clearly got many more in education at 18 to 21, a bit more than was the case in the past. Employment rates at least are relatively low there, but that is because education rates are high. On the whole, employment rates for men do not differ enormously over at least the 25-to-55 group. A lot of those who are out of work are out of work because of mental or physical illness, or at least the two are very closely correlated. Which is causing which is an interesting question.

For women of course, it is quite a different pattern. You have very similar rates of employment for women until childbirth, and then much lower rates for a period after that and much higher rates of part-time work. Particularly that period of part-time work is one of the reasons why, for women, wage progression is much less than it is for men. If they spend time in part-time work, they tend not to see any wage progression over that period. That means, particularly because a high fraction of women are now graduates and very well educated, they are paying a very big penalty for taking time not just out of the labour market but time working part-time. The wage profile uncontrolled for women is much less steep than for men.

**Professor Stephen Machin:** On the second set of questions, one of the most striking features of the labour market in the recent past, again since around about 2008, has been the extraordinarily good employment performance. Employment plus self-employment is at record levels. The employment rate is pretty high.

One striking feature of that has been that almost all of the increase in the number of jobs since 2008 has been in self-employment positions. There are two sorts of self-employed individuals: the entrepreneurial people who have employees, and the other people who are doing self-employment jobs because there is no other alternative, who do not have any employees; they are just a single person of self-employed status. All of the increase since 2008 is in that second category.

Part of that is the increase in the number of people in the gig economy in, if you like, this hinterland between self-employment and employment, this independent contractor status, which has become increasingly hazy. That is a very important feature of the way the labour market has been evolving over time, with lots of people now classified as self-employed who may not have been classified as self-employed in the past.

The digitisation and automation of work through some of the gig economy-type jobs—Uber drivers, Deliveroo riders and so on—is key. They are classified as self-employed, even though they are working for a company, Deliveroo or Uber. Of course, we know there are lots of issues with the legal status of that. It is also true, asking the question about

age, that actually quite a lot of young people are doing those sorts of jobs.

You asked about zero-hour contracts and underemployment there as well, so let me talk about a couple of those within that context. The key issue that people have been speaking about with many of these new self-employed positions—the gig economy kind of work—is whether they are new sorts of jobs that come with lots of flexibility, which they clearly do, which people would like, on the one hand, or whether they are dead-end jobs that people are taking because that is all that is available.

The emerging evidence on that is pretty new, because many of these forms of employment—these alternative work arrangements that have been becoming increasingly the positions people have been taking in the labour market—are fairly new. If you look, it seems to be a mixture of the two. It seems to be, on the one hand, that some people actually are doing these jobs because they offer more flexibility. On the other hand, there seems to be a bunch of people who are doing these jobs because it is the only job that is available. When you ask people whether they would like to work more hours or not, were they available, again that is mixed between people. It seems like gig economy workers would like more hours than your regular self-employed individual, so they do seem to be underemployed in that sense.

On the zero-hour contracts, which have been increasing in the labour market, according to Labour Force Survey data there is probably somewhere between 2.5% and 3% of jobs that are people who are on call on zero-hour contracts. They have pretty low wages associated with them. The median wage is about the level of the minimum wage for people on zero-hour contracts. You might say, “How is that possible?” That is because some people on zero-hour contracts are self-employed and are not covered by the minimum wage, so they are being paid less than the minimum wage because that is what their employment status takes them towards.

These are key developments in the labour market. Part of the downward pressure on wages has probably been caused by the increased supply of some of these new forms of alternative work arrangements in the gig economy.

**Baroness Tyler of Enfield:** Could I just ask one very quick follow-up? I think you are saying that the nature of self-employment has changed from owning your own business to being an independent contractor. Some people are probably wanting to do that because that appeals to them and other people are being forced to do it. I just wanted to know what evidence there is that people of different age groups actually want these different types of contractual arrangements or indeed non-contractual arrangements.

**Professor Stephen Machin:** We do not have much evidence on that. One issue with many of the regular data sources we use is they do not actually probe these new forms of employment as much as we might like. There are some questions in the regular Labour Force Survey, the annual survey of hours and earnings. It is very hard to track people down. One thing we have actually done at the LSE, in my centre, is a survey of about 20,000 people, trying to identify gig workers a bit more precisely.

We have only done it very recently. We have not actually analysed the data as much as I would like. Had I been able to analyse it, I may have been able to say more, but in due course we will know more about that.

Clearly, there is a mixture of people who definitely are doing these sorts of jobs, and sometimes actually as a second job as well, because they have much more flexibility associated with them. There are then definitely a bunch of people who are doing the job because they say it was the only job they could get and they would like to be working longer hours. If they are actually an independent contractor who is classified as self-employed, they would actually like to have some of the benefits that people in regular employment have.

We asked what form of social insurance benefits people would like. It is almost dominated by pensions. That is the big one that people would say, but there is other stuff about sick pay and holiday pay that people do not get. There is one stark contrast with the United States on the social insurance aspects that people would want. There it is health insurance that workers want, but of course that is not so relevant here, so it is actually pensions that people say are the kind of benefits they would like to be receiving.

**Paul Johnson:** Can I just add two things about self-employment on the basis of work we have done using HMRC tax data? Two things really stand out. The first is, notwithstanding the increase in the numbers of younger people who are self-employed, it is still very heavily dominated by older people, and particularly older men. It is very much, even now, certainly over-30s but actually over-45s are much more likely to be self-employed.

Second, incomes from self-employment, at least as recorded in the tax returns, have fallen very significantly. They fell immediately after the recession and they have not recovered. That is not just about new people coming into self-employment. Even those who were long-term self-employed are recording significantly bigger falls in their income than employees have over that period.

Q23 **Lord Price:** When you started, you talked about the fact that you would typically see wages go up with age and experience. Is there any evidence that you see now that that is not going to be the case going forward? Do you see any evidence that people stay in lower-paying jobs for longer than they might have done historically?

**Professor Stephen Machin:** On the first of those, we unfortunately do not have as much evidence as we would like to. Of course, the data requirements to follow lots of individuals through their entire career and people who have just completed their careers now, say, and then comparing it to the past are pretty big. What is true is because of the rise in inequality there is an increased dispersion in the lifetime earnings that people receive, so in the long run there is an even bigger gap in lifetime earnings. That has been facilitated by or driven by the rise in inequality that has occurred.

People at the top end of the labour market are doing much better, in terms of their lifetime earnings, and indeed in other factors that I think you are going to look at in the second session, about housing and wealth

overall as well. Wealth inequality has obviously gone up a lot in conjunction, driven in part by the rise in labour market inequality. That is the part at the top.

At the bottom end there probably is some evidence. The minimum wage has gone up a lot, which has benefited individuals, because it does not seem to have run hand in hand with job losses, which people might have argued it would do. It seems like the minimum wage has gone up enough so that people get a significant wage boost, but without being detrimental to their employment.

One possible feature of that is, as the minimum wage has become the established rate for jobs in various industries and various occupations, actually that has probably hindered career progression to an extent. It seems like people have been stuck on minimum wage jobs for longer. Of course, that is a feature of young people in the labour market now. Looking forward, I think this is actually something that requires some attention, because that could have negative consequences for the longer-term career progression that you will be thinking about for those individuals in due course. There is a warning sign there for the current generation of young people, who are probably being stuck on a much better minimum wage than it was in the past, of course, which is a good thing right now, but whether that is having a potential negative impact on subsequent career progression is an important thing to be thinking about.

**Paul Johnson:** In response to the other part of your question about job-to-job movements, contrary to what is, in a sense, the established narrative about everyone moving around all the time, actually most of the evidence is that there has been a relatively long-term decline in job-to-job movements. Since they are often associated with pay increases, that does seem to mean that people seem to be a bit more stuck in whatever jobs they are in at the moment. There is a correlation with the downward pressure on the rate at which people's incomes or wages rise over time. Exactly what is driving that reduction in job-to-job movements I do not think we particularly know, but it has been a relatively long-term decline in those job-to-job movements and, for some people, an associated decline in the rate of progress of their wages.

**Lord Price:** To summarise, without wishing to put words in your mouth, there is no evidence as yet to say that long-term career progression may have changed. You think there is some evidence to suggest that people are staying in lower-paid jobs for longer now.

**Paul Johnson:** Within education groups, there has been some flattening in that. It is one of these odd things. While overall as you stay in jobs longer you are doing better, there are now a group of low-paid workers who do not make much progress at all and a group of better-educated workers who are making less progress. Because there has been so much movement from the low to the higher educated, the overall impact is that there has been more progression and right at the top end lots of progression, as Steve was saying. There are certainly some groups that are missing out on progression.

Again, this issue for women is really serious. To repeat myself, for women who spend time out of the labour market or, in particular, in

part-time work—this is not a particular change; it has always been true—they are completely missing out on the progression that others in those circumstances would get.

**Lord Price:** When you give your figures, are you thinking about Generation X against millennials, or are you thinking about Generation X and millennials against baby boomers, in terms of income progression?

**Professor Stephen Machin:** The gaps have widened out across all of those as time has progressed, from the older generations doing better to the younger generations doing worse.

**Lord Price:** The ONS data that we have been given suggests that it is very narrow, very close in terms of pay progression between X and millennials, but actually there is quite a big gap between those two groups and baby boomers at the same age and adjusted for CPI.

**Professor Stephen Machin:** If we take the aggregate trends, the big increase in wage inequality that occurred in the labour market was in the 1980s. It is true that wage inequality, unlike overall household income inequality, which has been pretty flat since 1990, carried on rising all the way, but not as rapidly as it did in the 1980s, which was a huge surge in increasing the gap between the highly paid and the lower paid where it occurred. The general consensus is it was big technical changes that drove that and then we also got big education supply effects. The race between technology and education has been a key feature of why wage inequality has risen so much.

It is true that the big increase was in the 1980s, which of course would be the baby boomers then being driven out like that much more than the subsequent changes. It is also true that wage inequality has still been increasing. It has stalled since 2008, but it is much higher than it was 30 years before.

Q24 **Lord Holmes of Richmond:** As it is my first witness session, I need to declare my interests as set out on the Committee website, not least in relation to BPP University. That is of no concern to you, but it is good that it is out there. On education, how is the level of education and occupational skills different between the different age groups? How has this changed over time?

**Professor Stephen Machin:** Let us do education first. Of course, we know many more people have been going to university over time, so we have many more graduates in the workforce now. Those sequences of different cohorts coming through means we have more graduates in the labour market now than before. Of course, because they are driven by more recent changes, that means more young graduates now than there were 10 or 20 years ago, or whatever.

There is a much bigger range of what educational qualifications they have from university, what sorts of degrees they have and what universities they have then from. One feature about the increased dispersion of labour market earnings is of course this increased dispersion of the nature of educational qualifications among the young compared to the old. That has been a big feature of what has happened to the wage gaps between graduates and non-graduates over time.



Again, in the 1980s, as the demand for skilled workers went up massively, the graduate wage premium rose a lot. That was one of the features why wage inequality went up in the 1980s. It has carried on going up, but at a slower pace and has probably now flattened out, although, given the increased supply of graduates, especially young graduates, it has not fallen. That is probably saying that, even though there has been a massive increase in the supply of graduates, the demand for those graduates has still kept pace with that or indeed outpaced it, such that employers still want more graduates as well. What that really means is that the penalty for not being a graduate among the young is much bigger and is a key thing as well.

We have this big dispersion within the graduate group of wage returns, which you can empirically connect. Indeed, the IFS has done some extremely interesting work, which Paul may talk about, on connecting those wage differentials to particular degree types, level of degree and institution. The LSE does rather well on that. There is the dispersion and the inequality of wage returns to education there as well.

On the occupational side of things, the occupational thing is interesting. One feature of labour markets for a long time has been that the new entrants to the labour market tend to go into occupations that are newer occupations that are growing. As those occupations age and the people age, they subsequently become declining occupations as well. You will find older people in declining occupations and you will find younger people in growing occupations. That is a key feature of occupational change that happens within the labour market.

It is not surprising that lots of young people are in jobs that require technical IT type skills and so on, which were not there 30 years ago, for example. It is not surprising that lots of older people are in declining industries. The average age of workers in manufacturing is pretty high because they are the older kinds of jobs that were there. That has been a feature of churn in labour markets and economies for centuries—that younger people go into the new occupations. The dynamics of that are there.

It means that the supply of workers with different education levels and into different occupations changes quite a lot, and that, of course, changes the wage differentials associated with either having certain educational qualifications or working in certain sorts of occupations. Again, these are key features that underpin the way in which the overall wage distribution evolves over time.

**Paul Johnson:** I agree with everything that Steve said. I would add three things to that. If we are looking over time at certain sorts of skills, one thing that has not got better in the way that you might expect is the basic numeracy and literacy skills among the younger generation. I think we are the only country in the OECD where our basic skills problem is as big among 20 year-olds as it is among 60 year-olds. That is a real generational problem that we have not solved, which a lot of other countries have made progress on. That is a real issue for us.

Second, it is interesting there are quite a lot of graduates now, as you would expect, with this big expansion of numbers of graduates, who are

in the sorts of jobs that, if you classify them by occupational status, look quite similar to the sorts of jobs that non-graduates were in in the past. There is an interesting question as to whether some of the data we have on what those occupations involve and—you talked about occupational skills here—whether the actual occupational skills are different or not.

There is some evidence that because these are higher-educated people they are able to take more responsibility within a particular job, even if it looks on paper to be defined the same. While people worry, in a sense, about apparently overeducated people being in particular jobs, that may not necessarily be a problem if the way the workplace is organised changes around them. That is something we have done some work on. I think there is more work to be done.

The third issue is just to pick up what Steve was saying about the work we have done on the distribution of wages for people who have done different degrees and been to different universities. There clearly is just an enormous difference between different degrees. If you do medicine or economics, you will be earning, with high probability, a very significant salary 10 years out of graduation. If you have done one of the arts subjects there is a much lower chance that you will be earning very much. There are very big differences between the average wages according to the subject that you do.

There is also a big dispersion by institution that people go to, even when you control for A-level grades and so on beforehand. There are some institutions that are at least associated with their graduates getting significantly higher salaries than other institutions. There are a group of institutions and degrees where the average salary coming out is as low as, if not lower than, those who did not go to university at all. There may be some reasons to do with that, because they may be serving very local areas and local labour markets and so on. However, it is very striking that you can define a significant group of institutions and degrees where the average earnings for the people who have gone through that are no higher than if they had not gone to university at all.

**The Chairman:** You have thrown out some very interesting points for us there. I am going to have to move on, however, to bring in Lord Bichard at this point.

Q25 **Lord Bichard:** There are some of us who find your comment about literacy and numeracy in 20 year-olds particularly depressing, but I will try to put my depression behind me. I will preface the question that I wanted to ask with just a reference to something you, Paul, said earlier when you talked about the lack of job movement. I think you said the reasons for that are not clear. In terms of intergenerational fairness, the lack of job movement is quite an important issue. I wondered if there was research going on, or maybe we should think about it, to understand better why it is not happening. That is not my question, but I just lob it in as a comment.

While you are thinking about whether to respond to that, people are living longer. Therefore, they are going to work longer, I assume. You touched on this a little bit a few moments ago. How do you anticipate the labour market changing in response to that? Second, what implications do you think that has or should have for the Government's skills strategy?

**Paul Johnson:** Let me say just a little bit about the ageing point. How people respond to the fact they are going to live longer is going to be possibly one of the most important issues over the next 20 years, in terms of how the economy and the labour market changes and how we manage an ageing population. You would expect, as you said, some sort of endogenous change in response to increased longevity. Actually, some other things are pushing in the same direction—essentially, the end of defined benefit occupational pension schemes and the fact that within 20 years, other than those who work in the public sector, anyone coming to retirement will be dependent on a defined contribution pension. That looks just like a savings pot. It is essentially indistinguishable from a pot of savings. That has the potential to have quite a big impact on the way people see their retirement decisions. The cost of moving out of work will be very obvious to them. There will be many fewer people with significant pensions to retire on. That might push you to a longer working life, as well as the simple fact of increased longevity.

The other thing to say is that, again, to repeat what I said earlier, there was a collapse in employment among older men over the age of 55 or 60 during the 1980s. We have not undone all that collapse, even in the last 20 years of gradually increasing employment among those over 60. Certainly, if you look at it from the other way around, if you look at distance from death, on average if you are 10 years from death in the 1970s you are almost certainly in work. Now you are almost certainly not in work. That is part of a perfectly appropriate response to getting richer.

People, in a sense, look back at Keynes, who was supposed to have said that when we all get richer and more productive we will work many fewer hours. Actually, we are working many fewer hours. It is just we are taking all that extra leisure at the end of our lives. We are taking some of it in not working overtime, particularly among lower-earning workers, but a lot of it is being taken towards the end of life. That adaptation at older ages in the labour market is going to be incredibly important. There are lots of opportunities for it. I think employers are likely, in some sense, to respond to that, particularly if the supply of labour from elsewhere starts to dry up.

**Professor Stephen Machin:** I do not have too much to add to what Paul said. I have one observation. We have been speaking about rising wage inequality, which is an increase in inequality in labour market incomes. It is also true that the other components of compensation—the non-wage aspects of compensation—have also become much more unequal over time, pensions being the main one. That means there are more people reaching retirement age, some of whom are getting much more generous pensions and some of whom are actually getting far less generous pensions. That is one of the things that has been putting the pressure on the older people, especially some older men who have been taking part-time employment positions to generate more income. That feature is, again, something looking forward with people living longer. If you are asking questions, as you were, about supporting longer working lives, that is a key feature that comes into that as well.

The other thing that I would emphasise is the nature of lifelong learning, which we have achieved poorly on over time, massively. Of course, if

people are going to work longer, and if different forms of technologies are coming into the labour market, people need to have the requisite skills to be able to use those technologies. If people are working for longer, it seems to put a bigger emphasis on getting lifelong learning right as well. That seems to be an important dimension of that to me.

If we have time, I will return to the first question about the job-to-job moves as well. There is one thing we have not mentioned about rising wage inequality. One key feature of the way in which the labour market has changed has been what people call job polarisation. If you order jobs from the lowest-skilled jobs in the economy to the highest-skilled jobs in the economy and look where the job growth has been, or turn it round and say, "Look where jobs have been lost", it is actually in the middle-skilled jobs where most of the falls in employment have gone. People would then have to make a job-to-job move out of those sorts of jobs.

The argument that normally arises about this is that those middle-skilled jobs have typically involved people doing fairly routine tasks in their jobs, which can be substitutable for by computers, AI, robots and whatever you want to talk about there. Those are the sorts of jobs that have been hollowed out from the middle part of the distribution, whereas the top part and bottom part of the skill distribution involve jobs that have lots of non-routine tasks that cannot be substitutable for by those new forms of technology. Care assistants, childcare workers and so on at the bottom end of the distribution are not substitutable for by those kinds of technologies.

There is one feature of the UK labour market that seems to be rather different to other labour markets, other than the US, which has the same kind of feature as well. What seems to happen when people get displaced out of these routine occupations in the middle part of a distribution is when they get re-employed they tend to be re-employed down the skill distribution, rather than at the same place or higher in the skill distribution.

In other countries, people seem to go both ways, certainly in countries such as Germany, Switzerland and Austria, which have active retraining programmes when people lose their jobs. We have very little of that at all. That seems to be a key feature that is missing in government policy—to try to figure out, when people get displaced by technology, where they can go to, and whether they have the requisite skills to take up a new position. That could be higher up the occupational distribution, or perhaps could be something they might want to do that is lower down the occupational distribution, but they would have to be able to have the skills to do those sorts of jobs.

**Q26 Lord Hollick:** You have been describing a number of trends that have weakened the income of younger people relative to older people, although you did make an interesting point about men over 45 who are self-employed having seen a slump in their earnings as well, so it is young and middle-aged. To what extent does the tax system offer a way of being a remedy to that diversion between young and old income?

**Paul Johnson:** It is not very easy to use the tax system. To give an example, I have seen propositions that perhaps you should have a lower rate of tax on people under a certain age or a higher rate of tax on people over a certain age on the same salary. I really struggle with that idea. I think the suggestion is, for example, that once people hit 40 you might increase their tax or national insurance relative to people who are 25 or 30. Of course, if you are 40 and you are earning £25,000 a year, you are almost certainly lifetime worse off than someone who is 25 and earning £25,000 a year. It would be very odd indeed to charge a higher rate of tax on a 40 year-old earning £25,000 than on a 25 year-old earning £25,000. That would achieve the reverse of what you are looking for. That would be inequitable.

There are a couple of areas where you might want to look. There is clearly this oddity whereby people over state pension age do not pay national insurance contributions on any earnings. That is hard to justify on any normal grounds. There is one ground for justifying a lower rate of tax on people over the age of 60 or 65, which is that we know that is a group who make a choice about whether they are going to be in work or not. They may actually respond to higher rates of tax by not working, whereas, frankly, you can do what you like to a 30-year-old man and they will carry on working. They are just not very responsive to different taxes, whereas 65-year-old men are quite responsive to different tax rates. That might be one argument. I am not making that as a strong argument. That might be one argument for keeping the current system.

Another thing that is not specifically to do with taxing labour income you might think about is, for example, taxing income from occupational pensions. They have been very lightly taxed on the way into the occupational scheme, particularly because they have no national insurance contributions paid on the way in, so you might think about putting an additional tax on the way out. That might increase the incentive to stay in work at that point slightly.

Clearly, if you are thinking about the tax and benefits system, the tax credit systems and universal credit systems that increase the effective wage of lower earners can be quite effective at doing exactly that— increasing the effective wage of lower earners. They may also have the unintended consequence of keeping people more stuck on their wages because they get less from earning more because they have some of that withdrawn. It is quite difficult to see the tax system as a core response to the things that we have talked about in the labour market.

**Professor Stephen Machin:** I completely agree with Paul on the age variations issue, which seems to me very odd to think about, in real terms, from a lifetime welfare kind of perspective for people who will be at different ages and facing different inflation rates and rates of growth and so on in the economy. The one thing I would add has been on and off the policy agenda. That is returning to this rise in alternative work arrangements and, again, the differential tax treatment of employees and the self-employed, and whether they should be rebalanced in some kind of way to be more equitable or lined up more equally.

That seems to be an important thing, especially if the trends in the labour market are going to be that there will be more of these sorts of positions. I referred to the hazy hinterland between employment and self-employment before, in part because of the uncertain status that some people seem to have about what their real actual status is. There are certainly issues to do with the independent contractors, as picked up by the Taylor review and so on. It seems to me that actually giving some thought to that dimension of taxes is an important thing for the issues to do with intergenerational fairness and so on as well, and indeed looking forward to the future about where that might go.

**Lord Hollick:** You mentioned that the minimum wage had helped to soften the blow of the financial crisis, certainly for those, obviously, at the bottom end of the scale. Do you think there is a case for looking into universal basic income as a way of addressing some of this intergenerational unfairness in income?

**Paul Johnson:** That is obviously a very different thing from the minimum wage. Part of the reason for universal basic income that people give is that it gives you a subsistence that you can actually live on. If you think that is 30% of average wages, it is going to take 30% of national income to pay it, so it is very expensive to provide anything at a level that is something that someone could subsist on. Even then, for people living in rented accommodation in London you would probably need means-tested top-ups. My sense of universal basic income is that to be worthwhile, it gets so expensive that it is really not something that is feasible.

**Professor Stephen Machin:** It is an interesting thing to think about, but the design is not easy when you have a formal tax and benefits system that already operates, and it is not easy to think how you would introduce it, certainly in advanced countries. In developing countries, where there are not very well designed tax and benefits systems, of course it is a simpler thing to think about. It is worth thinking about in some dimensions, but if there was anything about that it would have to be thought of more carefully. As Paul says, it is extraordinarily expensive in the usual way of thinking about things.

Q27 **Baroness Crawley:** This is by way of a comment more than a question. I was interested when, in answer to the Chairman's original question, you were saying that young people have been far more behind in their wages over 20 or 30 years, rather than since the crash of 2008. As a non-economist, I cannot work out how that should be, given that, since the early 1950s until 2008, growth in this country averaged out about 2.5%, and since 2008 it is around about 1%, and yet we were still choosing to pay young people far less further back than the crash.

If you could do one thing that would make the labour market operate more fairly between generations, what would it be? As a second question, do you think the labour market would operate more fairly, in terms of income and progression, if people were able to negotiate their wages and benefits above the floor of the living wage, through a return of wages councils in some sectors, as was hinted at in the Taylor report?

**Professor Stephen Machin:** On the first one, the key issue is that before 2008 everybody's wages were growing in real terms. It is actually just the relative gap between the older people and the younger people that was widening, but everybody was doing better. That probably reconciles with what you mean. Since, people's real wages have actually been falling. It then becomes an absolute issue rather than just a relative issue as well. Since the bounce-back this has changed a little bit, but one observation that was made was about two years ago you could say that young people, those less than 25, would be entering the labour market at the same real wage level as 1997, so in absolute terms they are doing no better.

The long-term trend is about relative gaps, but everybody was doing quite well. Average real-wage growth between 1980 and the mid-2000s was about 2% a year, so wages growing 2% more than price inflation, so everybody was doing okay there. It is just that they were falling back relative to older people, but they were still getting higher wages than previous generations were. Since 2008, that is not true, and so there are absolute falls in wages now and a narrowing of the relative gap, because it has actually evened out. That is principally because of an introduction of a national living wage. If you went back to 2016, younger people were falling behind in relative terms as well, but the national living wage has bounced them back up on that.

On the "one thing" question, I will say it is one thing but it is two, really. It seems to me that, if the question is about making the labour market operate more fairly between generations, one thing that has to be done is to make sure that the playing field is level for the next generation of people entering the labour market. That is about making their education fair, so when they enter the labour market they get the fair returns from it.

That is okay on that, but that is not very good for the people who are currently in the labour market, so the other thing is returning to the lifelong learning dimension for people who are not doing so well now, whose skills need upgrading, and getting that right as well. It seems to me that skills are the critical thing both for the people currently in the education system as well as the people currently in the labour market, so both dimensions need to be thought about.

For the people who are currently in the labour market, the concept of people receiving a decent and fair wage for work that should be valued, whereas some work is not valued to the extent that it should be in society, is a really important observation. Care assistants working in care homes are almost all on the minimum wage and that kind of work is not very valued. It seems to me to be an important thing but it actually goes beyond the economics of this and is really an important thing for intergenerational fairness.

On the last point, essentially you are asking about the role of the labour market institutions and collective-bargaining-type notions. It is true that there is a lot of work out there that shows that one of the causal reasons why wage inequality went up over time was a weakening of labour market institutions, particularly the decline of trade unions. On the other

side of it, the introduction of the minimum wage has actually been good for reducing wage inequality. It is true that evidence is out there that, if wages are collectively bargained, they end up being more equal. If you do an inter-country comparison, it is no surprise that the countries that still have collective bargaining, like the Scandinavian countries, have much lower levels of inequality and higher levels of social mobility from that. There is very strong evidence that labour market institutions do matter for equality.

**The Chairman:** That was a good go for one thing.

**Paul Johnson:** I could just say I agree. The one thing that we continue to get hopelessly wrong is young people going into the labour market who are not going through higher education. The more I look at this, the more angry it makes me. There is no clear route through, there are tiny numbers of higher-level apprenticeships for 18-year-olds, and that is probably the biggest difference between the labour market for young people here and in some of the countries that Stephen mentioned where it works much better, where you have close relationships between employers and educational institutions, and institutions that work for those going through into middle-skilled or higher-skilled type roles that do not require you to go to university.

For 18 year-olds here, it is incredibly opaque how you do that. There is remarkably little available. A lot of them are funnelled into higher education where, actually, they may not get very much benefit, and a lot of them find it much easier to get a very low-skilled job rather than to go into a career with appropriate training. That is where I would put all of my eggs, actually, in that single basket.

**Baroness Jenkin of Kennington:** I was actually going to ask about international comparisons because you made two mentions during the session. I think you have probably answered the question. For other countries that must be in similar situations, what is it that they do better? Unless you want to add to it, I think you have just answered that point.

**Paul Johnson:** There is a question as to what extent you can simply import any of that. There are a set of long-standing institutions in some countries that have really stood the test of time. We will struggle to replicate those institutions but we need to think about how we replicate some of the outcomes from those. We need to be clear about those for whom we are trying to do that, and that is for, in a sense, that middle group of young people who have the capacity to go on to pretty decent well-skilled jobs but where the institutions here just make it very difficult for them to get from here to there.

I am not forgetting those who are going to struggle with that, and Stephen's points about other institutions in the labour market, whether they be trade unions or other labour market constructs, are also important. If we are looking abroad, we always need to be very clear that we want to focus on the outputs, not on precisely replicating any specific institutions that happen to be very context-specific.

**The Chairman:** Thank you very much and also for allowing us injury time and overrunning. I know you are staying and I am very grateful for that, so please do. Professor Machin, thank you so much for your evidence. You



Institute for Fiscal Studies and Professor Stephen Machin – Oral evidence (QQ 21–27)

have given us so much to think about and I really appreciate you staying on a bit.

## **Institute for Fiscal Studies and Ian Mulheirn – Oral evidence (QQ 28–37)**

Tuesday 17 July 2018

[Watch the meeting](#)

Members present: Lord True (Chairman); Lord Bichard; Viscount Chandos; Baroness Crawley; Lord Hollick; Lord Holmes of Richmond; Baroness Jenkin of Kennington; Lord Price; Baroness Tyler of Enfield.

Evidence Session No. 3

Heard in Public

Questions 28 – 37

### **Witnesses**

Paul Johnson, Director, Institute for Fiscal Studies; Ian Mulheirn, Director of Consulting, Oxford Economics.

**Q28 The Chairman:** Forgive me, Paul Johnson, but I have to go over, for Ian Mulheirn’s benefit, the preamble. As you know, we are open to the public and a webcast is going out and will be accessible on the parliamentary website. A verbatim transcript will be published. You will have the opportunity to comment on that; if you want to advise us of any corrections, please do so as soon as possible. Also, if you want to correct or amplify anything that you are able to say in the course of evidence, you are welcome to give in written evidence; this is excluding written evidence on your part.

Could you introduce yourself for the record and the cameras? We will then proceed with the questioning. Thank you very much for being so patient and waiting 10 minutes.

**Ian Mulheirn:** Thank you, Chair. I am Ian Mulheirn. I am Director of Consulting at Oxford Economics.

**Q29 The Chairman:** Setting aside pensions, which is a big set-aside, I accept—we are focusing on housing in this session—how does wealth differ between age groups? What proportion of that is property wealth? How has this changed over time and, indeed, how might it change over time? Some might argue that current property values are not unconnected to current fiscal policy. I have quantitative easing in mind, obviously. Could you give some general comments on those points, please?

**Paul Johnson:** I will start. I will say a bit about pension wealth because it is terribly important. For a long time, easily the two biggest bits of wealth that households have had in the UK are pensions and housing. They make up about 80% of all wealth in the household sector, and maybe even a bit more than that. Of non-pension wealth, housing wealth is overwhelmingly the most important part. It is only really at the top of the wealth distribution that you see people with anything at all significant in non-pension and non-housing wealth.

If you look across the generations, you would expect older generations to have more wealth than younger generations. People save during their lifetime. You would not expect a 25 year-old to own much equity in a house, and indeed they do not. The gap between the younger generation and the older generation has been growing over time. To the extent that you can follow people and see people at different ages at different times, it is the case that 30 year-olds now have, on average, about half as much property wealth as 30 year-olds 20 years ago. That is directly a result of the fact that they are about half as likely to be home owners as they were 20 years ago. There has been a sharp change in the younger generation in terms of their probability of home ownership. Put that alongside a sharp cut in their probability of being in an occupational pension scheme, and you have seen a very sharp fall in the average wealth of a 30 year-old today relative to 20 years ago.

One would expect, therefore, that, in 20 or 30 years' time, they will have less wealth than the generation who are now 60. There are all sorts of uncertainties around that, obviously, in that a lot of these people will end up on the housing market and a lot of them will inherit wealth and so on. I would expect at least the median wealth for that group in the long run to be lower than the median wealth for those who are a generation or two ahead of them.

It is worth saying that those in their 60s and 70s now are wealthier than generations before. About 80% of them are home owners. Most of the rest are in social renting. What fraction of 30 year-olds today will be home owners by the time they become 65? I do not know. It will probably be a bit less than 80% but it might not be as dramatically less as the differences between 30 year-olds today and 30 year-olds 20 years ago might lead you to suspect.

We have had a big generational change and we have had a shift in the last 20 years in terms of what that distribution looks like between older and younger generations.

**Ian Mulheirn:** We need to be a bit careful about thinking about what the drivers of that increased inequality are. There is a tendency, through all these debates, to assume that renting costs more than owning and that owning is therefore cheaper, allowing you to save and therefore to accrue more wealth. That is not correct. However, what has driven this growth in inequality is that those who owned houses owned them through a period where house prices exploded, which obviously has massive distributional consequences.

If you park for a moment the prospect of capital gain and capital loss—it is a two-way street—and that the big-picture change, which could have massive redistribution impacts on wealth, and ask the question, “Is it more costly to rent a house than it is to own one?” the answer is, “No”. There is no reason in principle why young people cannot be enabled to save. Mortgages have the behavioural element of being enforced saving, of course, and there are parallels here with auto-enrolment in the sense of trying to get people to save in a way that uses behavioural nudges. There is nothing economically that says that it will cost you more to rent

than to own, and therefore people's capacity to save should be no different in the two tenures. That is an important point to establish.

Q30 **Viscount Chandos:** As it is my first meeting, I should declare a couple of interests as a trustee and past chair of the Esmée Fairbairn Foundation, a grant-making foundation, as a recent past chairman of a real estate lender, Real Estate Credit Investments, and, for good measure, as a past trustee of the Social Market Foundation, where Ian Mulheirn was the excellent director.

Is the current system of taxation for housing equitable between generations, and is it efficient? Do you think housing should be taxed as a consumption good, an investment good or something in between?

**Paul Johnson:** The answer to the first question is a straightforward "no". There are a couple of well-known issues with the taxation of housing. The right way to think about council tax is as a tax on the consumption of housing, and that is essentially how the old rates system was fairly explicitly designed, as it was a tax on the rental value of the property.

If you think of it as a tax on the consumption value of property, you would think it ought to be broadly proportional to the value of the property, but of course it is regressive in the value of the property; it rises at only half the rate of the value of the property and it is capped. You can see that as a straightforward inequity in the sense that you have a lower proportional tax on more expensive properties.

As it happens, because of the way that properties have ended up being distributed across the generations, that is more beneficial to older generations who tend to own more expensive properties. There is a fairly clear inequity there. Arguably, there is an inefficiency as well, because it gives you a small incentive to stay in your home because it is relatively lightly taxed. I suspect that is not a big issue in terms of people's actual behaviour. That is part 1.

Part 2 is stamp duty, which is a tax on transactions. There is a very good reason for having a tax on transactions: it is quite easy to raise the money and, when people are spending lots of money, giving a small fraction of it to the taxman is easier than just writing a cheque through the year. There is a reason why we have had a big rebalancing away from council tax towards stamp duty over the last 20 years. Both the last Labour Government and more recent Governments have increased stamp duty.

That is at least strongly correlated with a big drop-off in the number of transactions in the housing market. At particular points in the stamp duty schedule under the old system, where you had a big increase in stamp duty paid as prices went up, we saw very few transactions around that level. It is harder to prove that there is a strong relationship between increases in stamp duty and the much-reduced number of transactions in the housing market, so I am not saying that I can prove that has happened. But clearly, you would expect high stamp duty to reduce transactions and there has been, for a whole series of reasons, a reduction in transactions, which means that housing will be misallocated between people and between generations.

In terms of your broader question about how one should think of housing, clearly, housing is both a consumption good and an investment good, and we cannot get away with thinking about it in other than those terms. As a consumption good, the appropriate way, as I said, is to have a reformed council tax. As an investment good, it is more difficult. You might reasonably think that you should pay capital gains tax on the element of the return that is above some normal return. I do not think you want to impose capital gains tax on any return—certainly not just on the inflationary return—but you may well want to impose capital gains tax on anything above the normal return.

There are two issues with that. The first is that I suspect that the boat has sailed. My guess is, though I could be hopelessly wrong, that we are not going to see these massive returns on housing in the next generation that we have seen in the last generation. If you were to try to do it retrospectively, it would be difficult to achieve. The second issue is that you would need absolute political agreement on this, because otherwise people would just wait until the next Government came in and got rid of the tax.

In a sense, I would not start from here. It is not a terribly helpful answer. Part of what you see, as a consequence of what we have, is that there has been a huge increase in wealth for a particular generation and it is not taxed. All of that gain is individualised and not socialised.

**The Chairman:** Having been a leader of a council in an area of high land values, of course, as a layman, I was inclined to think that stamp duty might have something to do with the fact that I watched small homes effectively disappear as boxes are put on them and extensions are added. It seemed to me that I was witnessing a potentially perverse effect of a tax intervention. Would you have any comment on that?

**Paul Johnson:** Again, I could not point you to evidence that proves that but there are very strong reasons to believe that that is the case. It is highly inefficient. It is easy to imagine a situation where you have two people living next door to each other, one in a bigger house and one in a smaller house. It is very expensive to swap it because of the stamp duty, and so the one in the smaller house builds it into a bigger house. That is economically inefficient and driven by the tax. How big an effect that is I do not know, but you would expect that effect.

Q31 **Lord Bichard:** Could you talk a little bit about the impact that you think the workings of the mortgage market are having on intergenerational fairness? Attached to that, do you have any views about the Government's first-time buyer scheme?

**Ian Mulheirn:** This is part of a wider point but the evidence is pretty clear that the main drivers, or the only real drivers, of house price appreciation in the UK over the past 20 years since the mid-1990s have been falling global interest rates, and falling mortgage rates that have gone along with those, combined with rising incomes. It has not been a question of insufficient supply of housing. In that context, the mortgage market is absolutely critical. When mortgage rates fall, people can obviously afford to bear much greater debts and therefore can afford to spend much more on housing, and that is precisely what we have seen.

It is a theoretical and empirical fact, if you like, that, if you essentially take the mortgage costs and the house prices and you multiply them together, you generally get the rent, and that equality tends to hold over time. That is what we have seen. In general, the mortgage market is absolutely critical in driving the capital gains that are behind many of the worries about inequities in the distribution of housing wealth. In that context, the access of young people to the mortgage market so that they can get on the housing ladder is critical, even if we might be ambivalent about whether that is a good idea. If they cannot get hold of mortgages, they will not be able to borrow.

In the run-up to the financial crisis, we obviously had house prices that reached astronomical levels, and there was a slight downward trend in home ownership up to 2007. The real collapse in home ownership came after 2007, when house prices fell across the country, and yet home ownership rates fell in every region quite substantially. They fell off a cliff. The reason was that there was a sudden aversion to lending at high loan-to-value rates. Essentially, that stopped overnight. Loan-to-value ratios of 95% or more disappeared completely and 90% pretty much disappeared.

We can obviously debate whether or not that is a good or bad thing in itself, but it had the indisputable effect of halving the rate of first-time buyers overnight, and that persisted for five years. That heart attack in the first-time buyer lending market was the proximate driver of the collapse in home ownership.

In a sense, there are many aspects of the Help to Buy schemes that you might be concerned about but, in terms of tackling that specific problem, it is actually a solution to the immediate driver of the problem, which was a sudden disappearance of lending to first-time buyers. It was not at a scale that would have been sufficient, and was not sufficient, to reverse the sudden stop in lending to first-time buyers but it perhaps did put a floor under it and cushioned the fall in home ownership rates, which was already very dramatic and could have been even more so without some sort of incentive to start lending again to first-time buyers.

As I say, all of that is setting aside whether or not any of that is a good idea for other reasons, but, just in terms of the dynamics of first-time buyers, that is the story.

**Lord Bichard:** Would you have a response to that if you actually wanted to encourage or to enable more young people to own? Apart from the first-time buyer scheme, is there a more efficient way?

**Ian Mulheirn:** You have to decide politically whether you want to have high home ownership rates of the level of 70% that we saw back in the early 2000s. If that is seen as a political good in itself—and there are other questions about the private rental sector and other things that we might address in that context—then it was a reasonable intervention to achieve that.

I tend to think that there is a bit of a trilemma of options for policymakers. They can essentially have any two of three settings: they can have high home ownership rates; they can have financial stability; or they can have fiscal neutrality with respect to housing tenure. In the run-

up to the financial crisis, we had a very financially unstable situation, which was enabling high levels of home ownership and enabling the Government not to spend money subsidising first-time buyers. But, of course, it was financially unstable and we saw that in the crisis. Back in the years of MIRAS and other things in the 1980s and 1990s, perhaps we had more fiscal intervention and more financial stability but you were socialising the cost of first-time buyers by subsidising them directly, and right to buy was also pushing up home ownership rates. You had more leaning on the fiscal lever, if you like, to raise home ownership there.

Now, post the crisis, we are in a world where there is not substantial fiscal intervention. There are some—taxes on landlords, buy to let and things like that—but there are not substantial fiscal interventions of a level adequate to raise home ownership rates back to what they were in 2002. Nor is there, because of things like the Mortgage Market Review and Basel III regulations, the ability to lend at very high loan-to-value rates at scale, as we were doing before 2007—which, I hasten to add, is probably a very good thing. The inevitable consequence of that is that we have home ownership rates that are much lower than they were back in the early 2000s. Politically, we have to decide whether we pull one of those levers or accept that we will have home ownership rates at the current level or thereabouts for the foreseeable future.

**The Chairman:** You are nodding assent, Paul.

**Paul Johnson:** I broadly agree with that. I like the three choices. If—and I agree with Ian that it really is a big “if”—you want to move towards higher levels of home ownership for younger generations, you have to find a way of changing the balance of power in the housing market. At the moment, because you have very low interest rates, you have very high asset values, and, because you have the financial constraints, you need a big deposit. That puts a lot of power in the hands of those that already have some wealth.

The important thing here, of course, is that the young people who are not owning houses are still living somewhere and, on the whole, they are not still living with their parents; they are living in houses that are owned by their parents’ generation and they are paying them rent. As well as Help to Buy on the one end, which is putting a bit more power in the hands of the younger generation, the Government have taken some of the power away from the older generation. There have been some tax changes in the mortgage treatment of second properties that are rented out, for instance.

That is not fiscally neutral so, again, to take Ian’s point, if you want to change that balance, you do things that are not fiscally neutral. The fiscally neutral way of taxing rental property was the way it was done before: you should be able to set off your mortgage payments against your rental payments in the same way you do with costs in any other business. If what you want to achieve is to change that balance of power, you could do other things through the tax system to, as it were, punish second-home owners. You could significantly increase the council tax on second homes. There has already been a big increase in stamp duty on second homes, though that only gets at the next set. As well as

supporting the younger generation, you could “punish” those who own second properties and reduce their power in the housing market in that way. I am not saying that you should do that but, if you really want to increase home ownership among the younger generation, that is probably a crucial way.

Second-home ownership among the older generation is astonishingly high. Something like one in six people in their 50s or 60s has a second property or more. It is those properties that, in the past, would have been owned by the younger generation and now they are being rented out, so essentially you might want to work on both sides. That is at the cost of fiscal neutrality and it does depend on you having a very clear desire to have that home ownership among the younger generation, and it may well be that we get a much better outcome by regulating the rental market in a different way and so on.

**Baroness Jenkin of Kennington:** Can I just ask a point of clarity on that? You say one in six. Does that include overseas properties?

**Paul Johnson:** No.

**The Chairman:** That is striking. I assumed that there were quite a few of them in Spain. I accept your response: that one in six owns a second property domestically. The concerted response across all the political parties is one word: “supply”. We have heard conflicting evidence on that.

Q32 **Lord Hollick:** It is widely agreed that the provision of an affordable home, either to buy or to rent, reasonably near your place of work is a basic aim that public policy ought to seek to achieve. Clearly, we are some way away from that, particularly in hotspots such as London and other major metropolitan areas. Both of you are on the record pointing out that there is a shortage of social housing, and indeed the Economic Affairs Committee of this House came to very much the same conclusion. What changes to public policy should take place, both at national and local level, to achieve an increase in the supply of social housing?

**Ian Mulheirn:** First of all, I would try to disentangle two strands in the question. There is a question in aggregate about whether we have enough housing in the country and enough places to live—or “housing services” as economists call it—in the right places for people to access work, as you say. There are then distributional questions around whether there are houses that are affordable, through subsidies, through housing benefit or through social housing. The key attributes of social housing are supply—sure—and distributional policy. I tend to see the distributional side of things as a slightly separate issue.

In terms of the nuts and bolts of how you increase the social housing supply, obviously it is mainly a political lever. If Government want that to happen, they have the powers to achieve that. That is a slightly separate question from whether or not we need to have more housing overall, in aggregate, in order to achieve more affordable housing, which I do not think is the case and is less in the Government’s gift directly.

**Paul Johnson:** On social housing, the answer is, straightforwardly, money. This is social housing at below market rents. The Government need to pay for it if that is what they want.



**Lord Hollick:** Is that by allowing local authorities to borrow?

**Paul Johnson:** That is just another form of money, in a sense. One of the things you see in looking at public expenditure control over time is that it was only when central Government imposed much more control on local government that we really got serious public spending under control. If local government were to be allowed to borrow, first, that would appear on central government borrowing, so it would need to change its targets and, second, central Government would, quite appropriately, want very strong levers over how much was being borrowed. This is just another fiscal choice about how much nationally we borrow. We can say to local authorities, “You can borrow a certain amount against your assets and what have you”. That would be on the PSBR, and then we can decide whether we have a different fiscal rule to accommodate it.

**Lord Hollick:** Coming back to the distribution point, what steps would you take to improve the distribution of housing so that younger people can either buy or rent housing where they need it, at a price they can afford?

**Ian Mulheirn:** I would probably make a distinction between the buy and rent sides. Certainly since good data started being collected in 2005, rents, on a like-for-like basis, have fallen in real terms in the UK as a whole. In London, they have basically tracked household incomes in real terms over that period. The modelling that we have done at Oxford Economics suggests that that has broadly been the pattern going back to the early 1990s as well. I do not think there is a problem with an increasing cost of accessing housing services. You may argue that there was a problem in the early 1990s but I do not think there is much evidence that accessing housing in an area you need to be in has changed or has grown relative to income over the last 25 years. It has been a pretty benign picture.

Of course, that is in stark contrast to the cost of buying a house in any of these places. Because interest rates have fallen, the price of houses has gone up. You have this situation where actually renting a house at a rate that is as affordable as it was 25 years ago is not actually a problem. The problem is buying one, and this comes back to the political decision about how much we are to worry about home ownership. I would see it as an absolute political priority, as you put it, to ensure that people can afford to live in a house at a hopefully declining proportion of their income over time in the place that they need to live to access their job. That should be a primary goal of policy. It is perhaps a secondary goal of policy to worry about whether people can afford to buy houses in those areas. It is one that we might worry about but it is not quite as important as making sure that the cost of living is not rising.

**Lord Hollick:** How did you react to the suggestion of the Intergenerational Commission that, at the age of 25, every citizen should receive a £10,000 gift, at the cost of £7.5 billion a year? Do you think that would help to address the problem that you just described of the affordability of housing?

**Ian Mulheirn:** Obviously, in terms of the need to have a deposit to get yourself to a point where you can access cheaper borrowing, that is going to help; if not used for that, it can be rolled into a pension or whatever.

That will benefit people. Again, it comes back to that question of what its purpose is. Is it that we see that we should be helping people to buy? If you accept the broad view that since the cost of capital has fallen, the price of houses has risen, we have to think in terms of generation and equity questions, and more broadly about the fact that the boom in house prices over the past 25 years has clearly had massive distribution implications. Do we want to throw everything at encouraging young people into a market that, if you buy that theory, could well be at its peak? What happens if that capital gain reverses and you have just attracted a load of people in, either through giving them deposit money or through subsidising their borrowing or whatever it might be? That is a set of questions that often does not get addressed.

**Lord Hollick:** It sounds like “not sure”.

**Ian Mulheirn:** I would worry about it.

**Paul Johnson:** Could I put a gloss on Ian’s answers on the cost of renting and so on, which sound slightly counterintuitive but are broadly right? The average fraction of all renters’ income taken up in rent has gone up quite a lot for younger generations relative to ones before. A lot of that has to do with the fact that they are much more likely to be private renters as opposed to social renters, so the fraction of social rented housing has gone down a lot, and obviously private rents are much higher than social rents, and social rents have risen significantly in real terms over this period. People born in the 1980s, if they are renting, are paying a significantly higher fraction of their income than people born in the 1970s or 1960s who are renting. If they are home owners, they are paying a smaller fraction in mortgages because mortgage interests are so low. This, of course, is after they have spent a large amount on a deposit, but if they are mortgagors, the mortgage interest component of their payment is relatively low.

Therefore, people born in the 1960s, by the time they were 30, whether they were renting or owning, were paying a similar fraction of their income on housing costs. People born in the 1980s, if they are renting, are paying a higher fraction of their income on housing costs than if they have a mortgage if the only bit of the housing cost you count is the mortgage interest. Of course, that may be a little unfair because there is obviously a massive capital to pay off as well, but the thing you never get back is the mortgage interest, in the same way you never get your rent back.

Within the private rented sector you have not seen this big increase in costs, although obviously you have in some areas, but, as a fraction of income, it has gone up and a large part of that is to do with the collapse of the social sector. You see this by wage or income groups. A reasonable fraction of the lowest income group of people in their 30s used to be in social rented accommodation but they are just not any more; they are mostly in private rented accommodation, which is much more expensive.

**Lord Hollick:** Could you tell us how that percentage has changed over the last 20 or 30 years? From the perspective of young people, that seems to be very unfair.

**Paul Johnson:** I do not have that information with me but we do have it. Also, if you are in your early 30s on average earnings with a family, you are now highly likely to be a private renter whereas, 20 or 25 years ago, you were pretty highly likely to be an owner-occupier. You now feel rather like these people right at the bottom of the distribution because you are all private renters, whereas 20 years ago you felt rather like people at the top of the distribution because you were all owner-occupiers. That is one of the things that gives a social impact of this change. We have got the numbers that you asked for.

**Lord Hollick:** It would be very helpful if you could share those with us.

**The Chairman:** Yes, it certainly would.

Q33 **Baroness Crawley:** Let us stick with the private rented sector for the moment. How have different generations been affected by the increase in the size of the private rented sector? How would you respond to the Government's consultation of 2 July that looks at improving security of tenure for those in the private rented sector with a proposed model of a three-year tenancy as a norm?

**Ian Mulheirn:** I would like to start by going back a step to talk about the issue that Paul raised: the cost of owning. In many pieces of analysis, you will see that, when somebody is an outright owner of a house, their recorded outgoings in respect of that property are zero and many people assume that that means there is no cost associated with it, but, of course, if you were to take that money and invest it in your pension instead, you would be getting an income from that money. The way that economists think about it is that you are forgoing income because of having all that capital locked up in a house and not earning any money. That is one of the important reasons why I say that the cost of owning and the cost of renting tend to be equal.

When you come to the private rented sector and think about the distributional implications of its growth, there are two things that we might worry about. The first is: are the ongoing costs different between the two tenures? Most people think the answer is yes, but the answer is no. In terms of ongoing day-to-day costs, that is not the problem. There are distributional problems, as Paul has pointed out, with the shrinking of the social rented sector, the cuts to housing benefit and those kinds of questions. They are real distributional problems that cause a lot of affordability problems for people. Lower wage growth among younger people, which you were talking about before, is another problem that causes affordability issues. These problems come not from the housing market but from other areas.

The second thing that we might worry about is the difference in the experience of owning and renting. Obviously, in the world of a very insecure private rented sector, that is a very different experience. It does not need to be that way and there are lots of other countries around the world that make the experience of owner-occupation and renting much closer by regulating for longer, perhaps indeterminate, tenancies, strengthening the rights of tenants to avoid the very obvious power imbalance that exists between them and making sure that they get better quality, safer housing.

The real problem with the growth of the private rented sector, particularly now that we have seen a tripling in the number of families with children in the sector, is one of security of tenure and quality and fairness. It is not one of day-to-day cost. We can solve that problem, whereas obviously the capital gain questions we were talking about before are rather more intractable and are the result of much bigger forces at work that lie well beyond housing policy alone.

Q34 **Viscount Chandos:** The comparative insecurity of renting as against ownership is of course set against a very long period of low and stable interest rates; the insecurity of ownership with substantial borrowings becomes much greater in an era of rising rates. I still accept there is currently an imbalance, and probably a structural imbalance of security, but do you think that is fair?

**Ian Mulheirn:** Yes, you are talking about repossessions and things like that.

Viscount Chandos: Yes.

**Ian Mulheirn:** Of course, with some of the reforms that we have seen to try to choke off the very high loan-to-value borrowing, hopefully we will see a bit less insecurity if we were to enter a period of rising rates, but, absent those cyclical economic fluctuations driving insecurity in owner-occupation, as long as you keep your job, you can choose when you stay or go from the property, and that is a world away from what is experienced in the private rented sector.

Q35 **Baroness Tyler of Enfield:** I want to ask about the older generation's approach to housing but just preface it, Paul, by saying that I was hugely struck by the figure that you quoted at the beginning about 30 year-olds now holding about half as much wealth as 30 year-olds 20 years ago. That is a huge generational shift and is the key driver for this inquiry. Within that context, do you feel that approaches to helping with downsizing—we have heard about some of these intergenerational sharing schemes, though they are very small scale—could form part of the solution for improving housing market fairness between generations? Do you feel that older generations are sometimes holding on to property wealth to insure themselves against future social care costs?

**Paul Johnson:** I do not think we know the answer to that latter question. There is certainly some evidence that they hold on to other forms of wealth for exactly that reason. Certainly, there is remarkably little downsizing among older generations. Fewer than half of people ever move again from the house you live in at 50, which is really quite extraordinary. I understand it; I do not ever want to move. That is an interesting behavioural issue regarding the things that Government might do, because the whole process is so tough. Sticking stamp duty on top of that is an additional thing. Everything pushes you to stay where you are. It goes again to this issue of whether we have the right number of houses. I broadly agree with Ian that the problem is not the number; it is the distribution. All the incentives are to leave you where you are and to build extensions, because moving is so expensive and so on. I suspect stamp duty is not the major part of that, but it is a part that clearly matters.

If you look at people's behaviour after the age of 65, their assets do not get spent down very much. We have done some work showing that, between the ages of 65 and 90—I cannot remember the exact age—if you live that long, you spend down only about a third of your financial wealth, and you are highly unlikely to spend down any of your housing wealth.

On the financial wealth side of that, for all those people who say they are worried or think they have a significant probability of needing social care, they are even less likely than the others to spend down their financial wealth. That at least indicates that the fear of social care costs is one of the things that leads people to hold on to their financial wealth. We have not analysed whether it is also related to holding on to housing wealth. That might be a part of it, although I do not know how significant a part.

**Ian Mulheirn:** As Paul says, the financial incentives are all wrong for the efficient allocation of housing to those who need it. That is clear. I do not think there is much evidence that it is a massive problem. It could be better if we were to structure our tax system better but, as I say, the cost of renting a given house has fallen, relative to income, on a like-for-like basis over time. Yes, we could allocate housing better and maybe it would fall slightly faster, but this is not where the problem is. The problem is not that we have not supplied enough housing for people to occupy. The surplus of dwellings over the number of households in the UK has doubled to about 1.3 million over the last 20 years. It is not about the supply. We could improve that allocation slightly and, sure, that would help, but, if we are worried about prices, the drivers are elsewhere; it is not really about downsizing.

While it is true that the over-50s or over-60s are sitting on a huge amount of housing capacity and under-occupying lots of property, that is not having a material impact in pushing up the rents of younger people today. Those rents may be slightly higher than they otherwise would have been but they are falling relative to income.

**Paul Johnson:** It depends what you mean here by "intergenerational equity". If the focus is on home ownership as a form of intergenerational equity, you are again getting to this issue of the power that sits, because of the way the mortgage market is working, with those who already have wealth and the importance of this very high level of ownership of additional properties. Young people are not living nowhere; they are living in places that are owned by other people. If—and I cannot stress the "if" enough—what you are really concerned about is home ownership, then, in a sense, it is a question of dealing not with the total amount of housing but with who owns it. That is then potentially amenable to things like punishing those who own second houses or in some sense subsidising those who are first-time buyers.

Q36 **The Chairman:** You are both in effect saying that the Chancellor's Harold Macmillan reborn "build 300,000 houses a year" is at best irrelevant. It might help but it will not solve the price problem. Is that what you are saying?

**Paul Johnson:** I am probably not quite as strong on that as Ian. One of the reasons why people hold on to additional property wealth is an expectation of capital gains. As a signal that those capital gains are less

likely, building zillions of houses might help. In that sense, if you want people to be holding them as consumption rather than investment goods—if there is an expectation that they will not offer you a very big return because the capital gain is gone and that is associated with building lots of stuff—that might be the impact. That is probably a marginal impact and it remains the case that, while the power in the market sits with those with lots of assets, one of the issues with building lots more houses is that quite a large fraction of those might end up with those who already have lots of assets. It does not necessarily make it easier for the next generation.

**Ian Mulheirn:** It is a bit like saying faster GDP growth might be a good solution to poverty. Nobody says that because it does not make much sense. If you have a distributional problem, you need a distributional solution. There is no obvious reason why supplying housing is going to help people who do not have any at the moment. That is one thing I would say.

On the 300,000, the way to view it is that it is potentially helpful at the margin but with potentially negative consequences. Overall, its impact on the price of houses is likely to be a factor of 10 smaller than we might ideally want. Over the past 20 or so years, we have seen house prices rise in the UK on average 150% in real terms. That is an absolutely huge rise. If you take all the evidence from the UK literature on the sensitivity of prices to new supply—there is pretty much a consensus on this—it suggests that if you build 1% more housing stock, it would reduce the prices by about 2%. Given the growth of household numbers of around 200,000 a year, according to MHCLG, if we build 300,000 a year, that is an extra 100,000 houses; it would take about 30 years to take 10% off prices. You would not get anywhere near reversing what we have just seen and it would take a generation.

Incidentally, since the overwhelming majority of households in the UK are currently occupied by nuclear families, a lot of that excess stock will go unoccupied. In any other infrastructure investment decision, we would have to decide, for example, whether it is worth building another three bridges over the River Thames. Is there enough demand to use those bridges? Similarly, with housing, we have to ask whether it is worth building a huge number. We have to build enough to keep up with the growth of household numbers—that is clear—but do we really want to build 10 million more houses tomorrow? Who would actually live in those houses? The structure of our households is such that it is not obvious that there are many more households to be formed, frankly, besides the trend rate of population growth, immigration and that kind of thing.

We have to see supply as only a marginal help and possibly with some negative side-effects. Of course, there are regional dimensions to that. I do not think anybody would say that there is too much housing in London, but things have not obviously got worse, either, in terms of the cost of owning relative to Londoners' incomes. In a sense, it might help at the margin but it is not really much of a solution to the problems we have.

Q37 **Baroness Jenkin of Kennington:** I will do without the preamble because

time is short. If there was one thing you could do to the housing market to improve intergenerational fairness, what might that be?

**Ian Mulheirn:** As I say, there are three drivers of potential unfairness between the generations. One is the capital gain point. The first thing I would say is that we just need to be cautious about what capital gain might look like in the future. It could go up or it could go down; you would not want to bet on it in any one direction.

The second thing is ongoing costs. I have argued that I do not think the ongoing costs for housing—for renters and for owners—are notably different.

The biggest single thing, and the thing we have the greatest power over, is the difference in the experience of renting versus owning. The insecurity of tenure faced by younger people in the private rented sector is a world away from ownership, and that is probably the single biggest thing we could do in housing to ensure greater intergenerational fairness.

**Paul Johnson:** I agree with that point about the rented sector. Making that a better experience is really important. If what you mean by “intergenerational fairness” is higher levels of home ownership by younger people, I rather suspect that the best route to that is through “punishing” older people who have second or subsequent houses.

**The Chairman:** We do not like to end with punishment; we like to end with “thank you”. Thank you both for being so patient. It has certainly not been punishment for us; it has been a great pleasure to hear your evidence. Thank you very much. That concludes the meeting.

Institute for Public Policy Research, Policy Exchange, TaxPayers' Alliance and Professor Sir John Hills – Oral evidence (QQ177–182)

**Institute for Public Policy Research, Policy Exchange, TaxPayers' Alliance and Professor Sir John Hills – Oral evidence (QQ177–182)**

[Transcript to be found under Professor Sir John Hills](#)



International Longevity Centre – UK, Professor Jacqueline O’Reilly and Centre for Ageing Better – Oral evidence (QQ 65–72)

**International Longevity Centre – UK, Professor  
Jacqueline O’Reilly and Centre for Ageing Better – Oral  
evidence (QQ 65–72)**

[Transcript to be found under Centre for Ageing Better](#)

Locality, Dr Thomas Moore, Power to Change and Dr Tom Archer – Oral evidence (QQ 137–143)

**Locality, Dr Thomas Moore, Power to Change and Dr Tom Archer – Oral evidence (QQ 137–143)**

[Transcript to be found under Dr Tom Archer](#)

Professor Stephen Machin and the Institute for Fiscal Studies – Oral evidence  
(QQ 21–27)

**Professor Stephen Machin and the Institute for Fiscal  
Studies – Oral evidence (QQ 21–27)**

[Transcript to be found under the Institute for Fiscal Studies](#)

Julian McCrae, Professor James Sefton and Chris Giles – Oral evidence (QQ 169–176)

**Julian McCrae, Professor James Sefton and Chris Giles – Oral evidence (QQ 169–176)**

[Transcript to be found under Chris Giles](#)

Dr Thomas Moore, Power to Change, Dr Tom Archer and Locality – Oral evidence (QQ 137–143)

**Dr Thomas Moore, Power to Change, Dr Tom Archer and Locality – Oral evidence (QQ 137–143)**

[Transcript to be found under Dr Tom Archer](#)

Ian Mulheirn and the Institute for Fiscal Studies – Oral evidence (QQ 28–37)

**Ian Mulheirn and the Institute for Fiscal Studies – Oral evidence (QQ 28–37)**

[Transcript to be found under the Institute for Fiscal Studies](#)

Professor Jacqueline O'Reilly, Centre for Ageing Better and International Longevity Centre – UK – Oral evidence (QQ 65–72)

**Professor Jacqueline O'Reilly, Centre for Ageing Better and International Longevity Centre – UK – Oral evidence (QQ 65–72)**

[Transcript to be found under Centre for Ageing Better](#)

Policy Connect, Professor Andrew Scott and Association of Colleges – Oral evidence (QQ 56–64)

**Policy Connect, Professor Andrew Scott and Association of Colleges – Oral evidence (QQ 56–64)**

[Transcript to be found under Association of Colleges](#)



Policy Exchange, TaxPayers' Alliance, Professor Sir John Hills and Institute for Public Policy Research – Oral evidence (QQ177–182)

**Policy Exchange, TaxPayers' Alliance, Professor Sir John Hills and Institute for Public Policy Research – Oral evidence (QQ177–182)**

[Transcript to be found under Professor Sir John Hills](#)

Power to Change, Dr Tom Archer, Locality and Dr Thomas Moore – Oral evidence (QQ 137–143)

**Power to Change, Dr Tom Archer, Locality and Dr Thomas Moore – Oral evidence (QQ 137–143)**

[Transcript to be found under Dr Tom Archer](#)

Royal Town Planning Institute and Associated Retirement Community Operators  
– (QQ 120–129)

**Royal Town Planning Institute and Associated  
Retirement Community Operators – (QQ 120–129)**

[Transcript to be found under Associated Retirement Community Operators](#)

Professor Andrew Scott, Association of Colleges and Policy Connect – Oral evidence (QQ 56–64)

**Professor Andrew Scott, Association of Colleges and Policy Connect – Oral evidence (QQ 56–64)**

[Transcript to be found under Association of Colleges](#)

Professor James Sefton, Chris Giles and Julian McCrae – Oral evidence (QQ 169–176)

**Professor James Sefton, Chris Giles and Julian McCrae – Oral evidence (QQ 169–176)**

[Transcript to be found under Chris Giles](#)

Social Market Foundation, the Building Societies Association, Centre for Economics and Business and Professor Sue Heath – Oral evidence (QQ 151–159)

**Social Market Foundation, the Building Societies Association, Centre for Economics and Business and Professor Sue Heath – Oral evidence (QQ 151–159)**

[Transcript to be found under Building Societies Association](#)

TaxPayers' Alliance, Professor Sir John Hills, Institute for Public Policy Research and Policy Exchange – Oral evidence (QQ177–182)

**TaxPayers' Alliance, Professor Sir John Hills, Institute for Public Policy Research and Policy Exchange – Oral evidence (QQ177–182)**

[Transcript to be found under Professor Sir John Hills](#)

Timewise, Professor Athina Vlachantoni and CIPD – Oral evidence (QQ 73–83)

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TUC and Federation of Small Businesses – Oral evidence (QQ 84–92)

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(QQ 84–92)**

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Professor Athina Vlachantoni, CIPD and Timewise – Oral evidence (QQ 73–83)

**Professor Athina Vlachantoni, CIPD and Timewise – Oral evidence (QQ 73–83)**

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## The Rt Hon the Lord Willetts – Oral evidence (QQ 1–20)

Tuesday 1 July 2018

[Watch the meeting](#)

Members present: Lord True (Chairman); Baroness Blackstone; Lord Bichard; Baroness Crawley; Baroness Greengross; Lord Hollick; Baroness Jenkin of Kennington; Lord Price; Baroness Thornhill; Baroness Tyler of Enfield.

Evidence Session No. 1

Heard in Public

Questions 1 – 20

### Witness

The Rt Hon the Lord Willetts, Executive Chair of the Resolution Foundation, and Chair of the Intergenerational Commission

Q1 **The Chairman:** I very much welcome Lord Willetts here. The Committee felt it was the inevitable and proper place to start, hearing evidence from you. Obviously, this session is open to the public and there will be a webcast, so it is not only the physically present. A webcast of the session goes out live, I must remind colleagues, and is also subsequently accessible on the parliamentary website. There will be a verbatim transcript. You know all this. It will be put on the website, and a few days after the evidence you will get a copy of the transcript so that you can check it for accuracy and advise us of any corrections. If, after the session, you want to clarify or amplify any points made during the evidence or have additional points to make, then, again, you are familiar, I am sure, that you are welcome to submit supplementary written evidence.

As we are on the record, would you like to introduce yourself? We will then begin with questions.

**Lord Willetts:** Thank you very much. My name is David Willetts. I am a member of this House and also executive chair of the Resolution Foundation.

Q2 **The Chairman:** Let us go straight in with the core question. In what way do you believe that the current contract between generations, as you have described it, is under threat? Could you, in essence, set out your case for us?

**Lord Willetts:** First of all, can I just say that it is fantastic that the Lords is conducting this inquiry? It is a really important subject and it is great to see such a distinguished group of people who are pursuing the inquiry.

The evidence that there is a problem is pretty overwhelming. You can see it in terms of assets. The two big assets that people build up during their working lives—both funded pension and a house—are both much harder for younger people to build up than was the case for the older generation. If you look at income, the pay of someone aged 30 in the jobs market now is no higher in real terms than it was 15 years ago. If you look at the welfare state, during an age of austerity, it is the transfer payments to

younger people that have tended to suffer, whilst there has been more protection for transfer payments to older people. If you put all that together, there is a very significant problem.

**The Chairman:** We are looking, in a sense, at a snapshot of things as they are now. Would you think about some reflections on the way in which policy goes forward? How can we ensure that the contract, if it is distorted now, is not distorted 20 or 30 years on?

**Lord Willetts:** Of course, when you say “looking forward”, it is the case that, by and large, older people have more assets than younger people. There is a life-cycle effect. The challenge is to look behind the normal life cycle and to see if there are gaps between the generations that are not simply the usual life-cycle effect. The evidence on that is very clear and it is hard to see how the younger generation at the moment will be able to build up the home ownership, the pensions and even the pay progression that their predecessors had.

In terms of policy, the good news on pensions is that auto-enrolment and NEST is working. At least there is something there. There is a framework that is one of the great successes of cross-party politics in the past 15 years. There is a framework there where you could imagine initiatives where you help the younger people build up bigger pots in their NEST savings account—a more generous government matching arrangement for people under 40 or whatever.

On housing, there is now widespread recognition of the problem. I would recommend the report from our Intergenerational Commission to this Committee as our attempt to go through all this.

**The Chairman:** We have copies.

**Lord Willetts:** Excellent. We propose more immediate measures to help people in the private rented sector but it is also absolutely clear that, as a nation, we need to build more houses.

On pay, again, it looks as if part of the problem is that younger people are stuck in not very well paid jobs, and so the challenge becomes how you can give them better prospects to move on and move up. There is quite a rich policy agenda that follows on from the analysis.

**The Chairman:** That is why we are here, and hopefully we will be able to help get to the roots of that. I will now bring in colleagues and we can look at some of the specific aspects that you have set out.

Q3 **Baroness Crawley:** First of all, congratulations on your report, which I am sure is giving policymakers some very high-quality chewing-over time. I noticed that, of the 10 key recommendations, three were to do with the regulatory environment with the remainder being about the paucity of financial resources available to the state and what might be done in terms of levies and tax, and redistribution from old to young because of that.

Do you believe that the 2008 financial crisis, the uncertainty we are now in as far as Brexit is concerned and the sort of biblical dimensions of tax avoidance by the big corporations—for instance, all of us together in this room pay more tax than Netflix does, I am sure—are the issue? Is it more to do with the economic circumstances that we find ourselves in that is the

problem for young people's lack of security as far as jobs and housing are concerned? Is that it rather than generational friction, which you thought about quite a bit in your book, *The Pinch*, and, to a lesser extent, talked about in your report?

**Lord Willetts:** Certainly, the crash of 2008 has made things a lot worse. Of course, it has affected all generations in different ways; it did not just affect the young. Since the crash, partly because of quantitative easing, there has been an increase in asset prices, which has entirely accrued to the over-45s. Undoubtedly, the post-crash environment—and now where we are negotiating Brexit—has made things tougher but the trends began before then. Home ownership had already peaked at the beginning of the century and had already started to decline. The shift of younger people into the private rented sector had already begun. Even on the pay side, it looks as if the problems of younger people not getting into well-paid jobs with the progression they might have hoped for also precedes the crisis. There were trends already working their way through the system but the crash has made it worse.

Q4 **Baroness Jenkin of Kennington:** I have a question in response to the introduction. What is it that you expect or hope that this Committee might add to your report, or what will this report do that your report has not already done?

**Lord Willetts:** That is a very good question. To be honest, the analysis is now quite widely shared. Although one can always refine the analysis, I personally think that this is a problem that has been quite widely analysed. Our commissioners—people like Paul Johnson of the IFS, John Hills, the heads of the CBI and the TUC—all share the analysis. I do not think I am betraying any confidences when I say that when I talk to Ministers about our report, by and large they do not challenge the analysis. The question is: what are the policy options and are they political feasible?

I see part of the role of a think tank like the Resolution Foundation as being to broaden the scope of what is politically feasible by pushing out ideas and seeing which ones prove to be acceptable and which ones do not. Obviously it is not for me to tell my colleagues in the House of Lords, but I personally think that policy options—the analysis of policy options, and especially embracing the more difficult ideas so that they get a proper airing and people can see that representatives of all the major parties are willing to embrace those—would be really useful.

I will give one example. I am speaking now as a Conservative rather than the chair of this commission. Take capital taxes. I am not someone who likes raising taxes—I do not do it because I think it is a good thing to raise taxes—but one thing that became more and more clear during the commission's analysis is that, if you just feed in demographic changes of the sort we expect in the next 20 years, the upward pressures for spending on the welfare state, i.e. not adding extras but just funding the commitments we already have, are very great, as we have seen with the NHS arguments recently. If we go down the conventional route, we will meet those commitments by taxing the working generation more heavily. The question is whether there is any acceptable way in which we can

expect the more affluent boomers—who, after all, will be the main recipients of health and social care—to themselves contribute. Our commission is not the last word but that will be a real political issue over the next decade, and it would be a real contribution to the public debate if this Committee in some way wrestled with it, just as one example.

**Q5 Lord Hollick:** Did your committee consider a capital transfer tax, a gift tax or a tax on receipts to possibly replace inheritance tax? Perhaps you could just remind us why the capital transfer tax, which did exist some time ago, was dropped.

**Lord Willetts:** We did look at that option. Our view was that inheritance tax has become a classic bad tax; a very high rate that sounds very scary but with very few people paying it. Actually, the most affluent, who have the capacity to shift resources around—who, for example, give money more than seven years before their death—are not really paying much of the tax at all. We did think that it was a poorly designed tax and argued that there should instead be a tax on receipts. We argued a lower rate and the first £125,000 any individual received being exempt from tax.

Indeed, one of the areas where we have just started scratching the surface is this type of capital tax issue. British capital taxes have not really been looked at for a long time. When you look at them close up, they do not work very well.

**Lord Hollick:** Has that received a warm embrace from Government?

**Lord Willetts:** I am sure the Committee will understand that I do not want to talk about individual cases. My impression from talking to friends of mine in Government is that they want this kind of debate to happen. They think that some of these options are politically very difficult. On the other hand, if you are sitting in Government, you see the figures for what will happen to public spending, and you see that it is very hard to avoid the conclusion that some kinds of taxes have to go up. I think they genuinely will be interested in what this Committee proposes as possible ways forward, and then see how that plays into a wider public debate.

**Q6 The Chairman:** I am sure that that is true. One of the difficulties is that, as you pointed out, QE has been largely instrumental, some would argue, in launching a massive asset bubble in some of the classes that you suggest, perfectly reasonably, should be examined. We will be looking at that. If one predicates policy on a potentially temporary phenomenon like QE, are there no risks in that—i.e., the asset bubble could disappear?

**Lord Willetts:** Yes, I would say that QE certainly has had that effect but, again, there were forces at work beforehand, which means that it is hard to see a full reversal. The scarcity of land for housing and restrictions on housebuilding have meant that land prices were already rising pre-QE.

On the pensions, the unanticipated improvements in life expectancy have meant that promises to pay a pension beyond a certain chronological age have ended up being worth far more than people thought they would be worth when they were made. This means that the calculation of the asset value of this claim that you have on future resources and a pension has become worth more. There are several different things at work; it just so happens that they have all pushed in the same direction so that this one

generation, to which I belong, has ended up with an unusually high proportion of the nation's assets, not because we were particularly malign to other generations and actually not because we were particularly virtuous and saving a lot. It is just that these things have happened that have meant that our houses have shot up in value. We have a pension that younger generations will never have, and indeed, post the crash, assets rose further.

**The Chairman:** We will come back to housing and indeed taxation of property because I think we all agree that it is an area we should go into. Now, I have been bad; I should have reminded the Committee that we should declare interests when we first speak. Although it is spectacularly irrelevant at this point in the discussion, I should declare that my wife is sole proprietor of a nursery school in London.

We will go on. I want to follow on in the area of work, which, as you have pointed out, is a key area here, and bring in Lord Price.

Q7 **Lord Price:** Good morning, Lord Willetts, and thank you very much for being with us. To reiterate what others have said, thank you very much for your report, which was very good indeed. I would like to pick your brains a little, if I may, about the area of work and to ask you to what extent you think that a younger generation of workers have a better or worse time than generations that have gone before. In doing so, I need to declare an interest: I am the owner of a website that measures workplace happiness, including between the generations.

**Lord Willetts:** We start with the headline figures. It looks as if the advances in pay have pretty much come to an end. I should qualify this by saying that this is where gender matters. In quite a few of these areas, it must be said that some of the worst problems are amongst men who expected a safe and secure route into work. For women, the improvement in education opportunities and then employment opportunities mean that the story is rather better, and a good thing too, but I should say there is a gender aspect.

When we try to work out what is happening, it looks as if, contrary to the picture of the younger generation as frivolous and uncommitted, they are not moving jobs as frequently as used to be the case in the past. Moving jobs is the great way in which to boost your earnings. They are staying with their employer for longer. There used to be some premium for commitment to an employer but it looks as if the increases in wages you secure just by virtue of staying with an employer for year after year are less than they were. So they are less mobile with declining rewards for loyalty.

It looks as if employer investment in training is going down, so their prospects of getting extra training on the job are diminishing. It also looks as if the sectors in which they are concentrated are unfortunately sectors that currently have relatively poor prospects. In the past, young people moved into the exciting new sectors of the future. Now they are in sectors that are not particularly well paid, such as, for example, social care.

The question is: what can you do about it? I freely recognise that more work needs to be done on this. There used to be, in jobcentres, a

discretionary fund that helped people move on and move up and paid for that extra bit of training, and even helped with the deposit of a flat if you are going to rent in a different place in order to move to a different job. Universal credit does provide an opportunity, because universal credit is supposed to involve more monitoring of people who are in relatively low-paid and relatively low-hours employment.

Because of my background originally as a Treasury official, we had a very strict rule on this commission that, if we ever proposed something that cost something, we should show how it should be funded, and we argued that, if you did not proceed with the next 1% corporation tax cut, that would yield the revenues that could be used for those types of interventions in the jobs market, aimed at helping the prospects of younger people.

**Q8 Lord Price:** Could I follow that up by asking to what extent you think that the move into a digital age is creating new opportunities and different opportunities that younger people might be opting for as opposed to traditional patterns of work? To what extent do you think that those who have been in work for a good deal of time, and are perhaps in their 30s or 40s, are advantaged or disadvantaged now against younger people in the digital environment?

**Lord Willetts:** That is undoubtedly a point. I do not want to paint too bleak a picture. There are also good things happening as well. That is certainly the case. There are some people who want highly flexible contracts and zero-hours contracts. There was some discussion of this in our report because we then looked at the surveys. We asked people, if they were working part-time, "Would you like a full-time job?" If they were working on a zero-hours contract, we asked, "Would you like a contract that guaranteed you a certain number of hours?" There is a substantial minority of people in that type of employment saying, "Yes, I would like to move to full-time", and "Yes, I would like regular hours".

We were very influenced by Matthew Taylor's work in suggesting, therefore, that, if you have been working on a zero-hours contract after a set period of, say, six months, you should then be offered a contract that was based on the average number of hours you had been working. You would not be obliged to accept it. If you really liked the total flexibility of a zero-hours contract, which some people do, you could stick with that.

**Lord Price:** You were proposing three months.

**Lord Willetts:** Yes, sorry, it was three months. Correct.

**Lord Price:** What about the question about those in their 30s and 40s who are less digitally aware and the extent to which they are either penalised or not by what is happening?

**Lord Willetts:** The overall picture is that older workers do seem to be concentrated in the sectors that are performing better—management posts, for example. I accept that there are some people who need retraining and new opportunities, and I am a great supporter of adult education, but, as I say, what is unusual about today's labour market is that it looks as if it is the younger workers, who historically received a lot of the training and got into the sectors of the future, who are the ones that



are currently getting the least out of the jobs market.

**Q9** **Baroness Blackstone:** What do you think the very high levels of debt amongst young people will lead to in terms of their attitude to more occupational mobility, willingness to move jobs and so on? How do you think that they are coping with this very high level of debt that they now have?

**Lord Willetts:** There is a deep issue here, which came to us as we did the work in the commission—which is risk and what kinds of risk younger people are bearing and whether it makes sense or not. I do not mind the idea that people have to take more personal responsibility and bear more risk, but it does look as if we have transferred a lot of risk to them when it comes to pensions, with DC pensions rather than the defined benefit pensions, and a lot more risk on housing, because we now have 40% of people aged 30 in the private rented sector with basically no security of tenure, when they previously would have been owner-occupiers or in council housing.

There have been big shifts in risk and that in turn seems to have left younger people more risk-averse in other areas, and more reluctant to move jobs. You could argue that we have got the types of risk that we are inviting them to take a bit wrong. I would like them to take a few more gambles on trying out a different job but perhaps, if they are worried about whether they could find any kind of decent alternative accommodation, they are more reluctant to do it. We did actually commission some opinion surveys that showed younger people being more reluctant to do that type of thing. It may well be the case that debt is one of the reasons why they are less willing to take the kinds of risk in the jobs market that, in some sense, I wish they were taking and that they ought to be taking.

**The Chairman:** I know that Lord Hollick wants to pursue what you are saying about in-work training, but Lord Bichard wanted to come in with a supplementary here.

**Lord Bichard:** The only interest I am supposed to declare is that I am a vice-president of the LGA, so I declare it.

I was going to make the point that you have just made about being risk-averse as a reason that people do not tend to move, but there are other reasons, are there not, that do not come out as strongly in the report? For example, there is the desire for a better work/life balance than perhaps was the case certainly when I was young, or a sense that people are not prepared for their careers to dominate their lives. I started in a world where you knew that you were going to have to move around from local authority to local authority to develop your career. I think that is less acceptable now. There is a much stronger desire for flexibility in terms of working hours, which, when it is found, tends to be kept. There are also family responsibilities; the fact that both partners are probably working despite the fact they have families makes it much more difficult. There are quite a lot of reasons that work against mobility in the labour market that do not quite get the emphasis and would not be dealt with by some incentivised grants at jobcentre offices. I would be interested in your views.

**Lord Willetts:** There are those types of factors at work and there is, behind all this, a paradox that we appear to be a society that has become rather more age-segregated. However, families have changed in the other way. Families have become more important. Your chances of having a sibling are reduced, so lots of brothers and sisters and cousins are diminishing. The “bamboo pole” family has become more important; you are more likely to have parents and grandparents and so the intergenerational exchanges within the family have become more important. It looks as if the ties to your family—not least because your only accommodation might be living with your parents and you might be getting financial support from your grandparents—have got stronger, and that may be one reason why people are less willing to move than they were, because the family paradoxically has become more important as the way in which different generations support each other. That is part of it.

In our proposals on jobs, we did not just envisage helping people to move on and move out; we also think we need to look again at how we can revive employer investment in training their own workforce, because it is declining. People who stay put should have an opportunity to get more education and training whilst they are with an employer.

Q10 **Lord Hollick:** Could you perhaps now tell us more about your proposals for funding greater in-work training and technical education for young people? You lay particular emphasis on people under 35, and your report contains some data that suggests that the percentage having some kind of formal training has actually been declining and is continuing to decline. You have come up with a better jobs deal of £1 billion and £1.5 billion to tackle underfunding, and that is against a background of an AI revolution that, it is widely agreed, will disrupt the labour market, whatever age you are, and will require a degree of retraining probably every decade. The evidence of automation so far is that people come out of skilled jobs and go into lesser-skilled jobs, so there is therefore a declining income.

It is rather a complex picture but you have very much focused on the under-35s, and particularly that group of under-35s who did not receive tertiary education. Could you explain how you think the £2.5 billion that you have talked about, and the other recommendations, will address that problem and how that will be funded? We have the apprenticeship scheme at the moment that is not working terribly well; how can that be made to be rather more effective?

**Lord Willetts:** The group that we identified—you are absolutely right—was under-35s in low-paid jobs who do not have higher education. Those are the people whose earnings and job prospects we are most worried about. The figure we put in the report is that there could be 1.2 million people broadly in that category who would be eligible for discretionary interventions. As I think I said earlier to the Committee, oddly enough, universal credit—I have mixed views about universal credit—does provide an opportunity, because part of universal credit is supposed to be the active monitoring of people in those types of circumstances because they are likely to still be getting some kind of top-up credit. Part of universal credit—and I strongly support this—is: can we help them increase their

hours and get a better-paid job? A monitoring system is supposed to be put in place as part of the rollout of universal credit.

There is not then a pot of money behind it. What we envisaged is that you could then imagine the jobcentre, or whichever body, having a fund that it could use to say to someone—this is a real constituency case I had once—“You are unsatisfied with your work. You say you always wanted to be a long-distance lorry driver. You cannot afford to get the HGV licence. Here is the £1,000 you need to go and get an HGV licence. We will then track you through to check you really are then going to boost your earnings and become a long-distance lorry driver”.

Say you are returning to work after five years out of work and all the software has changed and you do not understand it and you are finding it hard to get a job without the software: “Here is £500 to go on a course at your local FE college, where you will get the training you need in order to operate the software that is widely used in the occupation that you are looking for”. We envisage something like that that was quite discretionary but the trigger would be the UC monitoring of people in the kinds of circumstances that I described. That would be funded, as I said, by not implementing the 1% of the corporation tax cut.

**Lord Hollick:** That sounds very consumer friendly. You could almost decide, “I want to get my HGV licence”, or “I want to get software training”. How is that delivered? Who delivers the training and who makes a decision on whether your HGV ambitions should be funded or my software training should be funded?

**Lord Willetts:** There were schemes like this in the past. We saw that as being run out of local jobcentres. There is quite a good network of training providers at the moment. You can imagine a system of allocating to jobcentres a fixed amount of money depending on the number of people that have been identified as being in the kinds of circumstances I was describing earlier. The local team would then have discretion in how they spent the pot of money that had been allocated to them on the basis of the number of potentially entitled people they were dealing with.

**Lord Hollick:** We heard in some evidence last week that the peak tax payment year is 45 or 47. Your suggestions cater for those people up to 35. Would it be extended to the 35 and above?

**Lord Willetts:** The analysis is not perfect. It is a problem we have identified. With these types of things, you then want to monitor them and evaluate them. Germany did introduce something like this as part of their labour market reforms at the beginning of the century and, as I say, there have been versions of it in the UK as well. If it worked and proved to be successful, you could then extend it. I personally would not want to extend it until you had checked that this was indeed an effective intervention.

Q11 **Baroness Greengross:** Forgive me, David. We know each other well. I am sorry I could not be here earlier but we were together recently when you did a presentation. I should declare my interests: I am the chief executive of the International Longevity Centre, and I chair a parliamentary forum on intergenerational fairness, which I think you know, and I am on an advisory council for an international care organisation, as

well as LGA vice-president, like most people here.

David, I just wanted to ask you whether you had done any separate analysis of young women and young men, because I wondered if the disadvantages that you have highlighted of the young apply equally to both. It just occurs to me when I read the report that quite a lot of the stuff that Lord Bichard has just been talking about really is very good in my view. The flexibility and the new ways of working have actually been very beneficial to young women, particularly young mums, and I just wondered if, in the study, this had come up at all. I was not aware of it in the report.

**Lord Willetts:** As I said earlier, in some of these trends, gender does matter in some respects. The expansion of education and employment opportunities for women means that, in some respects, the picture for them is better than for men.

We did one working paper on this. I have to say, overall, there are many other forms of inequity that worry people about Britain—distinction by social class, by ethnicity or by gender—and they all matter, but we were trying to put on the agenda whether there are differences by age and by the generation to which you belong. We are not denying all those other potential inequities in our society but our focus was around the generations to which we belong. Compared with those other forms of inequity, it has been surprisingly little analysed until recently. Our focus was on both big generations and then specifically, to make the analysis precise, five-year cohorts. When you analyse it by age, by five-year cohorts, you get some very striking evidence. I would plead guilty to focusing above all on the generation to which you belong while also accepting that there are these other dimensions as well that are very important and significant.

**The Chairman:** I am conscious that we have a lot of ground to cover but this work area is very important.

Q12 **Baroness Blackstone:** You stated very clearly at the beginning that the Committee ought to focus particularly on policy, and I absolutely accept that since a lot of the analytical and intellectual work setting out the situation has already been done. If that is the case, I would like to press you a bit more on what you were saying about zero-hour contracts and lack of employment rights. Your committee came up with some proposals in this area but they are quite general ones, and what we need to understand better is how we actually persuade either employers or Government to implement them. What are the mechanisms and what are the more specific ways of getting this done?

You will almost certainly get employers' organisations arguing, as the Adam Smith Institute, which gave us evidence last week, has, that flexibility is the only thing that really matters and most people on these contracts actually hugely prefer to be in flexible jobs. I do not believe that for one moment and your evidence which you gave us earlier suggests that that is not true. How do we move from where we are now to actually implementing what you want to do in these areas?

**Lord Willetts:** Let me add two other examples to the answer I gave to Lord Hollick earlier. We are now in the framework of the industrial

strategy; we have the Government inviting sectors to come forward with sector deals, which could involve improvements to the regulatory regime for a sector or a bolder approach to public procurement. We are saying that, as part of the sector deal, if a sector really wants one, high on the list of ministerial requests should be, “What are you doing on training and what pledges will you make about greater investment in training of your employees?” We think social care is a very powerful example of that; there are clearly massive problems in the social care sector. We are still expecting a Green Paper but it has been delayed until the end of the year. Any type of new deal on funding social care should also involve some expectations on investment in training and people working in social care. The industrial strategy provides a framework.

Next is Philip Augar’s review of post-18 education. We are both former Ministers for Higher Education. Although I am aware of all the controversy around it, I personally think that the graduate repayment system for people who go to university—paying back 9% of earnings above a high threshold, if they are in a well-paid job—is a progressive and fair way of funding it. However, there are clearly some big gaps. One gap is level four and level five qualifications and funding of higher education that might not involve an honours degree. It is clear that there is a relatively small number of prescribed courses and it is clear that maintenance support is sometimes lacking. You could imagine greater support for some of those sub-degree-level useful higher education qualifications, and that might be something that could be proposed as part of Philip Augar’s review.

As well as apprenticeships, we are worried that there are some jobs and occupations where it is very hard to start with an apprenticeship. You could also look at ways in which you fund vocational qualifications that were not within the framework of an apprenticeship.

We are not proposing policies coming out of the blue; we are looking at where there is a vehicle that could already be used. Our view is that, if you take what you have with universal credit monitoring of people, take what is happening with sector deals, take the opportunity of the Philip Augar review and feed into those types of exercises the practical proposals for helping the younger generation, that would be a way of having an effect.

**Baroness Blackstone:** Thank you. Can I just add one other thing? I am a bit less phlegmatic, you will not be surprised to hear, about the impact of the loan scheme for tuition because it is a lot of money and some of it, of course, will not be paid back. But we will not go into that. What I am more interested in is your view on the impact of these loan repayments on a generation that have all these other pressures on them, which you have described, particularly in the housing field, and whether taxation should take into account the fact that, for the first time ever, young people have extensive loan repayments on top of all the other costs that they have to somehow or other pay or respond to. Should this be taken into account in the taxation system?

**Lord Willetts:** Of course, the graduate repayments are 9% above a threshold. I discussed this with the Council of Mortgage Lenders before

we brought in our £9,000 fees and loans. They were absolutely clear that they understood that this was not like leaving university with a £50,000 overdraft or a £50,000 credit card debt, which would worry any parent and would indeed be taken off the assessment of any kind of mortgage you could take out. They said this is a fixed outgoing and, in effect, it is a 29% rate of income tax above quite a high threshold, and they would treat it as a fixed outgoing, not treat it as a stock of debt.

This came up, of course, during the commission's discussion. The priority is more the 50% of people who do not go down the HE route rather than radically changing the model that we have, which goes back of course to the previous Labour Government, for the people who are on the honours degree route. I can see ways in which you could tackle the political sensitivities around things like the interest rate, but I personally think the Augar review would be a missed opportunity if it goes back once again to the university side of the equation. It is the other side where, actually, the injustices and the problems are more serious.

**Q13 Lord Price:** You made some recommendations about zero-hour contracts and six months and fixing in. There are two areas where I wondered if you could give some thought. The first is that, clearly, value is created for shareholders by workers being more flexible, particularly zero-hours. Did you give any thought, first of all, to how that added value might be shared more fairly if you think that wages are not doing it? I will ask that one first of all.

**Lord Willetts:** We did have a brief discussion on a very sore point, which is pension arrangements. One of the reasons why pay has fallen behind productivity is that one of the reforms of returns to labour that has become increasingly significant is employers plugging gaps in company pension schemes and using the resources generated by younger workers to do it. The younger workers often are not themselves even members of these pension schemes, so something that an employer does to top up the NEST auto-enrol pension pot of younger workers would be a way of tackling what you are describing.

**Lord Price:** Secondly, it is very hard for someone on a zero-hour contract to input to the development of any organisation. Did you give any thought to how that might be done to better reward those working in the organisation?

**Lord Willetts:** On that I would bow to your superior knowledge. To be honest, the kind of companies you have worked for have models from which we can all learn. We could not add much to what Matthew Taylor has already said.

**Baroness Thornhill:** I also have to declare an interest: I am one of the many wonderful vice-presidents of the LGA.

**The Chairman:** I should do so also.

**Lord Willetts:** I am beginning to wonder why I am not a vice-president of the LGA.

**Q14 Baroness Thornhill:** I am also a former elected Mayor of Watford, for 16 years—so in one of the areas highlighted, where house prices are high and rents are high. We are not the capital but we are impacted by it. Housing

is clearly a huge issue with regard to intergenerational unfairness. I will not pretend to have read your report from cover to cover but I certainly have enjoyed—and that is not a word you often use with regards to reports—dipping into it.

I just want to tease this out. Did your colleagues discuss this? What seems to be happening is that policy is pushing more housing in areas that do not have the jobs and the infrastructure that go with it. We all know that homes are cheapest in places where the job prospects are poorest, and the reverse is true. I wonder how much that actually impairs on the “haves” and the “have nots” in the country as a whole, and whether a lot of policies are actually exacerbating that. We glibly talk about the north/south divide but it is more subtle than that. If we talk about the “haves” and the “have nots”, it is easier. Was there some consideration of that?

In particular, to get down to things that we might influence, and being a former local authority leader, I wonder the extent to which you think we could talk about some new partnerships between Government and local authorities to actually start doing something to test the hypothesis and ask whether this will make a difference. I was particularly interested in the things on social housing—Resolution’s push on social housing—given that that is now massively in decline, as I think is irrefutable. That is enough to get us going.

**Lord Willetts:** It is interesting. I am thinking back to my own time as a Minister when city deals began. As the city deals were negotiated, often you found that there were much closer connections than Whitehall had historically been able to make between investing in transport infrastructure, making sites therefore accessible for housing development and supporting growing industries. Yes, you do need to look at them as a whole, and that is what some of the city deals try to do.

In terms of what one might do, yes, we think that, in order to get more houses built, and learning the lessons of the success in the 1950s of getting 300,000 houses built, it was both building for the private sector—owner-occupation—and building by councils. The decline of the council housing stock and access to council housing is almost as acute as the decline in access to privately owned property with a big increase in this private rented sector. Yes, we say that local authorities should get funding for some local authority housebuilding, and we actually proposed that the social care precept could be redirected to that purpose.

In terms of getting housing built, something else we have proposed—and here we are learning from others; this was not a new idea—is community land auctions where local property owners and land owners are invited to nominate land that they would like to have developed that does not currently have a planning permission. That has now been legislated for but there has not yet been a real, live example of a community land auction. We think it is an interesting idea and it would be great to have some actual attempts at doing it to see how they function.

Q15 **Baroness Tyler of Enfield:** I want to broaden the question out to tax and housing and more generally. Let me start by declaring an interest. I am on the advisory board of the Step Up To Serve Council, which is promoting greater volunteering and social action for young people. I also wanted to

congratulate you on your excellent report.

You talked about tax at the beginning and one or two colleagues have picked it up in their questions. Obviously, the report proposes cutting stamp duty, replacing council tax with a new property tax and, as we heard earlier, abolishing inheritance tax and introducing a more lifetime receipts-type tax. I want to know the extent to which you felt that tax changes are really the primary lever to achieve greater intergenerational fairness both generally and specifically in relation to the housing market.

**Lord Willetts:** I do not do this with any relish. As I said earlier, this is partly just because of the fiscal situation where now we will have an increase in the number of the older population and, if anything, a stable or falling number of workers to support them. The public spending pressures will grow. The commission, as a whole, did not want to expand the role of the state, but it looks like the state itself will need extra revenues. We did think it was striking how, even whilst assets had increased in value—this precedes QE; the process began before quantitative easing, though quantitative easing has exacerbated it—we have gone from a situation 30 years ago when the net value of assets was about three times GDP to now being about seven times GDP. The value of assets relative to our national income has grown but there has been no increase in the tax revenues collected from them. Indeed, the main tax, the community charge, looked at close up, is not a very effective or fair tax. We did not have a prior plan, but capital taxes were definitely one of the issues that became more and more significant as the commission deliberated. As I say, that is not because we hate wealth but because we were trying to find ways in which you could fund extra resources for healthcare.

On housing in particular, in the long run, building more houses is the single most important thing. In the very short run, some improvements to the protections for people in the private rented sector would help, and since this report came out we proposed indeterminate tenure and the Government are now consulting, as you know, on three-year tenure. In the middle, there is an argument that housing as a form of consumption is undertaxed relative to some other forms of consumption. I do not think that this by itself is necessarily a silver bullet that helps on housing but it is the case that if, for example, you have a second home, the flow of the services that you get from that second home are not really properly taxed.

In the old days—and we do not propose going back to this, though we had an interesting historical discussion—there was the tax on the imputed rent you had from your property. That was the situation until the 1960s. There are people around this table who know far more than me, but on council tax there are still local authorities that use their discretion for a lower rate of council tax for a second property, which we think makes no sense. We thought that at least housing should be properly taxed by an improved and redesigned council tax. We also thought that stamp duty is a classic bad tax again, impeding transactions. There are older people who want to trade down and we think stamp duty is now impeding those transactions. We were not just trying to raise every tax; we actually



proposed a significant reduction in the rates of stamp duty so that it was easier for people to transact and move on.

**Baroness Tyler of Enfield:** I just have a quick follow-up, if I may. One of the reasons I particularly liked your report—I liked it very much anyway—was that you tried to draw out some of the complexities between looking at both intergenerational income inequalities and wealth inequalities and intragenerational wealth inequalities, and you actually drew out the fact that the younger generation, the millennials, are facing higher income inequalities than previous generations, and that wealth gap. In designing any tax measures of the sort that you have been talking about, if you think that that really is a key lever for this, to what extent will it be possible to come up with taxation solutions that look at both the intragenerational and the intergenerational, or is that too complicated, and should we just leave that to one side?

**Lord Willetts:** I do not want to live in a society where owning a home basically becomes hereditary. Maybe this is the wrong Chamber in which to make that point but we do not want to be in a situation where basically, to get started on the housing ladder, you need parents who are owner-occupiers and have some equity in their house that they can then use to help you. If you are trying to buy a house using your earnings, in many parts of England today it would be virtually impossible—19 years if you are on anything like median earnings to build up the amount of money you need just for a deposit to meet the average house price. You need to do other things.

It was actually one of the reasons for our receipts tax on inheritance tax. We thought that, if every person had this tax-free allowance—and we suggested indicatively £125,000—when people are sitting on a property worth £1 million, they might just think, “Instead of giving it all to my two kids, I could give some to the cousin and some to my nephew and some to my niece, and spreading it out a bit would make more sense”. That was one of the arguments: anything that spreads the property ownership out rather than, as is happening at the moment as home ownership goes into reverse, wealth being concentrated.

**The Chairman:** One of the problems potentially with that, of course, is that any kind of intervention creates its own evasions, whether it is loans or whatever. I agree with you that stamp duty has been a great inhibition on mobility. You propose a halving of rates on first-time buyers but you do not go so far as to look for any diminution in the higher rates of stamp duty that we have now. Am I reading you correctly?

**Lord Willetts:** We propose that you keep the high rates if it is in respect of a second home.

**The Chairman:** It is first properties, not first-time buyers. Okay, that is clear enough.

Q16 **Baroness Jenkin of Kennington:** You have already talked a little bit about the community land auctions that you recommend, and you also recommend increased funding for local authorities to build more homes. Do you believe that this additional funding would support housing suitable for all generations, or does the current planning framework need to do more to ensure housing for older generations as well as for young families?

**Lord Willetts:** That is a very important point. Interestingly, something else I learned during the process of doing the commission is, actually, some of the biggest demand for new homes comes from older people. Part of the mistake in the way in which some of the current initiatives for new homes work is the assumption that young people move into new homes. It is often an older person, who might have brought up a family in an older house, who, when they start thinking of moving on—which is why the high rate of stamp duty is such a bad thing—actually wants to move into a better-insulated, well-designed new property. New houses for older people is definitely one of the lessons from our exercise.

Q17 **Baroness Crawley:** Can I just make a declaration of interest that I did not at the start, inadvertently? I am a member of the PM's Rural Dementia Task and Finish Group, and I am a former youth theatre leader and teacher.

I have a question following on from Baroness Tyler's and Baroness Jenkin's questions about housing. Could you give us a picture of your ideal rental situation for people bringing up young children in the future? We were quite struck, as a Committee, by the number of young children that are now being brought up in what is often an unstable rented sector. How would you see the rented sector becoming more the norm in the future? How would you see the regulation of that sector improving?

**Lord Willetts:** Our commission was struck by that. From memory, we now have 1.8 million children being brought up in the private rented sector with very little guarantee of any security, and you start thinking about taking your kid out of primary school and moving to a different school and all of that, which is very tough. We have moved on from a world where 20-somethings, as they were first finding their feet, go for a time in private rented accommodation to a position where a lot of families are in the private rented sector.

Interestingly, meanwhile, we have a welfare state that assumes that, by and large, older adults are owner-occupiers. If you really want to work up the Treasury, you point out what happens to housing benefit bills if we end up in a position where we have more and more older people who are just in the private rented sector.

What would it be? We propose, influenced by the Scottish model, a kind of indeterminate tenancy. It does not mean that people have an automatic and permanent right to rent their accommodation. Germany also has something similar. If the owner needs to occupy the property themselves or if the tenant has broken the law in various respects, there is a series of criteria where, of course, you can be asked to leave. The Government now, as I said, are consulting on a three-year secure tenancy. That will be part of it. There is also enormous suppressed demand for people who say they would like to own their own home. With one of my party's historic slogans being "a property-owning democracy", I would like to see it be easier for people to get started on the housing ladder and own their own home. We need a better quality private rented sector and then credible and affordable routes into home ownership.

**The Chairman:** We are getting used to the World Cup with injury time but we are in supplementary time. I cut off Baroness Jenkin when she wanted to ask a supplementary question.

**Baroness Jenkin of Kennington:** It was not a supplementary; I am just declaring my interest as chancellor of Writtle University College.

Q18 **Baroness Blackstone:** I must declare an interest as the chair of the Orbit Group, which is a large housing association that does social and affordable housing but is also a housebuilder building for the market, for purchase and private rent.

I want to just push you a bit harder on housing policies. I was also a member, as was Lord Hollick, of the Economic Affairs Select Committee, which did a report on the broken housing market. Would you not agree that part of our problem is that there has been much too much emphasis in government policy, by all Governments, on the demand side and too little emphasis on the supply side? The reason that house prices are so high is that there is a great shortage of housing in many parts of the country—not all but many parts of the country—and, unless we address the supply issues, everything else becomes secondary.

Just picking up on what you just said in response to previous questions about the importance of owner-occupation, I do not want to disagree that there are many people who want to be owner-occupiers, but there are also many hundreds of thousands of people who could never be owner-occupiers because they will never have the deposit that is needed to get on to that ladder. Should there not be a shift away from this focus, which is almost an ideological one, on owner-occupation towards thinking about supply issues that have to be in social and affordable housing under the privately rented sector?

**Lord Willetts:** I do agree that supply matters. I absolutely agree on that. We were very fortunate to have in our commission Kate Barker, one of our members, who of course is a fantastic expert on all this. The reason why I talked about people still wanting to own their own home is that one of the ways in which some of these problems facing younger people are justified is that their attitudes have changed and they do not care about the kinds of things we care about and it does not matter for them so much. Interestingly, there is some evidence that attitudes have changed to car ownership. I am willing to accept that younger people are much less interested in owning a lump of metal that spends 95% of its time parked in the road outside their flat or house than our generation was. There is some evidence of changing attitudes.

I do not detect, from the empirical evidence, any big change in attitudes on home ownership. The home ownership aspiration remains very widespread. They have not opted out from that form of ownership. There may be some whose position in the labour market means that it is never really going to be viable but there is unmet demand—unmet because of the supply constraints—of young people who, in normal circumstances with a decent job, would be able, in a properly functioning western liberal capitalist system, to own their own home, but, because we have messed up, they cannot at the moment in Britain. I agree with you that that is where supply is crucial.

Q19 **Lord Bichard:** We are into penalty time. You will have gathered that we all thought it was a brilliant report, and so the first thing we had to do was to think about what we could disagree with or what we could find that was

not there. You talk about the intergenerational contract and the fact that people come to expect that, at different times in their lives, different generations will support one another. I was therefore expecting you to have a little bit more in the report about active communities. You have spoken today once or twice about social care, for example. The report rather takes the view that we will carry on with state-funded social care whereas there are some really good examples around the country—not that many, but some really good examples—of where communities have actually been more effective in providing social care than the state has. I was left with a feeling—I have read the report a couple of times—that this was quite a statist report, and perhaps it could have been a bit more imaginative in using the potential that exists within communities. That was the first point.

The second question is this. I also began to wonder whether you felt there was a regional dimension to the issue of intergenerational fairness. I know there are differences around the country but, if you look at some of the things we have talked about today, in London there are jobs but very expensive housing and outside of London, in the north-east in particular perhaps, there is cheap housing but not that many jobs. Should we be thinking a bit more about the regional dimensions of intergenerational fairness?

**Lord Willetts:** In reverse order, on the latter point, one of our working papers—and we produced over 20 working papers before the main report—looked at housing pressures and house price pressures and established that it was not just an issue in the south-east, though it was most acute there, but that there were major cities across the UK where house prices were creating a real problem for younger people—around Manchester and Leeds, for example. It is not just a south-east issue, though there are clearly some parts of the country where house prices are not so high.

On your earlier point, I do not think we were statist. We were trying to identify public policy levers that we thought could be pulled. We were addressing public policy. I completely agree with you, however, that there are some very interesting informal initiatives in civil society, which we very briefly described on page 195 of the report, and, to be honest, we would have said more on those if we had been able to identify public policy initiatives that would make sense and promote them. There are some very interesting initiatives in literally building nursing homes on the same sites as nurseries. We talked to the guy—Stephen Burke, I think it is—running those and asked, “Is there anything that needs to be done to promote them?” Because we could not really identify a working policy agenda, we did not take that line of thinking as far as perhaps we should have.

**Lord Bichard:** I am surprised to hear you say that, because you have talked again today about, for example, jobcentres and ways in which you could use the benefit system. You could use the benefit system much more effectively than we do, for example, to incentivise voluntary activity targeted at social care in the community. We actually have perverse incentives but you could do that. That is an issue of public policy. The whole issue about the relationship between the state and the voluntary and not-

for-profit sector is a public policy issue.

**Lord Willetts:** This report is not the last word. I am so grateful to the Committee for its interest and I hope that there are some of our ideas that the Committee finds helpful and gives a push to, but this is absolutely not the last word. There are other ideas, and that is a good example where, if there are policy options that perhaps we did not consider or we could not find a way forward, this Committee will. That would be fantastic. We are all trying to achieve the same thing.

Q20 **Lord Hollick:** On the £10,000 citizen's inheritance, is there any evidence from any other country where some sort of payment of that nature is made as to how it is used and how it benefits intergenerational fairness?

**Lord Willetts:** I would have to send the Committee a note. I think there was an initiative like this in New Zealand, but I do not think it was quite as extensive as what we have been talking about. Of course, we did attach a condition to it. It was striking how it got so much of the media attention. Our view was that one of the ways we could help younger people with some of the problems that we have been talking about just now was if they could use it either to put more money into their personal pension pot, into their NEST savings, or to pay for extra education or indeed, if they wished, to help pay off their graduate debt. I am not sure that that would be a priority but they could. They could use it to pay for a deposit on a house or indeed a deposit if you get a private rented contract. They could use it for training. We identified some uses all of which, we thought, would help tackle intergenerational equity. I sometimes got from affluent media interviewers that "£10,000 does not get you anything in London". It transforms the asset position of something like two-thirds of all young people. It is a big deal so I would support it, but I regret the way that it got so much attention relative to many of the other ideas in the report.

**The Chairman:** Okay. I must draw it to a close. Thank you very much for coming in. It wholly justifies our decision to invite you to be our first public witness. I endorse everything that has been said about the analysis and the presentation of the report, which has set a very high standard for us to pursue. We will be free-thinkers, I hope, and I thank you for coming in and joining us today and being so patient.

**Lord Willetts:** Thank you very much, and thank you for your interest.