



Reimagine public policy

Using our best disruptive thinking to
achieve public policy goals

September 2018

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Contents

		Foreword Introduction	p 1 p 2
01 Home ownership		02 Home rental: employer-backed build to rent	
Home ownership is like a meal deal. Mark Essex says we need to unbundle it so that more people can get a home to call their own without consuming all of their disposable income	p 4	Not enough houses are being built – in part because housebuilders steer clear of the rental market. Jan Crosby thinks employers are the key to creating more housing at affordable rents...	p 8
03 PFI and build to rent		...starting with our country's largest employer: the National Health Service	p 12
04 Property taxes		05 Economic development: Britain's next global city	
Mark Essex asks: what if we replaced Inheritance Tax and Stamp duty with capital gains tax on primary residences, deferrable until death? His idea seeks to improve funding for infrastructure and social care while taking some of the heat out of the housing market	p 14	Britain needs more world-beating global cities. But how should we prioritise the necessary investments? James Stewart says we need a national competition	p 18
06 Social care		What if a home care appointment could be arranged as easily as ordering a taxi? Mark Essex describes how digital platforms could improve the service, cost effectiveness and productivity of visiting social care services	p 22
07 Social isolation		08 Healthcare	
Social isolation is both bad for your health, and expensive. Andrew Webster looks at ways to treat the cause, not the symptoms: being a good neighbour could be the key to happier and healthier lives	p 28	What if we could reimagine NHS funding so we get all the benefits of a co-payment system with none of the downsides? Jason Parker thinks the answers lie in allowing patients to take back control of their care	p 30
09 Welfare		What if the benefits employees gain from salary sacrifice schemes could be enjoyed by benefits claimants, reducing the 'poverty premium'? Ian Gravestock and Bethan McKay describe a system to reduce energy bills...	p 34

Let's Reimagine

10

Feeding families



...and Mark Essex explores how a similar approach could work for food bills. Could we eliminate the need for foodbanks?

pg38

11

Zero-hours contracts



Great minds think alike: Iain Gravestock's idea to increase the minimum wage for zero-hours contract workers chimes with the Taylor Review. But we take the idea one step further, to help employees spread their income over the year

pg40

12

Lifelong learning



If children born today are going to live to 100 years old, we are going to need a lot more training. Claire Warnes and Mark Essex describe a way to expand further education we need without creating more colleges

pg42

13

Sentencing



Prison sentences can be described in one figure, expressed as a time period. James Dearman thinks judges should have more options at their disposal, enabling them to set positive goals for offenders to achieve whilst in prison

p 46

14

Prison classification



Nicholas Fox asks: why don't we segment the prison population by need as well as risk? Then we could create prisons that specialise in tackling different needs, improving rehabilitation

p 50

15

Local authority funding



Regional towns see many talented young move to the cities – with their spending power. What if towns saw a share of the tax receipts the Treasury enjoys from the success of their alumni? Louise Sunderland looks at better alignment of incentives for local authorities...

p 54

16

Regeneration



...and then Louise Sunderland and Mark Essex describe our "fiscal swaps" idea: a way to harness the transparency of stock markets, incentivising entrepreneurs to invest in our social mobility cold spots

p 58

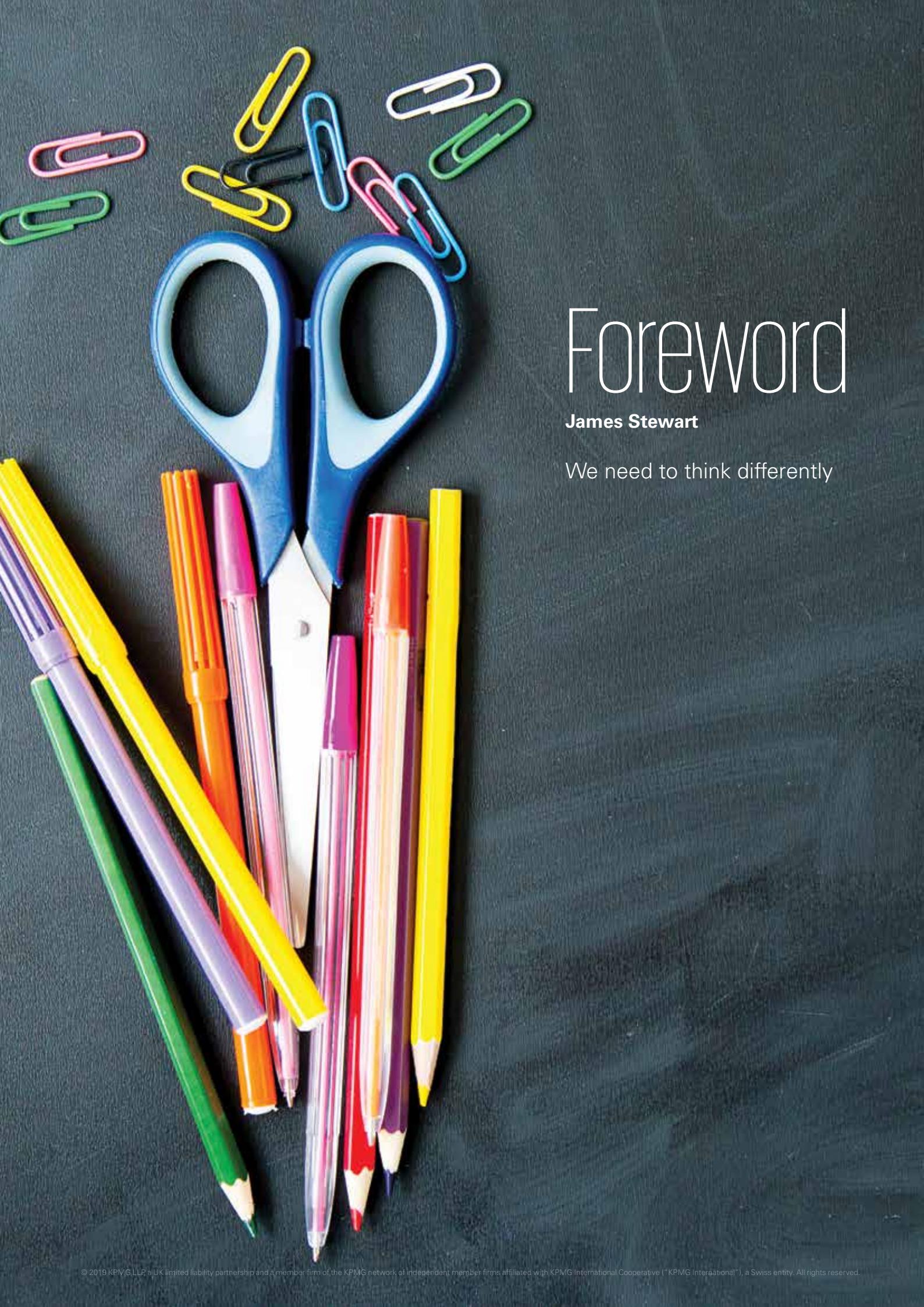
Conclusion



Nicholas Fox reflects on the themes in this report and the pace of change in our economy and society – and argues that we must significantly accelerate plans for digital government in order to make the public sector more agile

p 62





Foreword

James Stewart

We need to think differently

Anyone who has spent time analysing the UK's response to Brexit will see that the future is going to be different. And our usual mental models to help us navigate will not work.

Why? Well, the last time we saw this degree of change simultaneously in geopolitics, technology and consumer behaviour was during the '40s and '50s. That's beyond a corporate memory, and very nearly outside living memory. The last time the UK faced customs checks on goods travelling to the EU was 1992. For those of us over 40 it requires a long memory. For those under 40 it's unfamiliar territory and requires not experience, but imagination.

And the pace of change is increasing. It is hard to imagine a world without Google. And yet, founded in 1998, Google only just progressed beyond its teenage years. Amazon is also in its early 20s. Just 13 years ago in 2005, after the London tube and bus terrorism incident, I remember walking with fellow tube commuters who did not know their way home. Today, with smartphones and GPS, no-one needs to get lost in cities.

So if we look back to today from 10 or even five years into the future, I think we will be surprised at some of the things we do. And that is why our thinking about policy solutions for the future needs to be bigger, bolder and much more imaginative.

That's why the ideas in this document are ambitious. Ian Gravestock and Bethan McKay's benefit sacrifice idea, for example, could remove the need for any family to choose between heating and eating. Jan Crosby and Mark Essex share ideas which could finally beat the deadlock on building the homes we need.

And while these ideas could be great on their own, when you put them together, the whole is greater than the sum of the parts. If you combine Louise Sunderland's thinking around local government finance with Nicholas Fox's radical ideas for justice, you create the potential for transformation in the lives of people who are currently let down by our system.

Do the ideas have to all be done at once? No; this is not a manifesto. You CAN cherry pick. But it is coherent, in that the ideas do not conflict and are not multiple solutions to the same problem. You could implement all of them. Or you could just consider one theme, such as justice or local government finance.

There are ideas in this publication which touch on almost every aspect of domestic policy, from lifelong learning to coping with an ageing population. One common characteristic is their focus on the benefits which could come from data and artificial intelligence. We started writing a chapter on a new way to imagine digital government, but soon realised that the way in which artificial intelligence will change our lives would need us to write a whole second volume. So that's what we're going to do. You can look forward to reading it soon.

"So if we look back to today from 10 or even five years into the future, I think we will be surprised at some of the things we do."

Many of the ideas in this document could be started tomorrow, without legislation. Others are transformative and would require extensive consultation and debate. But given the scale of the challenges we face, the potential prizes could well be worth the effort and resources required.

As KPMG's head of Brexit and Industrial Strategy, I understand very clearly that the UK is at a decision point. I think the next 20 years will look very different from the last 40. Considering policy responses into the future requires much more than looking back and tweaking existing solutions. It will require the best disruptive ideas from business, charities, and even perhaps professional services firms. Above all, it will require imagination. I hope you enjoy reading our ideas.

Introduction

Nicholas Fox

Why Reimagine?

Science fiction author William Gibson once said: “The future is already here – it’s just not evenly distributed.” And that holds true for public policy: often, the solutions to nascent and emerging challenges have already been devised and implemented in other spheres of activity. Of course, policymakers have often looked overseas for inspiration: which other countries have solved this problem? But other governments are not the only source material. In this document we show how there are lessons to learn from airlines, ride-hailing services, corporate payroll schemes and even fast food businesses.

Is disruptive thinking the only way to tackle policy making? Absolutely not. In most cases, incremental improvement is the answer: the steady improvement of performance by systematically improving the service, learning by experience and data.

But when travel was revolutionised in the 1880s, it wasn’t thanks to a marginally improved horseshoe; and it was not a blacksmith who came up with the motor car, but engineer Karl Benz. And it will not be engineers who improve travel times or efficiency in today’s commutes, but the programmers of the artificial intelligence software that cars will use to communicate with each other and optimise road usage. The answers to today’s policy challenges are already out there – but they may lie in some unexpected places.



“We apply that same thinking to pre-payment electricity meters for people on means tested benefits.”

Why KPMG?

Because we talk to clients in every sector, region and size of business in the UK economy and beyond through our global network.

We have thousands of client conversations every day with different businesses. We are used to taking the best of one sector and applying the learning to another. Our professionals are not all experts in particular public services, but they have a sufficient understanding of the policy trade-offs to identify possible solutions and broad enough networks to tap into a range of expertise.

We see the benefits of disruptive technology and new business models and, like consultants everywhere, cannot resist the opportunity to apply them to our clients' challenges.

Where do the ideas come from?

From our people, observing the way their areas of focus work, and then encountering analogous problems in other sectors. Sometimes it comes from methodically searching for alternative solutions; more often, the idea comes serendipitously. But if we examine them, the ideas fall into a number of groups:

Stop: does it make the boat go faster?
This is a phrase I saw painted around the entrance to a racing yacht. The idea is that as crew pass kit down the stairs they stop and reflect on whether it is worth the additional weight. Sails – provide motive power. Foul weather gear – keeps crew performing in wet weather. A folding bike? Maybe leave that on the dock during the race. Applying that way of thinking to public services helps separate the essential from the ancillary.

In Reimagine care, when we look at improving productivity, we don't want people to 'care' faster. But the travel time between appointments? No-one thinks that's a valuable part of the service. What can we learn from ride-hailing businesses to reduce it?

Look at the whole value chain. When grocers consider their value chain, they go beyond their own customers and suppliers to look 'farm to fork' – seeking ways to remove steps and associated costs. We apply that same thinking to pre-payment electricity meters for people on means tested benefits. Once you observe public money going to energy suppliers via Universal Credit, bank accounts, a cash machine, a retailer and an expensive piece of equipment, the answer to the question 'why do the poorest pay most for their energy?' becomes obvious. And the solution is not better regulation of tariffs.

Focus on the customer. When airlines wanted to reduce their costs, and looked at the cost of baggage handling, they never told any passenger they could not check a bag into the hold. They didn't force any customer to take less clothes, pack smaller bags or carry them through the airport. They did not design and sell luggage specifically designed to fit into their lockers. All they did was unbundle the service they offered and charge a different price to those who wanted to take more luggage. The customer remained in control; and the airlines spent significantly less on lifting bags which turned out to be less necessary than we thought. Air travel uses less labour per journey than it did. That's a productivity improvement gained simply by focusing on what really mattered to the customer, and offering a wider range of options. In Reimagine healthcare, Jason Parker applies that thinking to our beloved NHS.

The How/why funnel. Some of the techniques above are about asking how things currently operate, and focusing hard on the problem area until a solution is formed. Other questions benefit from asking 'why?' and seeking to look at the question more broadly. Our justice thinking uses this approach. We were asked: 'how do we take drugs out of prisons?' It's a formidable challenge, given drone technology and the intimate searches needed to try and hermetically seal a prison. By asking 'why?' instead and broadening the question, I was able to identify the real problem: 'how do we take drug addicts out of prisons?' Once the question is formed, the answer of specialist prisons is clear.

We use these techniques every day in our advice to corporate clients. It seemed a logical step to apply the same successful techniques to the challenges faced by post-Brexit Britain.

How to use this document

This report is organised into chapters representing the biggest domestic policy challenges faced by Britain today, from housing, work and education, to the health and social care system and justice. Each of the ideas can work independently, and does not rely on the others – this is not a complete policy programme, in which removing one brick causes the tower to fall. But equally, they don't clash; we don't see any reason (so far!) why they couldn't all be implemented.

These are not fully fledged policy documents – detailed development work is best done by experts – but we aim to consider the obvious flaws and address them. It may be that despite our testing, there are good reasons why the ideas won't work. In which case, please tell us; the best thing that can happen to a bad idea is to kill it quickly. But if the idea shows promise, tell us that too: we'd love to be a part of bringing it to life.



01 Reimagine home ownership

Mark Essex

Our housing market is broken – and the consequences range from rising inequality to depressed UK productivity. Mark Essex argues that we need a new approach: a mix of financial products and rental reforms could alter people's behaviour and foster a more balanced economy.

For many years, governments have worked to give people access to affordable housing – but that goal has slipped ever further out of reach.

In the 1970s, the average home cost the equivalent of less than three years' work at the average salary¹; by 2018, it was over eight years². Fast rising prices have squeezed an ever growing slice of the population out of the housing market: between 2003 and 2017 the proportion of home-owning households fell from 71% to 63%³; amongst those aged 25-34, it tumbled from 57% to 37% over just 10 years to 2017⁴.

Meanwhile, rising house prices create social costs – many of which end up at the government's door. Between 1979 and 2013, for example, housing benefit spending rose nearly sevenfold, in real terms, to £23bn⁵. And economically, the spiralling value of property pulls in vast capital investment – starving more productive sectors such as scientific research, services and manufacturing.

Until 2008, the Labour government tried to tackle the problem by encouraging housebuilding and extracting affordable homes from developers; but between 1996 and 2012, the number of UK households grew faster than the number of homes in almost every year. At 217,000, the number of house completions in 2016-17 fell well short of the 240,000 that the government estimates we must build each year to keep up with rising demand⁶.

Since 2010, the Coalition and Conservative governments have concentrated on the demand side – offering financial support to help people buy. But with house prices rising at 3-5 per cent annually since 2013⁷, such initiatives are massively outgunned; and the additional cash brings yet more demand into the market, pushing prices still further out of reach.

Why we invest in property, not productivity

So where's all this demand coming from? Why are people so focused on taking a major financial risk, and accepting a 25-year debt and unpredictable maintenance costs, in order to purchase an asset that cannot produce a return unless they move out or sell up? After all, a property can be a gold-plated millstone: the time, effort, taxes and fees involved in selling and buying a home create huge barriers to relocation, making it difficult to pursue a new job or meet changing family needs.

The answer lies in the value of housing as an investment, likely to rise in value more quickly and reliably than most alternatives. This, of course, is only true because people believe it to be so, and thus keep on investing – creating a self-fulfilling prophecy. Yet for individual investors and families, the power of collective belief creates some very hard realities. As long as property values are rising faster than earnings – and wage growth has sat around 2% since 2009⁸ – then house prices will never be more affordable than they are today. No wonder people prioritise purchasing a home.

The property market's dependence on people's expectations around future prices makes it highly vulnerable to economic shocks, as we saw – outside London, at least – following the credit crunch. But it also provides a way forward. If policies were introduced to create a structural fall in demand, we'd see inflation drop. Then the fears of non-homeowners and the hopes of investors would also be calmed, taking some of the bulls out of the market and returning price rises to more sustainable levels.

To create this decline in demand, policymakers would have to find other ways of providing the advantages that people see in home ownership. People view their home as a legacy – something to pass onto the kids. Once the mortgage is paid, pensioners can enjoy a rent-free retirement. And in the UK, a person's home is their castle; unlike renters, homeowners are not at risk of eviction, abusive landlords or unfairly withheld deposits.

“Make indefinite tenure available as a rental option, giving people the right to stay in their homes as long as they wish”

Unbundling home ownership

These are substantive benefits. But home ownership also has its down sides; and if people had other ways to achieve their goals, we could pull a significant chunk of demand out of the market – reducing home inflation to the steady, slow uptick that best serves economic growth and social goals.

The issues of housing as an investment, a legacy and a rent-free retirement are relatively easy to address using financial products – at least once the shine has come off property inflation. Intelligent, long-term investments in businesses or shares should be able to produce a 5% return. Life insurance can provide a legacy – and it comes without the risk that social care costs will eat up a home’s value before the offspring get their share.

And a decent pension can pay pensioners’ rents – particularly if some of the money 20-somethings accumulate in deposit-savings were instead invested in a pension, with 50 years’ of compound growth. It’s hard to compete, though, with the returns produced by current levels of house price inflation. So to make financial products an attractive alternative to property investment, kick-starting this new model, we first need to reduce house price growth.

There are many ways to achieve this – and we will need a wide range of tools if we’re to cool our overheated housing market to a sensible temperature.

Cooling housing demand

In a previous paper⁹, we have suggested one approach to encouraging older people to move out of under-occupied homes, whilst providing them with better care in high-quality accommodation. That document also set out how we could make better use of our housing stock, whilst helping young professionals in the rental market and reducing loneliness amongst old people.

Meanwhile, though, in order to cool housing demand it will also be important to make renting a more attractive option. And that means addressing the insecurity of tenure which so bedevils the experience of renting a home.

The most straightforward way to do this would be to make indefinite tenure available as a rental option, giving people the right to stay in their homes as long as they wish. This wouldn’t work for every landlord or property, of course, and would require some public sector intervention: planning authorities could attach provisions to permissions requiring a certain proportion of new properties to be let on indefinite contracts, via a covenant for example, and long-term investors could be encouraged into the market. But once the legal framework for indefinite rental contracts has been created, the policy incentives required would be no greater than those used in recent years to generate social housing or support private buyers.

Transforming the incentives

Taken in the round, this approach could provide people with a set of financial products offering investments, legacies and comfortable retirements, whilst combining the best aspects of both home ownership and renting: security of tenure, plus the freedom to move house rapidly and cheaply. Like some of the ideas in our previous paper, that flexibility could support more efficient use of our housing stock, whilst boosting labour mobility and thus supporting British businesses.

Above all, it could disentangle Britain’s houses from our investments, making homes more affordable whilst redirecting capital into more productive activities. For decades, we’ve tried to keep up with demand in our housing markets – but as a player in the market, government is dwarfed by far bigger forces. So why not try instead to redefine the game, adjusting the market forces themselves?

For a country that leads the world in financial services, we have a rather damaging addiction to bricks and mortar. Let’s play to our strengths instead – and reimagine the way we manage our housing market.

Home ownership provides a meal deal of benefits, most of which can be switched for a financial service.





02

Reimagine home rental: employer- backed build to rent

Jan Crosby

Despite the salary premiums offered by London employers, many young professionals struggle to afford accommodation in the capital. Jan Crosby explains how a different approach could help both employees and employers, whilst providing new opportunities for developers and investors.

With the average London home now changing hands at nearly half a million pounds¹⁰, many young professionals have little hope of buying their own place. Schemes to offer 'key worker housing' for public servants have fallen out of favour in recent years¹¹, and research has found that the average salary of those buying through shared ownership schemes is nearly £44,000¹² – well above the median London salary of £36,000¹³, let alone the earnings of graduates beginning careers in fields such as teaching, business services and the media.

To attract staff, many employers must offer 'London Weighting' premiums: a newly-qualified teacher, for example, earns an extra £5,000 in inner London. But much of this cash simply funds the season tickets required for long commutes from the outer suburbs, or helps support high rent levels. Even the portion that supports house purchases simply pushes more demand into a supply restricted market, helping to exacerbate the underlying pricing problem. Over the nine years to March 2018, UK house prices leapt by 45% in cash terms¹³; but average wages rose by just 17%¹⁴.

As with the government's 'Help to Buy' schemes, London Weightings neither stimulate additional housebuilding, nor solve the affordability problem facing young graduates. Ultimately, the solutions must lie in boosting supply, not in subsidising demand.

Why aren't developers building more homes to sell?

So why aren't developers supplying the market need and building in bulk? The explanations many turn to lie in a shortage of land, planning restrictions or a lack of construction workers. These are factors, but, in my opinion, they are far outweighed by a more important and understandable disincentive to build at scale: market absorption pricing.

The economics of house building work like this: the developer which bids the most for the land wins the deal. They make a bid based on the price they think they can sell the homes at, deduct their margin and build costs, and the result is the maximum they can pay for the land. In a competitive auction process, there is tension in this figure and the developer which offers the highest price will win the land auction.

The price offered will be based on an assumed plot density and selling price. This selling price is typically based on existing house transaction pricing in that area. This local comparable pricing is from the natural equilibrium in demand and supply in the area. Selling quicker may need lower pricing to attract the demand – which would reduce the developer's return based on their competitive land price.

Therefore, developers will only develop the land when they are confident of achieving their forecast price for the finished properties.

But the rate at which the market can absorb new properties, at a particular price, is limited – and also shared with the second-hand supply. If developers over-supply the market, releasing homes more quickly than the rate at which the market can easily absorb them, they create a glut and the price will drop. This explains why we see even large developments released in phases of a few dozen plots at a time.

Is Build to Rent the alternative?

In previous papers, we have emphasised the need to take a more organised approach to building rented homes – both by tempting investment buyers out of the housing market¹⁵, and by improving the ways in which we utilise our current housing stock¹⁶. We have also emphasised the need to take a more organised approach to building rented homes – thus cooling the housing market, whilst providing accommodation near employment centres and supporting labour mobility.

The model works well overseas: in the USA, a well-established 'Build to Rent' (BtR) market churns out high-quality accommodation for families and individuals. Meanwhile, we've seen the development of a thriving market in dedicated student accommodation. This now turns over £3-5bn¹⁷ a year – and its growth provides lessons for how to make BtR viable in the wider rented sector.

Currently, selling houses can deliver a higher return than renting them: construction can be funded with a short-term loan, and the investor's exposure ends as soon as the house is sold. BtR investors, on the other hand, incur new costs every time a tenant moves out or fails to pay the rent. And if they can't fill the place in time, they're lumbered with an empty property. With net rental yields lying at sub five per cent, there is less of a buffer available for the risk of lower rents or higher operating costs in what is a relatively immature sector. There is a weight of funds looking to invest in the BtR sector, but achieving the right balance of risk for the lower returns is tough for more institutional risk averse investors.

"The discount to market rent could be 35% or more with a public sector guarantee. Imagine the difference that would make to teachers, nurses, prison officers and social workers"

The big idea: the role of employers in reducing the risk for rental

To kick-start investments in 'Purpose Built Student Accommodation' a few years ago, higher education institutions began offering investors 'nomination agreements' – block-booking large numbers of rooms, then leasing them to their students. A similar model could work for consortiums of major employers, enabling them to offer their staff high-quality accommodation and dramatically boosting their offer to prospective employees.

At a stroke, this approach would free investors of the risk of voids, the credit risk of tenants defaulting and the costs of finding and contracting for renters on the open market, making BtR far more viable – and providing a volume of guaranteed demand that would permit investors to build rental properties at scale.

If those savings were put through the developer's financial model, our analysis shows that, it should be possible to provide a discount on market rents for employees while maintaining the price paid to the landowner and preserving the margins for developers. And finding tenants shouldn't be a problem – meaning that signing a nomination agreement is low-risk.

After all, purpose-built properties would have communal areas, cafés, high-quality facilities and fast wifi. They'd bring together young professionals from similar employers, helping people new to the area build their social networks. They'd rescue employees from London's cut-throat rental market, with its insecure tenancies and poor service standards. They'd be located near work – cutting the time and money lost in long commutes. And with a large employer behind them, the tenant's administration burden is eliminated along with the need to raise a deposit.

The financial model

In some cases, employers might fund such developments themselves. Borrowing at lower rates than those available to many buy-to-let landlords, they could undercut the wider rental market. Or they could invest company pension funds, cutting out the middle man. But the main interest would probably come from institutional investors, which are keen to back BtR but are cautious of management risks and the uncertainty about demand and pricing.

In areas such as Canary Wharf and the fast-growing employment hubs in East London, investors could bring together groups of major employers willing to sign nomination agreements – supporting the big developments required to spread the costs of additional facilities such as leisure, hospitality and retail services. Given employee consultation to ensure that new buildings meet people's needs, the offer of great accommodation at below market rates would help employers to strengthen staff recruitment and retention. And developers could release properties in major new developments without worrying about flooding local housing markets, speeding up the homebuilding cycle.

There would be further advantages for public sector employers, many of which have surplus or under-used land and can borrow at very low interest rates. The discount to market rent could be 35% or more with a public sector guarantee. Imagine the difference that would make to teachers, nurses, prison officers, social workers, etc.

Winners on all sides

This concept has already proved itself, helping to catapult the student accommodation market from small beginnings to a major industry. Amending the model to serve employers and young professionals would promise big benefits to all concerned.

For employees, it would provide high-quality homes near work with great facilities, and at less than market rental rates.

For employers, it means a stronger offer to new recruits, and confidence that London's salary premiums are doing the job for which they're intended.

For investors, it would reduce the risks of Build to Rent and generate economies of scale – providing the long-term investment opportunities sought by many big pension funds and other institutional players.

For developers, it would ease both the search for investment and the task of releasing properties.

And for the government, it would ease the upward pressure on house prices whilst simultaneously boosting the construction of new homes, helping to ameliorate the capital's affordability crisis, particularly for vital public sector workers.

In London's ever more pressurised housing market, combining Build to Let with employer nomination agreements could create that very rare creature: a win-win-win-win.



03 The PFI connection

Employer-backed Build to Rent could help employers and staff across the public and private sectors – but it has particular strengths when integrated into private finance initiative schemes.

Employer-backed Build to Rent (BtR) is a powerful idea in many contexts. But there are particular opportunities for public bodies as they negotiate second-generation Private Finance Initiative (PFI) deals for the construction and operation of large-scale public service facilities, such as hospitals and secondary schools.

These organisations are signing building management contracts that will stand for decades, committing themselves to operating a large workforce out of their new premises for many years to come. So they can already guarantee to institutional investors that they'll find tenants for long-standing BtR arrangements – minimising investors' risk, and thus costs to the employer. And as public bodies build a financial structure and map out the development of a big new site, it's the perfect time to plan in the resources, partners and land required for a BtR development; they even have an expert facilities management business on site to service the new homes, in the shape of the PFI contractor.

Major schools are also big employers, of course; any decent-sized urban BtR scheme would surely find willing partners amongst the area's other public sector employers, helping to defray the risk for investors. Indeed, those risks aren't much greater for any major public sector investment in service delivery infrastructure – no matter the financial model. But the opportunity to tap into the existing facilities management contract, and the confidence investors would gain from the public body's commitment to a binding, long-term PFI contract – and thus the operation of a large workforce from the site – make BtR a particularly good fit with PFI investments.

Amongst the public sector's PFI projects, it's probably hospitals which would see the greatest benefits – reaching well beyond recruitment and staff morale into service delivery and patient outcomes. Many of a hospital's clinical professionals spend much of their time at home on-call: providing them with homes on-site minimises their travel time and ensures a faster response to medical emergencies. The offer of discounted, convenient housing could also prove particularly powerful in plugging some of the NHS's most acute staffing gaps: hospitals in the South-East, for example, regularly fail to fill over 95% of advertised nursing and midwifery posts¹⁸ – with high housing and travel costs a key obstacle to recruitment. In this environment, providing high-quality, discounted, on-site housing should improve public service delivery for both patients and staff.

And what's the alternative? Constantly sinking more taxpayer-funded London Weighting payments into an overheated market, so that public sector staff can rent an inadequate home miles away from their workplace, their colleagues and their patients? Marrying BtR with PFI could hit the sweet spot for public employers, their staff, taxpayers, investors and patients alike.

Build more houses. Reduce rents

Mark Essex and Jan Crosby

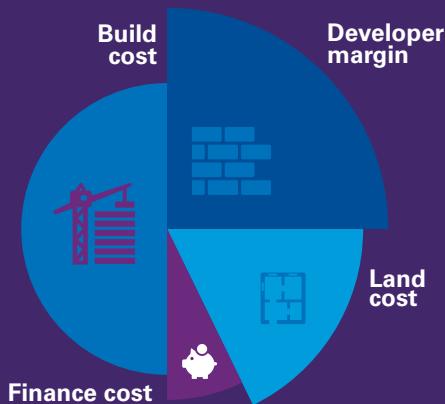
There are not enough houses being built. Developers say they can build them but they can't sell them.
Can employers help?

01

The way it's done now: build for sale

Typically, build costs and land costs are givens. Developers preserve their margin by achieving a sales price high enough to provide their return.

Market absorption pricing in the second hand market means that if the developer over-supplies the market, the price falls. That's the main reason supply is constrained.

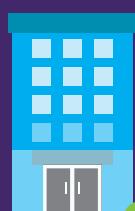


02

Why not build to rent instead?

Building for rent means developers must swap a cash receipt on sale for a stream of less certain future cash flows. They offset that risk by charging a gross yield higher than their cost of financing, typically six percent. But what if a tenant's employer assumed some of the risk? Could the developer achieve the same risk – adjusted return but charge less rent?

Cost of finance is the risk free return



Tenant credit risk covers for losses when tenants default on rent



Void risk covers loss of rent when property is not occupied

03

If employers took on some of the risks, could that help reduce the yield and lead to lower rent? Let's look at a hypothetical example.

Gross rent is

6%

of property value

Taking off administration, collection costs and maintenance gets to:

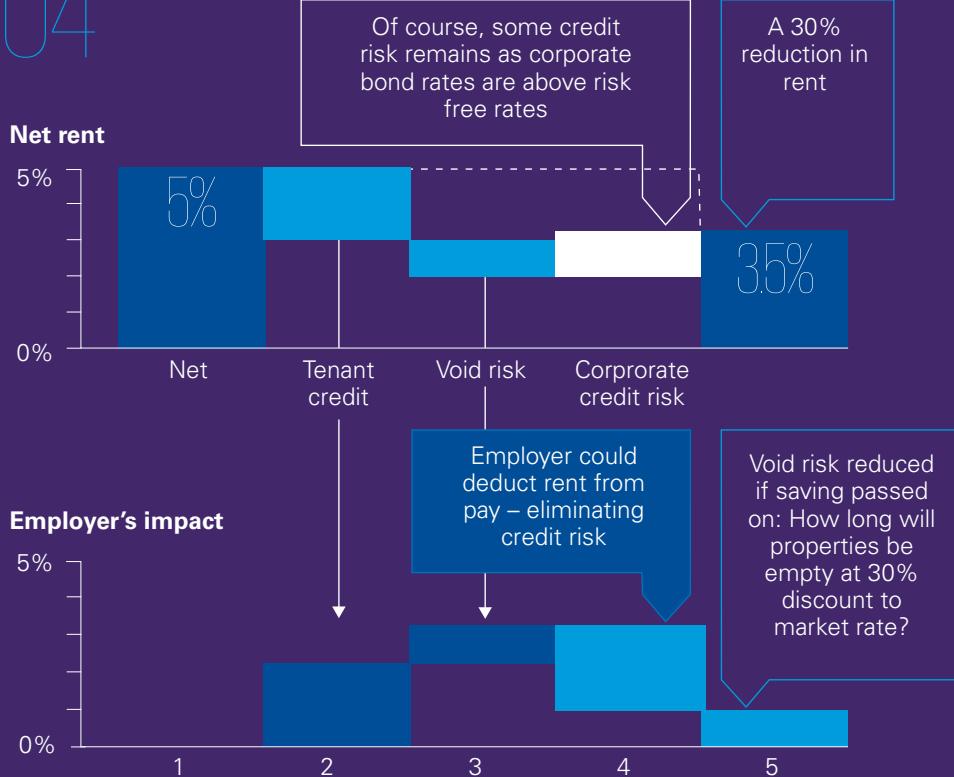
Net rate (the yield) is

5%

of property value

A solution: Employers take a bigger role in meeting staff housing needs

04



05

A game changing impact



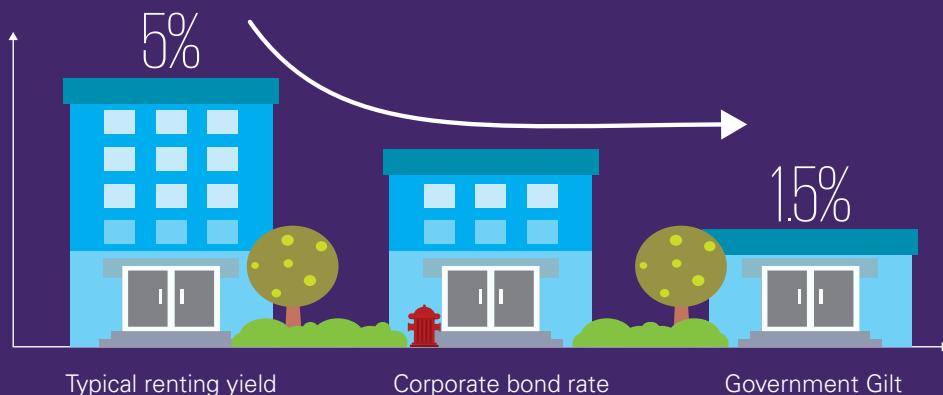
06

...and finally

Government is an employer too, with a credit risk equivalent to gilt rates.

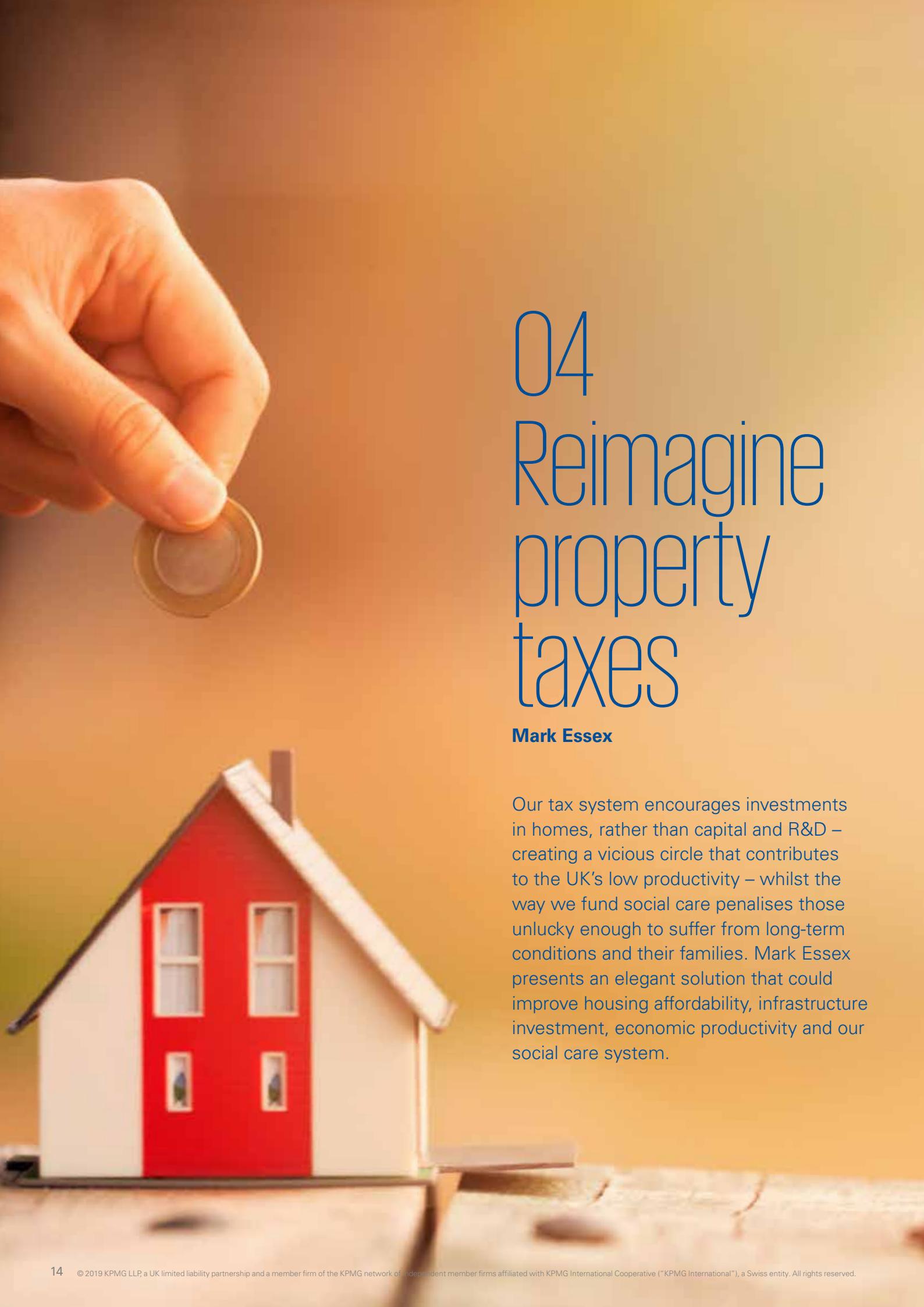
Could housing be part of a new deal for public sector workers?

AND, could government-backed build to rent be a new way to stimulate social housing developments



20% → 35%

Reduction in market rent payments for participating employees, depending on employer's credit worthiness



04 Reimagine property taxes

Mark Essex

Our tax system encourages investments in homes, rather than capital and R&D – creating a vicious circle that contributes to the UK's low productivity – whilst the way we fund social care penalises those unlucky enough to suffer from long-term conditions and their families. Mark Essex presents an elegant solution that could improve housing affordability, infrastructure investment, economic productivity and our social care system.

The UK's housing market, its approach to business investment, its demographics, and its system of social care are suffering from long-term, structural problems. And these are becoming ever more acute – threatening to make our country a less competitive, less productive and less fair place. But we have the levers to address these challenges, shifting the dynamics to transform our downward spiral into a virtuous circle. And I want to propose a mechanism to pull on those levers.

Let's start with the essentials of what's going wrong.

Unaffordable housing

Residential property is ever more expensive, rising far faster than wages. Average house prices rose 43% to £228,000 over the nine years to June 2018¹⁹. And during that period, average cash earnings have risen by just 10.5% – leaving property increasingly unaffordable²⁰.

Government's efforts to make housing more accessible by subsidising those closest to the housing market – using schemes such as Help to Buy – have pumped yet more money into the market, adding to the upward pressure on prices.

But, the central problem remains unaddressed: the proportion of English householders aged 35-44 who own their own homes has fallen from 72% to 52% since 2007²¹.

Low business investment

The rampant housing market also affects the wider economy. How?

With interest rates on the floor, and mortgagees able to borrow up to nine times their deposit, the consistently high returns to be made in property make it the asset class of choice.

This, in turn, starves infrastructure and businesses of investment.

For individual homeowners, it is almost always better to sink cash into property than to invest in shares or small businesses. Not only are profits reliable, but they're also untaxed – at least on the primary residence. In the UK today, by far the best way to build up assets to pass onto children is to work your way steadily up the housing market.

As a result, between 2005 and 2017 the UK had the lowest gross fixed capital formation as a percentage of its GDP of any G7 country: we are not investing enough in our businesses, technologies, R&D and infrastructure²². And the results of this underinvestment can be seen in UK workers' productivity, which is about 25% lower than those of their peers in the US, France and Germany²³.

Inequitable social care funding

Yet whilst a third of all households own their hugely valuable homes outright²⁴, many in England and Wales find that much of their value is swallowed up in old age by the uncapped charges levied for social care. As a result, many find themselves unable to leave a legacy for their children – simply because they were unlucky enough to suffer from a long-term, debilitating condition in their later years. And government has no dedicated funding stream to pay the ever-rising social care bills for non-homeowners – a problem set to grow as our population ages unless the decline in home ownership can be reversed.

The problems with the UK housing market ... and beyond

- We have too much money flowing into housing, and not enough into business investment and development.
- An ever-growing slice of the population shut out of home ownership; and a proportion of those who do make it onto the property ladder deprived – in a random and unpredictable way – of their children's legacy.
- Our government faces fast-rising social care costs, without any dedicated mechanism to fund them.
- Tax revenues from workers and businesses are undermined by the UK's low productivity and slow growth, whilst the government lacks the tools to take a share of the proceeds of the country's fast-rising property values.

“What if government were to abolish inheritance tax and stamp duty, instead levying capital gains tax on individuals’ primary residence”

Let’s reimagine how we approach this problem

A solution

What if government were to abolish inheritance tax and stamp duty, but instead to levy capital gains tax (CGT) on individuals’ primary residence – deferring collection of CGT until people died or exited the housing market?

That looks bold; let’s walk through the concept and its implementation, and consider how to address the obvious challenges and complexities.

According to property specialists Savills, the value of UK homes – excluding new construction – rose by £1,476bn over the last decade²⁵. CGT stands at 28%; so if levying the tax were to leave the market unaffected, it would have generated a massive £413bn over that period.

Allocating funding

In reality, the market would react by reducing housing investment; indeed, one of the reform’s goals would be to reduce the relative attractiveness of the housing market and thus divert funds into business development and R&D.

But even if the rate of house price growth dropped by a quarter, that leaves an average of over £30bn per year – more than enough to abolish both stamp duty on primary residences, which produced £5.2bn in 2016-17²⁶, and inheritance tax, which generated £4.8bn in that year²⁷.

Of course, the potential revenue from taxing house price gains is only converted into cash receipts at the point the capital gain is realised, i.e. the property is sold. In the early years of the policy, there would be a delay between the potential revenues being generated and the cash being received; this could be bridged by borrowing against the expected future receipts, and unwinding that borrowing as the receipts come in.

So of the potential £30bn, after we deduct the cost of abolishing inheritance tax and stamp duty that leaves roughly £20bn. The government could allocate a portion of the remaining cash – perhaps £8bn per annum – to UK-wide infrastructure projects; by improving public services and connectivity, this would stimulate economic growth and help ameliorate any downward pressure on house prices.

With current government spending on transport, waste, water, energy, communications and flood defences totalling £16bn²⁸, an extra £4bn would make a big difference; the other £4bn could boost spending on public infrastructure such as schools and hospitals.

Meanwhile, with primary residences exempt from stamp duty, people would be able to move home without paying a tax that averaged £7,900 in 2016-17²⁹ – leaving them with more cash in their pockets. It should also permit people to move house more easily, reducing the barriers to their buying more suitable properties as their circumstances change. This would, in turn, increase labour mobility and reduce the number of people living in homes too big or small for their needs.

Funding social care

Linked to this reform, the government could choose to cap people’s liability for social care costs – guaranteeing that charges never exceed a third of the value of their home. And even a capped charge would raise large sums.

In 2015-16, public spending on adult social care was £16.4bn³⁰. With about £12bn of CGT receipts remaining to cover the bulk of those costs, it seems reasonable to assume that capped social care fees would bring the total figure up to equal or exceed our current spending on social care.

We can check this with a rough calculation. In 2016, 70,000 people aged over 65 died of conditions linked to dementia, Alzheimer’s and senility alone³¹. Given that 75% of this age group are homeowners³² and that the average home is worth £228,000³³, a third of their property at the point of death was worth about £4bn.

Of course, some of these people won’t have accessed public social care, and some won’t be the sole owner of their homes – but patients suffering from these conditions represent only a small fraction of the total receiving care. Add in capped charges on all those homeowners receiving care for other health problems, and the total raised should plug the £4.4bn gap.

With this system in place, even those who spend decades in receipt of residential social care would be able to pass on over a third of their homes’ value to their offspring: their children would receive two thirds of the property’s sale price, less 28 percent of the money received by their parents via rises in their homes’ value over their lifetimes.

Meanwhile, those homeowners who never need adult social care would leave for their children over two-thirds of their homes’ value – plus, of course, benefiting from zero stamp duty and inheritance tax, along with greater infrastructure investment.

The delivery mechanism

The system for deferring CGT payments would, of course, need careful development. In essence, those selling one house to buy another would simply roll over their CGT liability – totalling 28% of the increase in value since purchase – as a charge on their new property. This could be repeated through their lives until people either die, or sell up and exit the housing market – typically to leave the country or move into residential care.

Sums held as a charge on property would be subject to an interest rate, set by government to balance competing objectives. This rate would need to be high enough to encourage people to settle up when they have the opportunity to do so – perhaps downsizing when the kids leave home – and to ensure that inflation doesn't whittle away the value of the charge in real terms.

But government would also recognise the need to win public support for the policy – so deferring the charge would have to be affordable for most working families, enabling people to keep on moving up the housing ladder without punitive interest charges.

Some further changes would be necessary. For example, ownership laws would require amendment to make clear that people couldn't endlessly defer payment by passing properties directly to their children before they die.

And it would be important not to levy CGT on any rise in a home's value created by refurbishments and extensions rather than the rising housing market: people have already paid tax on the money they spend on home improvements. So surveyors would be required to put a value on any substantive building works, with that sum knocked off homeowners' liability for CGT.

Change without a shock

Governments have always fought shy of levying CGT on primary residences – not least because they fear that a major shock to the housing market could be economically damaging as well as politically unpopular.

But with payment deferred until people leave the housing market, there would be no sudden impact.

Over time, investment capital could be expected to spread out from the housing market into more productive sectors – helping to rebalance the UK's skewed economy. But in the short and medium term, homeowners would see their tax payments falling – particularly during the pain points of house moves and bereavements.

Many people would see the sense in shifting the burden of taxation from labour and business activity towards unearned increases in asset value; and everyone would recognise the value in being able to guarantee their children a legacy, whether or not they need social care in their later years.

Meanwhile, the money freed up for greater public infrastructure investment would itself bolster economic growth and house prices. And here there's another virtuous circle – for the imposition of CGT on homes would guarantee the government a decent share of the house price rises created by those investments.

Benefits all round

Over the scheme's early years, the government would end up with a lot more 'IOUs' in the form of deferred payments than actual cash. But in time, very large sums would start to come through; and in the meantime, the government could borrow against those future revenues to fund social care, infrastructure spending, and the abolition of stamp duty and inheritance tax.

Incrementally, the higher tax rates on property returns would pull money out of that market, slowing house price growth to more sustainable levels.

And as that cash finds its way into R&D, capital investment and business growth, we should see the UK's productivity start to rise again – pushing up earnings.

Aided by an additional £8bn a year for infrastructure spending and a £10bn cut in inheritance tax and stamp duty, this dynamic should see wage growth tick upwards.

Eventually, house price growth and wage increases could meet in the middle. And meanwhile, we'd all be benefiting from a more productive economy, greater labour mobility, lower taxation during our lifetimes, and the guarantee of well-funded social care that leaves us able to pass a legacy onto our children. What's not to like?



05 Reimagine economic development: Britain's next global city

James Stewart

The UK contains some of Europe's highest-performing economic areas, and some of its weakest – creating imbalances which skew and curtail growth. James Stewart argues that running a national competition could foster growth outside the South-East, creating a new set of thriving regional economies.

In London, the UK has one of the world's great success stories. But our economy has been skewed towards the capital and its hinterlands, undermining the country's performance and creating serious political and social tensions. Unless we can build highly competitive, globally-significant regional economies outside London and the South-East, weak productivity will continue to hold the country back. And realising this goal will demand radical action: to realise the prize of creating more world cities in the UK, we should consider *offering* a prize.

Britain has one of the most regionally imbalanced economies in the developed world. The EU's NUTS2 sub-regional data shows that Inner London's residents have the greatest purchasing power in Europe, earning 140% more than those in the second richest area: Luxembourg. But the same dataset also identifies the 10 poorest areas in North-West Europe – and nine of them lie in the UK³⁴.

Inner London is a special case. But working people across Greater London have disposable incomes 40% above the national average; whilst earnings are 14% below average in the West Midlands, and 20% below in the North-East³⁵. The average property price in London is £600,000; in the North-East, that figure is £130,000³⁶.

The costs of geographical inequalities

These disparities in incomes and wealth have their roots in the UK's patchy productivity – which is 33% above the national average in London, and 7-15% below it in the North, West and Midlands³⁷. And their consequence is HM Treasury's unhealthy dependence on London, the South-East and the East of England: only these regions make a net contribution to the public finances, with everywhere else receiving more public spending than they contribute in tax³⁸.

In a self-fulfilling prophecy, London's status as the UK's economic engine pulls in more government investment – further boosting its attractiveness. Transport investment per London resident is nearly ten times that in Yorkshire and the North-East, and almost four times that in the devolution poster-boy of Greater Manchester³⁹.

These disparities are obviously bad for those outside London – but the capital is also falling victim to its own success, with unaffordable housing and overstretched infrastructure holding back growth. If emerging industries such as artificial intelligence, green technologies and healthy ageing are also drawn in by its gravitational pull, all these tensions are set to grow.

And with such uncertainty over the UK's future relationship with the EU, we cannot continue to lean so heavily on London – whose financial and business services industries are footloose and closely tied to continental markets.

Spreading the load

Britain needs a more resilient and diversified economy. And in today's globalised markets, that means creating dynamic, highly-networked economic hubs outside the South-East with the scale and infrastructure to compete on the world stage. The UK's universities and businesses provide highly-skilled staff and foster cutting-edge industries. Now we need new areas to build the economic mass to attract and hold investment and expertise – enabling cross-fertilisation between businesses, and providing the career paths to retain talent.

Devolution to Edinburgh, Cardiff and Greater Manchester has given some areas an economic push; but such constitutional changes have their limits. Global economic hubs need modern, high-capacity transport systems and broadband connections; world-class education providers, closely linked to businesses; and a wide range of traditional and emerging industries, of sufficient scale and density to create virtuous circles of mutually-beneficial growth. Fostering these requires intelligent economic development strategies, strong and coherent management – and the money to kick-start change.

But how to identify our next global economic hub? How about a national competition, with a big financial prize to fund planned investments by the coalition of public authorities and industrial bodies putting forward the strongest proposals?

“But how to identify our next global economic hub? How about a national competition, with a big financial prize to fund planned investment?”

City leaders

As with the selection of cities to host the Olympic Games, entrants would have to demonstrate that they have strong plans, capabilities and potential. In this case, they'd need to set out a convincing economic strategy and delivery model, and plans for truly transformative investments that would strengthen existing high-potential industries and knit the area together as a dynamic, coherent economic unit.

Winning this hefty prize – let's say £5bn – would demand strong research and business planning to map out the area's economic future, plus careful selection of suitable investments to drive growth.

The North might, for example, propose new road and rail links to tie together its great cities and strengthen international connections. The West Midlands could suggest building on its traditional strengths, with freight, training and research investments driving a push into cutting-edge engineering and high-technology manufacturing. The Scottish lowlands might ask for new transport and energy connections and land use changes, creating a global centre for green energy and tourism linking its two heartland cities to the Highlands.

The winner would be the area with the most convincing plan for creating a diverse, dense economic hub able to compete with London for investment and talent. But we should also take the opportunity to strengthen other parts of the UK whose potential in particular industrial sectors could be unlocked by a well-conceived, well-funded investment plan – spreading growth beyond the big winner, and further diversifying the UK's economy. So areas could also be invited to enter more narrowly sector-based bids for five awards of, say, £1bn each – with bidders for the main prize required to set out secondary plans for this runner-up trophy, and the competition extended to areas lacking the economic scale or range to scoop the top gong.

Then we might see, for example, the South-West installing high-speed broadband and fostering creative industries to create a virtual arts and media city. Or the Oxford-Cambridge corridor expanding its higher education institutions and improving their links into the business world, becoming the world's undisputed leader in science, research and innovation. Or the North-East creating a global centre for driverless vehicles, building on its strengths in car manufacturing, engineering and green energy technologies.

Some areas might choose to be even more imaginative. I was impressed by a recent presentation about Innopolis: a brand new city in the sparsely-populated republic of Tatarstan, which provides top class facilities and free education to university students. In return, these students work for at least a year for the tech businesses which cluster around the university. This 'start-up town' could provide inspiration for accelerating specialist skills outside cities in the UK.

Everyone's a winner

As well as the hard cash, the winner – and the sector-based runners-up – would benefit from global publicity; for no country has attempted such a radical and media-friendly approach to economic development. So businesspeople, civil servants and politicians around the world would learn something about all of the bidders' economic potential, and the winners' international profiles would receive a dramatic boost – drawing in traders, skilled professionals and investors.

To ensure a level playing field, entrants would receive funding to support the necessary research and business planning, and to map out decision-making structures to manage delivery by the consortium of public, private and voluntary sector players behind each bid. For the winners, investments on this scale should provide the boost necessary for their economies to compete on the global stage. But even those which don't win a prize wouldn't leave empty-handed: each would benefit from a fresh, research-based analysis of their economic strengths and potential. And the competition would catalyse conversations around the country, bringing people together to map out their area's economic future and raising their aspirations.

As long as the UK builds growth around the economic engine of London and the South-East, its regional disparities will continue to grow; and the capital's focus on finance, business services and property will leave us dangerously dependent on a narrow set of industries. Feeding London's golden goose has enriched a corner of the UK and maintained tax revenues, but this model is simply not sustainable.

There is enormous economic potential in many other areas of the UK; but as long as their cities and regions are starved of investment and lack strategic business planning, it will never be realised. The 'Northern Powerhouse' model recognised the importance of central coordination and economic mass – yet it lacked the funds to pursue its ambitions, and proved vulnerable to political changes in Westminster.

Now it's time to identify the UK's next global economic hub, along with those areas best placed to build their own world-class sectoral economies, and to put in place the key foundations of growth: coherent, strategic decision-making, with the ability to pursue an agreed plan over the long term; economic mass and density; and the investment to kick-start growth. It's time to aim for the big prize – in every sense.

“There is enormous economic potential in many other areas of the UK; but as long as their cities and regions are starved of investment and lack strategic business planning, it will never be realised”



06

Reimagine social care

Mark Essex

Our system of social care home visits works poorly for all those involved – councils, providers, carers and, crucially, service users. Mark Essex sets out a model that could improve system efficiency, whilst empowering both carers and their clients.

Government policies on public services emphasise personalisation, empowering service users to choose providers that best meet their needs.

But despite an increase in the use of personal budgets, the offer in social care often falls short of these goals. And it isn't only service users whose needs aren't always met: many carers too operate within a demanding, inflexible system that takes little account of their preferences, requirements and specialisms.

Imagine if, as a service user, you were given a timetable for visits built around your essential needs such as meals, washing and personal care. Someone has talked to you about managing a personal budget, but it seemed quite daunting to plan it all. And anyway, even if you did set the schedule, it still wouldn't be flexible enough. Some days you don't need as much help, or you have relatives or friends who can help out. And what if you need the loo, but it's hours until your next visit? What if you get hungry between visits? What if you feel able to feed yourself today, but really need a light bulb changing? Even if you made the plan yourself, on a day to day basis, it still feels a bit too rigid.

The carers vary too. Some have time to talk, you enjoy their company and you build up a rapport. Others are professional, but not warm. On some days, if there is traffic, or your carer is up against the clock, your visits can feel rushed. You don't expect to click with everyone but wouldn't it be nice if you could have more of your visits with the people you like?

Now put yourself in the shoes of a carer: you are on or near minimum wage on a 'zero-hours' contract that is difficult or impossible to combine with other work. You receive rigid timetables with sometimes optimistic travel times. There are days when you have barely enough time to get everything done before you have to get in your car and dash to the next appointment. At those times, you'd like to provide a more caring experience, but the service users are not your employer; you work for the care company, whose customer is the local authority.

And now let's imagine you are that company contracted by the local authority to provide the care. Your performance metrics tend to emphasise efficiency and availability over service users' views and experiences. You understand this. Your customers have seen significant pressure on their budgets, yet have statutory obligations to provide services to an ever-expanding population of people with infirmities, disabilities and long-term conditions. Councils have tried to square this circle by cutting rates, but this only puts more pressure on this narrow-margin industry – paring away at the quality you can offer.

While so many public services become more citizen-centric, we have a system of visiting social care services which poses challenges to carers, providers, commissioners and service users. And these users are people, who often struggle to have their views heard through other channels, who could benefit more than most from a better level of choice and voice.



Let's reimagine this whole system

Let's ditch the rigid timetables and the staff rosters; the local authority contracting process and the tight-margin care management firms. Could we make service users the clients here, rather than their local authorities – putting them in the driving seat? Could we let people choose the times and types of service they receive, and allow them to select their preferred carer? Could we make caring roles more flexible and attractive, bringing in a new cadre of carers who fit the job around the other things in their life – rather than having to fit their lives around the job? With a change in approach and some relatively straightforward digital technologies, we don't see why not. Just imagine if a service user could request a visit as easily as ordering a taxi.

Many local authorities around the country have developed forms of 'personalisation', in which service users can choose to spend their 'budgets' at a range of local services – but these don't generally include home care, instead providing a menu of daytime activities provided by approved firms. With digital technologies, though, it would be possible to take this much further – enabling service users receiving home visits to 'buy' a much wider range of services, at the time of their choosing, from named individuals.

Following an assessment of an individual's care needs, they would be given a 'budget' and a mobile device containing real-time information on all the carers in their area: each carer listing would contain details of their skills and services, their availability, and a rating based on feedback from previous clients. Then they could 'spend' their budget how they chose, requesting the timeslots, the services and the individuals that met their needs that day.

After each visit they'd be asked to score the quality of care, influencing the carers' rating and guiding the choices of other service users. In time they would no doubt come across carers with whom they had a particular bond, and might want to schedule a regular visit; but if their needs changed and they required – for example – someone to unblock the drain or do a bit of shopping for them, then they could always alter the arrangements. And if they had an urgent need for personal care or a meal, they could simply press a button and receive a visit from the first available carer.

On the provider side, this model reduces the costs associated with scheduling appointments and rostering staff. Instead, carers would effectively be self-managed, signalling their skills and availability and letting the technology organise the incoming service bids they choose to accept into an efficient itinerary.

So the carer's working lives would be transformed: given the ability to choose when they work and the freedom to decline jobs, the role would grow in status, flexibility and autonomy. This in turn would attract new kinds of people into the job: parents willing to work during school hours; the active retired, happy to do a few jobs a day; the employed who want to earn a little extra in evening work; even volunteers ready to contribute their earnings to charity and, perhaps, to spend a little extra time having a cuppa with their clients.

Of course, not all services are the same: people's needs, locations and characters would affect how attractive a particular job is to carers, so the system would even out these variations user's remote location or difficult health condition made it harder for them to attract carers, the price paid for a visit would be raised. If carers with a particular skill proved in short supply, the price for that service would increase until others retrained or entered the market. And if individuals experienced long waiting times on any particular day, a steadily-rising price should encourage carers to squeeze in an extra visit or come on duty.

By passing power from the local authority and the management firm to the service user and the public service worker, this model would return control from institutions to citizens. By providing a real-time picture of service users' evolving needs and the people available to serve them, it would provide a way to dynamically match supply and demand. And by attaching higher prices to services found to be more scarce, it would ensure that gaps in provision were plugged.

Currently, many service users feel as if they get what they're given, while carers do what they're told: our rigid system provides services that aren't required, whilst ignoring people's changing needs. But under this model, both groups would win back control of their lives in a system that gives each side exactly what it's looking for.

"A service user could request a visit as easily as ordering a taxi"

How it would work

There are four parties under this model: the commissioner; the provider; the carers; and the service users. All four would have different 'dashboards' on a shared app that would gather, process and share data.

The commissioner would typically be the local authority, although people ineligible for state-funded care could also access the system – either performing the commissioner's scrutiny duties themselves, or passing that task to the council or their Power of Attorney.

The commissioner would perform an oversight role on the work of the provider – scrutinising the system's performance, ensuring that minimum standards are met, and handling any complaints or appeals from service users. It would also receive alerts when the system identified a risk: if, for example, a service user failed to log on or a call for service was left unanswered for too long, then the provider would have to intervene.

The provider would be responsible for conducting care assessments and reviews; recruiting, vetting, training, monitoring and advising carers; providing service users with the right equipment, training and support; adjusting the pricing protocols to ensure that people's needs are being met; and providing a core service to support users with specialist needs or to fill any gaps which the new approach could not fulfil.

Service users would be given an app and, if required, a simple smartphone or tablet. This would show all the carers available – both in real-time, and through the shifts that carers have chosen to advertise over coming weeks – and prompt users to rate the quality of care after each visit.

They could search for individuals' names, high ratings or specific services, and either book visits in advance with particular individuals or simply request an urgent visit from the next available carer. Users would all pay the same for a particular service; the price variation would only affect the fees paid to carers, ensuring that people receive a broadly equal service even where it proves harder to attract a carer for a particular job.

Carers would be carefully vetted and trained, then upload a profile setting out their skills and the services they can offer. They'd be encouraged to set out their availability over future days and weeks: whilst it would be possible to simply switch on their 'taxi cab light' and pick up any unmet demand, those who allowed service users to book in advance would be likely to get the best jobs and the most efficient travel itineraries.

And they'd be able to see the ratings and skills of other local carers, along with the proportion of their available time pre-booked – encouraging them to improve their service quality or undertake training in order to get a bigger share of the market.

Whilst service users would pay a fixed price for a specific service, carers would have to keep a close eye on the fees available: some would vary to reflect the need for a longer journey or visit; a higher rate might be paid for unsociable hours visits; and other fees would gradually rise as the system tried to attract a carer for a complex medical condition or an unpopular individual.

Those with the best average ratings would receive more bookings and fill their diaries more quickly; but they could also be paid a small premium for each job, ensuring that great service brings rewards even where supply is so tight that most carers can find plenty of work. As with private sector equivalents such as CheckaTrade, the need to build and retain a good rating would be likely to have a strong positive influence on service providers' behaviour.

Before finalising a booking, carers would be presented with information on relevant travel times – perhaps using local traffic information and data on daily congestion patterns – and the app could suggest diary alterations to make for a more efficient route. Via GPS tracking, the app would monitor carers' locations and keep service users updated on their estimated arrival times. And before a carer arrived at a property, the app would ensure that service users had the carer's photograph and supply both sides with a password to verify identity.

Going further

Whilst this app could work at a borough or district level, the market would function more effectively if the system was applied on a larger scale – enabling carers to serve a bigger market, and minimising inefficiencies and perverse outcomes around council boundaries. The city-regional devolution agenda could be helpful here.

Extending the system to a national or regional level would open up further possibilities: perhaps people with relatives receiving care in other parts of the country could provide services to people in their own neighbourhood, gifting the credits earned to their relatives for them to locally spend.

With the system in place, it could also be extended to cover other forms of work – allowing service users to buy, for example, home repair or decoration services from providers. These providers could pay a charge on work won through the system, helping to fund the care service whilst enabling vulnerable people to buy services from providers who've been vetted, tracked and monitored through the app. This facility could help tackle incidences of fraud, aggressive door-to-door sales, distraction thefts and poor service – major risks for vulnerable people living in their own homes.

Alignment with public policy objectives

There are many ways in which this idea sits neatly alongside existing government policies, service reform agendas, public sector goals and popular opinion, including:



Personalisation and choice in public services.



Government as a facilitator rather than a provider of public services.



The digital by default agenda, and the aim of rebuilding services to make full use of the potential of data and digital technologies.



The need to drive up the standards of care, focusing on patient needs, safety, and really high-quality service provision.



The public disapproval of 'zero-hours' contracts, and the desire to give people more satisfying, empowering and engaging working lives.



The aim of strengthening the role of competition in public services in order to drive up quality.



The need to bring more people into the caring workforce, addressing the existing serious staff shortages and helping to ensure that these are not exacerbated by Brexit.



The goal of increasing voluntary work and building community cohesion. With the role of carer made much more flexible and autonomous, new kinds of people should be attracted into the field – including volunteers, and others able to spend more time with service users than they're being paid for.



The austerity agenda and 'more for less'. This system would do away with much of the administrative work involved in scheduling and managing carers, cutting the costs of delivery. By closely matching demand to supply on a daily basis, it should also improve outcomes and efficiency in service delivery. These are particularly crucial goals in social care: demographic changes and falling council budgets are already weakening services and forcing the government to permit rises in local taxation.



Summary

Our current care system offers an inflexible, inefficient service that can deprive users of choice and is unable to adapt to people's changing needs and preferences.

Just as importantly, it disempowers carers, who have little control over their working lives and are tasked with meeting the needs of their employer rather than their clients. This system has grown up over time as government has tried to meet the ever-growing needs of an ageing population in the face of weakening family support systems, creating a big, low-margin industry built around the interests of local authorities and private providers.

Our suggested system would strip out some of the administrative deadweight and focus on three key goals: providing the right care services for individuals; facilitating councils' responsibilities to meet their statutory obligations; and improving the working lives, morale and performance of carers. Digital technologies enable us to rethink our system of care visits from first principles, building a replacement that prioritises the rights, choices and wellbeing of individuals rather than the interests and budgets of organisations.

07

Reimagining social isolation

Andrew Webster

The number of people feeling isolated and alone continues to rise. But in the era of social media and apps, we have new tools to create communities of interest and link neighbourhoods together. Andrew Webster argues that digital technologies could help address the loneliness epidemic and reduce unnecessary GP visits.

Social isolation is one of the invisible blights of our age. Millions of (mostly elderly) citizens live with little or no human contact. According to Age UK, some 360,000 people over 65 have not even spoken with friends or family for more than a week⁴⁰.

Apart from the personal distress this causes, it also takes a huge toll on health. A recent study estimates that loneliness increases the risk of mortality by 26%, likening lack of social connections to 'smoking 15 cigarettes a day'⁴¹.

Across the UK, GP waiting rooms are full of older people. And many of those are lonely, with socially isolated individuals almost twice as likely as their better connected peers to see their GP⁴². Many of these visits may be less about illness and more about having a few precious minutes of company. All of which contributes to the £2 billion or so the NHS wastes annually on unnecessary GP⁴² and A&E visits⁴³ – not to mention other potentially avoidable costs like anti-depressant prescriptions.

But the answer to loneliness needn't be seeing the doctor, or having home visits from social care professionals, or even attending community support groups. What if it was about getting to know your neighbours a little better?

Friendship is the best medicine

One London GP applied this approach on a patient he'd been seeing quite a lot of. Suspecting that isolation was the main ailment, the doctor invited him to a session with the nurse and social care professionals to try to find a solution. It transpired that the patient's big passion was the game of chess, so the team introduced him to a local chess club and, more importantly, to an online game, both of which led to regular face-to-face and online interactions with other players.

The GP has probably not assessed this patient's loneliness quotient; but if he did, I'd vouch that it has fallen significantly, and would also predict that he's seeing rather less of him in his surgery these days.

In Leeds, some of the local businesses send volunteers out into the community to work with groups like churches, clubs and associations, to mentor members on how to reach out to local elderly residents living alone. The aim is to help them make better use of technology – for example WhatsApp and Facebook – setting up and/or joining groups and finding others with common interests.

GPs and social care workers could also recommend a growing number of 'neighbourhood' apps. These smartphone technologies connect people safely to other residents within the vicinity of their homes. Apps such as the hugely successful Nextdoor are designed to share local advice on babysitters, sports clubs and tradespeople, or report missing pets or burglaries.

From virtual to physical communities

Elderly, lonely people have a lot of time on their hands. They're around most of the day when others are at work, and they tend to see what's going on in their street. Which makes them ideal candidates to collect online parcel deliveries, hold keys for builders or plumbers, or pass on useful reminders about street cleaning or tree felling.

It's not much of a stretch to reimagine a lonely pensioner becoming the go-to person for these kinds of tasks, and in the process making new social contacts. First it might be a cup of coffee here and there from grateful neighbours; the next thing you know, she or he may be getting invitations to barbeques and dinner parties. On top of this, there's also the opportunity to receive a modest payment for taking others' deliveries.

And it's not just the elderly who suffer from social isolation. Those caring for them are often equally deprived of human contact, chained to the home and rarely able to venture out. Many find themselves neglecting friends, relatives and hobbies and becoming desperately lonely themselves.

Unpaid carers – representing 8% of the UK's private household population⁴⁴ – are said to save the NHS £57 billion a year⁴⁵. If anything happens to them, the NHS and social services must step in at considerable additional cost. Given their enormous value to society, carers could surely also benefit from mutual support groups – again, enabled by technology – helping them feel more integral and useful members of the neighbourhood.

A few years back, Professor Danny Dorling of Sheffield University said "Even the weakest communities in 1971 were stronger than any community now"⁴⁶. Could these anecdotes and ideas for neighbourhood togetherness suggest a way forward to strengthen community ties, reduce the misery of social isolation – and save the NHS and social services a ton of money into the bargain?

"It's not just the elderly who suffer from social isolation"





08 Reimagine healthcare

Jason Parker

The British public love our NHS – but we don't always act as if we value it, missing appointments and squandering resources. Jason Parker proposes a system that could ensure that every patient receives the care they need, whilst improving public health and services' efficiency.

There is a strange paradox experienced by those who've tried both selling goods via online auction websites, and giving things away through community and local donation sites: it is often less hassle to sell something than to give it away.

Put, say, your old sofa-bed on an auction site, and it might only go for a fiver – but the buyer will then come and take it away. Put it on a free goods site, however, and you get lots of interest from people who then mess you around, fail to show up, and stop replying to emails. The truth is that people attach much more value to items for which they've paid a price, no matter how trifling the sum.

The same dynamic operates in the NHS, which is famously 'free at the point of delivery'. People regularly fail to show up for GP and outpatient appointments, wasting medics' time and NHS money: NHS Digital calculates that the 8m hospital outpatient 'Did Not Attends' (DNAs) cost the NHS in England about £960m in 2016-17⁴⁷; and whilst the government does not collect figures for missed GP appointments, in 2014 NHS England estimated that there were 12m no-shows – wasting over £162m⁴⁸.

People also consistently present at hard-pressed hospital A&E departments with minor ailments and injuries that would be better handled by NHS telephone, nursing and GP services. In 2016-17, some 9m people were sent home from A&E with just guidance and advice⁴⁹ – and given that the average A&E attendance costs £138⁵⁰, the NHS could clearly save a substantial proportion of this £1.24bn cost by diverting patients to other channels.

This highlights a real challenge for policymakers. The British public rightly love their 70-year-old institution. It was the centrepiece of our 2012 Olympic opening ceremony: the British invention that we most wanted to show off to the world. But it cannot be preserved in aspic. Today's demanding patients expect the very best care. And although the NHS was held in just as much affection in 1958, 1968 and 1978, we wouldn't now consider it acceptable to offer the levels of care that were seen as normal then. So we love the NHS, but we know it has to keep on changing to meet our needs.

And the NHS will be better equipped to meet our needs if its users improve the ways in which they access it. If people valued the NHS's time as much as they say they value the organisation itself, they'd use GPs and hospitals much more efficiently – both saving taxpayers' cash, and improving access to services for themselves and their families. There is also a political driver behind this agenda: Theresa May's promise of annual 3.1-3.6% NHS funding rises come with strings attached, including a 10-year NHS plan that "tackles waste" and "ensures every penny is well spent⁵¹."

Incentivising the right behaviour

So NHS bodies are set to come under greater pressure to cut the money wasted on DNAs and unnecessary A&E attendances. One way to focus services on real needs is to impose a charge for access to NHS services. We see variations of this across a number of international health systems. Some charge 'co-payments': in Jersey, for example, the state pays about half of the cost of a GP appointment, while adult patients pay the remainder – about £20. This helps make sure that people think twice before making an unnecessary appointment.

Another system I admire is that used in Israel, in which everyone is entitled to a certain amount of expenditure across a basket of services, no questions asked – and it's a good basket. Some things aren't in the basket, and you need to insure yourself for them or pay a spot price. In turn, the providers are heavily incentivised to prevent hospital admissions using powerful analytics. For example, Clalit, the largest of the country's 'health maintenance organisations', has been very successful in moving patients to lower-cost settings of care, reducing waiting times and improving pay for physicians. Considering its expenditure on health as a percentage of GDP, Israel gets by far the best bang for its bucks of any health system.

However, I think the British public is hard-wired to resist such fees; and even a small charge would be disproportionately costly to poorer families. So is it possible to introduce incentives – and, by extension, penalties – that encourage efficient use of NHS services whilst retaining the core principle of an NHS that is free of charge and offers an equal service to everyone?

I think the answer is yes; now let's consider how we could do so.

Creating a mechanism

In poker tournaments, every player begins the game with the same number of chips – and if they spend them all, they can't 'buy in' again. In such a 'closed loop' currency, everyone – no matter their personal wealth or connections – has an equal chance of winning; and the quality of their decision-making will decide whether they win or lose. So people don't throw chips away on poor hands, instead saving them up for when they're most likely to produce a result.

There are ways to apply this concept to NHS services, whilst protecting three key principles: that medical care remains free and accessible to all; that patients making poor decisions in how they 'spend' their chips won't suffer from worse medical outcomes; and that people with physical or mental health conditions are not disadvantaged.

And if we attach it to a public sector medical insurance system, we can also use it to encourage people to adopt healthier and safer lifestyles – taking the edge off fast-rising demand for NHS services.

Let's say that everyone begins with the same number of NHS care credits – or 'caredits'. Some of these, they'd have to spend on buying insurance for secondary and tertiary care: this would provide cover for all serious injuries and conditions, from plastering and physio for a broken leg, through antenatal and postnatal care, to cancer and heart disease treatments. And it would include provision for treating all long-term conditions, from specialist appointments to medication.

As with any sale of medical insurance, the insurer would want information relevant to the buyer's prospects of getting an injury, disease or medical condition. And at this point, we'd want to separate out the risks rooted in lifestyle choices – such as smoking, excessive drinking, poor diets and adrenaline sports – from those which stem from individuals' age, wealth, pre-existing conditions, medical history or genetics. By charging a modest additional premium for lifestyle-related risks, we'd give people a reason to live more healthy lives – preserving more of their caredits for primary care and the incentives scheme. And as a bonus, gathering all this data on people's health and lifestyles – allied to information on their NHS care and outcomes – would provide a rich resource of health data on the population, supporting medical research and helping NHS leaders to improve care pathways.

It's worth noting here that our goal is to use market structures to change people's behaviour – both in the way they access services, and in how they look after themselves – but this scheme is not linked to private provision of health services. The whole system would be contained within existing NHS structures, with decisions about how those are provided – as currently – resting with NHS leaders and managers.

So that's the insurance aspect; let's now return to how people 'spend' their 'caredits' in the primary care system – and examine the potential to improve the use of NHS services.

Capturing value

GPs would offer a menu of services with a 'caredits price list' attached – with peak time appointments costing more – and patients failing to attend without good reason would be charged as if they'd accessed the service. So the number of DNAs should fall, and demand should be more evenly distributed across GPs' timetables. GPs could even begin offering other services likely to meet people's needs at a cheaper 'cost', such as nurse-led classes on diet and blood sugar management for diabetics.

Alternatively, people could access 'cheaper' appointments via less costly channels: the NHS 111 advice line could be free, with a small 'fee' for getting advice from a pharmacist and a slightly higher one for seeing a nurse. All these services could triage patients, referring them up the chain where necessary; but the sliding scale of fees should encourage people to access only the level of care required.

Hospital outpatient care would be covered by the insurance policy; but to encourage people to arrive for arranged appointments, DNAs could be charged a caredits penalty fee. Some hospital trusts and outpatient departments might also choose to use the system to distribute demand more evenly across their schedules, perhaps charging premiums in exchange for offering evening or weekend appointments.

To encourage patients with minor injuries or ailments to access appropriate services rather than clogging up hard-pressed and expensive A&E services, those showing up at A&E departments who don't require treatment and haven't been referred there by NHS 111 would be charged a chunky fee in caredits.

Of course, some people need to see the GP more frequently than others: those with a long-term condition, for example. So where people are diagnosed with an illness or a combination of co-morbidities requiring regular primary care, their account would be credited with enough caredits to cover the appointments demanded by their conditions. But some people access primary care because they want human contact or have hypochondriac tendencies: in these cases, they could be diverted to suitable services offered – much more cheaply – by charities and mental health care providers.

Sharing the benefits

But why should people want to save up their caredits? What, in short, is the incentive?

Well, if the primary care caredits system were to prove effective, there are big savings to be had – starting with a substantial proportion of the £2.4bn wasted in England every year through DNAs and unnecessary A&E attendances. Some of this would be spent on strengthening alternatives to A&E attendance, and some would be consumed by administration costs; but the remainder could go into a pot to fund rewards that people could 'buy' with the caredits they've saved by using NHS services as they were intended.

"The premiums attached to dangerous and unhealthy lifestyles in the insurance system should encourage people to change their behaviour"

In the longer term, the premiums attached to dangerous and unhealthy lifestyles in the insurance system should encourage people to change their behaviour – particularly if the additional ‘costs’ of particular activities were made transparent. A pricing system based on existing medical research would attach a particularly hefty additional cost to insurance covering – for example – a diabetic smoker or a heart disease patient who eats badly.

So whilst their core condition would be covered by the additional carecredits allocated within the pricing system, the incentives to change their way of life would be greatest where the behaviour is riskiest.

Over time, the general health of the population could be improved by the system’s ability to tackle the biggest single problem facing the NHS: that of an ageing population suffering from ever more co-morbidities. As this fed through into slower rises in the rate of ill health across the public, some of these savings could also be channelled into the incentives scheme.

In the spirit of the ‘closed loop’ currency system, incentives could not be cashed in for hard currency; nor could they purchase additional specialist treatments. But they could be redeemed within NHS approved services or schemes designed to improve the convenience of services or to improve health and wellbeing.

So, for example, GPs might start offering evening appointments for those unwilling or unable to visit the surgery during the day. Walk-in centres might open to respond to demands. Imagine how much less busy an A&E department would be if people knew they could spend carecredits to access a walk-in minor injury unit without the four-hour wait in reception. Charities and other providers might offer dietary advice, discounted gym memberships, or access to sporting activities. And if people saved up their carecredits over the years, they could be used to defray social care costs – or even passed on to their children.

Strengthening the system

And what if you run out of carecredits during the year? Is there a penalty? Well, doing so might suggest that the patient is suffering from an underlying condition that hasn’t been diagnosed. So the first response would be to talk to them, with the potential for referral for further medical and mental health check-ups – and if a physical issue was identified, the patient would receive the additional carecredits to cover their high use of primary care services.

Alternatively, it might be found that someone has simply been unlucky enough to suffer a number of accidents or illnesses during a particular year; in special cases, they might be offered a top-up or an advance against the following year’s carecredits.

In the case of people with some mental health conditions or other vulnerabilities, it might be decided that they lack the capacity to manage their own care; sometimes a carer or power of attorney could help manage care for such individuals. Or their GP could manage their care – effectively taking the patient out of the carecredit system and offering them the service they receive today.

This would also be the offer to people who run out of carecredits through, for example, having consistently failed to attend without good reason. Effectively, they would be demonstrating that their lifestyle or character mitigate against their ability to take control of their care. In that situation, again, the patient would find themselves taken out of the carecredit system; and as a result, they’d lose the ability to save a surplus of carecredits or access the premium or weekend services.

Introducing such a structure would, of course, require intensive work by providers to educate the population – both about how the system works, and about how they could improve their lifestyles. Meanwhile, those NHS and charitable providers which succeed in developing services and marketing them to patients would see greater demand and earn more carecredits – so there would be an incentive on the provider to make patients aware of their services.

As the population ages and the incidence of long-term health conditions and disabilities rises, we urgently need to find ways to improve public health. And as taxpayers are asked to pay more to preserve our much-loved NHS, it’s essential that we squeeze waste out of the system – starting with the services that are delivered, but not consumed. This approach would enable us to hit both goals, whilst staying faithful to all the core principles of the NHS. Our health services do an amazing job, but they can’t operate effectively without the cooperation of the British public: it’s time that we took a little more responsibility for our own health.



09

Reimagine welfare

Iain Gravestock and Bethan McKay

Government departments pool their spending power to bulk-buy electricity at very low cost. But low income families dependent on prepaid meters must purchase their power at inflated prices. Iain Gravestock and Bethan McKay propose a scheme that could cut the benefits bill whilst tackling fuel poverty – and that's just the start of its potential benefits.

It's a sad fact that those least able to heat and power their homes often pay the highest prices – for four million⁵² largely low-income households have prepayment electricity meters, incurring an additional cost that can range from an average £80 to £250 a year.⁵³ Even taking the low end of these figures, the poorest families in the country are paying a price premium totalling nearly a third of a billion pounds.

This inequity bites particularly hard in winter, when power use increases; unlike those paying a fixed monthly direct debit, households with prepayment meters cannot even out their electricity costs over the year. Then there's the inconvenience and cost of visiting shops to charge up meter keys, and the harm caused when vulnerable people simply cannot afford to keep the lights on; dependence on a prepayment meter is bad news for many of the poorest in our society.

Yet much of the money coursing through Britain's prepayment meters is provided by an organisation with vast purchasing strength and the country's best credit rating: the UK government. Indeed, the government buys its own electricity at well below retail rates: to minimise the burden on taxpayers, many departments and agencies aggregate their purchases through the Crown Commercial Service (CCS) – which, trading on the wholesale markets, uses its huge spending power and specialist skills to achieve the best prices available. So taxpayer cash which reaches energy markets via the CCS is stretched to the limit; but those government funds which instead pass briefly through the hands of benefit claimants produce far slimmer returns.

Under this system, the poorest in society both pay the highest prices for electricity (and for low-income households, power represents a big chunk of their monthly outgoings) and have the lowest security of supply. Meanwhile, hard-pressed benefits budgets are used inefficiently, so the Department for Work and Pensions (DWP) must spend more to provide the unemployed and vulnerable with life's essentials. And power companies must maintain an unwieldy and expensive physical infrastructure of prepayment meters, in a bid to maintain some level of service for a group they view as high-risk and low-return.

Let's reimagine this whole system...

What if DWP claimants could elect to put some of their benefits entitlement into an innovative new government-run electricity purchasing service, transforming themselves from some of the weakest individuals in the marketplace into members of a huge and powerful electricity-buying syndicate? Pooling their buying power with that of other claimants and the government itself, they would become partners in a huge trading block – and secure much better prices in the market.

"The poorest in society both pay the highest prices for electricity, and have the lowest security of supply"

Not all of those savings would accrue to the consumers – for the government would also share in the savings, enabling it to reduce benefits spending. Given the substantial gap between the below-market prices currently paid by CCS and the premium charged via prepayment meters, there would be plenty of savings to go round.

Participants would also benefit from fixed and predictable monthly outgoings, with their electricity spending smoothed over the year, and eliminate the inconvenience of key charging and the risk of being cut off. In exchange for these advantages, they would see a small reduction in their spending flexibility – for with a proportion of their benefits diverted at source into the scheme, they would draw out less cash – and a still smaller cut in their headline benefits figure; but their spending power would rise.

Electricity suppliers should also benefit. For them, prepayment meters are simply a way to minimise risk when supplying electricity to people who may not have the money to pay bills in arrears. The premiums charged such customers are spent on supporting the infrastructure of meters and charging points; most providers would much prefer to be charging lower rates to a less complex and more reliable set of customers.

If instead these households' bills were paid directly by the government itself, the whole calculation facing energy providers would change: participants would become a very low-risk consumer group, with lower customer acquisition spending and bills handled via an automated central system – producing much reduced administrative and payments costs.

How to deliver the new service

The service would aggregate participants' electricity purchases, perhaps channelling them through the CCS systems already established to take advantage of the best possible wholesale market rates.

The scheme would initially be linked to a single benefit, though it could be expanded later to include others. Participants would be required to 'sacrifice' enough of their monthly benefits to cover their household's average monthly electricity use over the previous year – a figure smaller than previous years' spending, thanks to the discounted rate achieved under the scheme. The lion's share of this 'sacrificed' money would be spent buying electricity on wholesale markets, with a smaller sum returning to the DWP or Treasury.



If participants' electricity use began to rise during the year after they joined the service, threatening to outpace their contributions and leave the government out of pocket, the system – which would track both electricity use and benefits sacrificed – would ask them to raise their monthly payments to cover the difference.

Benefits claimants would access the service via a GOV.UK web page or an app, both of which could verify eligibility with the DWP and keep users informed on market prices and their cumulative savings. Those unable to access or use these technologies could instead call a telephone helpline, but the government would aim to make the digital services so easy to use, quick and convenient that they become by far the most popular channels. These goals would be aided by the use of citizen-centric design, the deployment of emerging cross-government technology platforms, and the application of Government Digital Service expertise and standards.

Alignment with public objectives

As well as the advantages for consumers, suppliers and the government listed above, this system could produce a range of further public benefits. The most obvious of these include:

- By reducing energy costs, smoothing payments over the year and preventing 'blackouts' when participants can't afford to recharge their keys, the service would help the government realise its goals around reducing fuel poverty;
- The system could provide a helpful channel for energy providers to meet their Energy Company Obligation (ECO2t) requirements, further supporting work to tackle fuel poverty and producing more energy savings for the poorest consumers;
- Integrating this approach with the government's winter fuel payments system could reduce the latter's administrative and service delivery costs;
- Collecting data on individuals' spending and their use of services, the government could – with the right consents in place – gather evidence to inform future policymaking, improve its targeting of advice and support services, and identify the most effective ways of reducing energy use.

Going further

This approach has huge potential benefits in electricity, where the existence of prepayment meters creates a twin-track market penalising the most vulnerable consumer groups. But the government could also produce savings within many other markets by aggregating the spending power of benefits claimants and, in many cases, combining it with its own. And if people began using and valuing this service to purchase electricity, they would already have the equipment, experience and confidence to make other essential purchases through the same system.

These purchases might include water and sewerage, basic food, insurance, simple financial products, telecommunications and broadband. And incorporating some of these new services into the system would provide additional social benefits. We might see a rise in the number of insured households, for example – an important goal, given that the poorest families both experience an above-average risk of burglary or home damage, and are poorly prepared to recover from such blows. We might also broaden access to home internet, tackling 'digital exclusion' and – in a virtuous circle – making it easier for people to use the 'benefits sacrifice' portal. We might even improve eating habits, contributing to public health.

Extending the scheme in this way would have obvious benefits for claimants and the government – with both sides seeing their outgoings falling as they share the benefits of bulk discounts – but service providers and retailers would also have strong incentives to participate. Currently, businesses targeting these consumer groups typically find that individuals are highly price sensitive, with low spending power and poor credit ratings. Under this service, they would instead be invited to bid for substantial bulk-sales contracts, with payment underwritten by government and much reduced marketing, service provision and payments costs. In such low-margin markets, these benefits are extremely attractive.

In each of these examples, the purchasing model would be similar to that of electricity. Consumers would voluntarily forego a proportion of their benefits in order to receive the product at a discounted rate – so they'd pay a fixed monthly fee up front, with usage tracked almost in real time.

Addressing challenges and objections

As with any significant policy initiative, there are many potential problems and risks around this idea. Here we address six of the most substantial.

1. The scheme depends on high volumes to drive down prices and attract energy providers. What if it doesn't attract enough claimants?

The project's ability to attract participants would depend on the quantity and quality of marketing; the system's accessibility and ease of use; and the savings available. Given that the government already communicates extensively with benefits recipients, it has a range of existing channels to market. Meanwhile the Government Digital Service has demonstrated its ability to produce accessible, attractive service delivery platforms; and the savings on offer should easily be substantial enough to attract this price-sensitive group of consumers.

2. If service users consume more electricity than they've funded through benefits sacrifice, then stop claiming or disappear, someone's left with an unpaid bill. Who carries that risk?

Energy companies. Because the service tracks energy use monthly, these bills could only be small. And energy suppliers currently find low-income customers an expensive group to supply, with high fixed infrastructure costs and disproportionate expenses for marketing, billing, money transfers, administration, complaints and dispute resolution; the savings that come with moving to a single, highly reliable customer should more than outweigh any additional losses. As an additional safeguard and deterrent, participants could also be required to repay overspends through deductions from any future benefits payments.

3. This looks like a difficult technology project and a brand new form of public service – does government have the skills to deliver it?

In fact, this is only an iterative development of existing successful policies. The Motability service aggregated benefits spending to provide a single service for users. Childcare vouchers involve a salary sacrifice scheme, administered through HMRC. And the DVLA's Vehicle Excise Duty service instantaneously checks vehicles' insurance cover, demonstrating government's ability to manage real-time data exchange with private industry. What's more, in recent years the Major Projects Authority (now the Infrastructure and Projects Authority) has substantially improved government's programme and project management capabilities, whilst the Government Digital Service has boosted digital skills and 'agile' development capabilities. With the right team in place and an intelligent programme of pilots, the service is well within the government's capabilities.

4. Would the wider public, who must pay full price for services, resent the fact that benefits claimants are paying less?

The scheme would have to be restricted to core services and goods, and could not be used for the purchase of luxuries. And whilst benefits claimants would indeed see their total spending power rise a little, taxpayers would also benefit from a share in the savings: the fall in benefits spending should be welcomed by most people, who would see the sense in the government aggregating its buying power – and the waste inherent in the current state of affairs, under which government funds are spent huge inefficiently on basic services provided to claimants.

5. Does the scheme adopt a patriarchal approach, depriving people of choice over their own spending and limiting their independence?

Many consumers' independence is already constrained by their own weakness in the market and their status as high-risk and/or low-value consumers – with outcomes such as their having to use prepayment meters, or paying higher prices for items bought in small quantities. This service would empower people by combining their individual spending powers to form a trading block.

What's more, it would be entirely voluntary: people could choose to opt in or out at any time. And far from decreasing personal responsibility, it would increase it. These consumers have often been deprived of personal responsibility and the task of planning their spending because the market doesn't trust them – preferring instead to refuse them the credit required to smooth payments over the year or to pay bills in arrears. This service would return to people the responsibility for managing spending on a monthly basis, supporting them to 'normalise' their finances.

6. Would businesses currently serving this market oppose the scheme's introduction?

Some might – for these markets include more than one kind of supplier. Some businesses offer cheap food and services to low-income consumers, making a living by 'piling 'em and high and selling 'em cheap': such companies would be well placed to bid for work as suppliers to the new scheme, making good use of their business model whilst reducing their administrative, marketing and billing costs.

Other businesses make their money by taking advantage of poor consumers' weakness in the market – offering sky-high interest rates for unsecured loans, for example, or charging high prices for goods sold in small volumes. These organisations might lose out as the markets were rebalanced to offer more support and security to the poorest in society; but their interests are outweighed by the service's benefits for taxpayers, government's policy aims and wider society.

Summary

Aggregating individuals' buying power in this way would help to reduce the public finances deficit, produce a more efficient energy market and infrastructure, and secure improved services for the most vulnerable in society – many of whom currently get a worse deal than wealthier citizens. The concept sits well with many government policies and agendas, and uses techniques and systems tested in other successful policies.

If at first glance it seems radical, that's simply because we are only just grasping the endless possibilities for the potential of digital technologies and user-centred design. In years gone by, this kind of service could not have been established without vast, bespoke IT systems, layers of regulation, and substantial organisational change. But today the technologies exist to gather, manage and analyse data rapidly, whilst government's ability to deliver digital projects – especially those well-suited to agile development – has much improved.

Whilst we appreciate there are a number of challenges within this piece, it is just a thought; the results of us exercising our imaginations and approaching social goals or challenges from a new perspective.



10 Reimagine feeding families

Mark Essex

Digital technologies create the potential for radical change in both the grocery market and the way state benefits are managed, says Mark Essex. Combining these two ideas could help improve the nation's diet, cut public spending and food waste, and diminish the need for food banks.

In Britain, according to a 2015 House of Lords inquiry, we throw away 14m tonnes of food every year. Yet many people don't have enough to eat, and many food banks say they're experiencing fast-rising demand. This is outrageous.

I think there is a way through this.

In a previous article I shared my vision for a new business⁵⁴ model for grocers. It would see families avoiding the hassle of the weekly shop, menu planning and making shopping lists. Instead, they would have a grocery subscription.

Families would pay a monthly fee to receive regular food deliveries, tailored to fit their lifestyle, preferences and weekly schedule, and delivered in reusable packaging to cut costs and protect the environment. The idea is essentially a comprehensive version of the vegetable boxes now available. I think it's the future for time-poor households.

In our piece on benefits (see chapter 11), Bethan McKay and Ian Gravestock describe how using government's buying power could help benefits claimants get a better deal on energy and other bills. The idea involves people voluntarily sacrificing some of their benefits, enabling the government to aggregate their buying power and access bulk discounts. The savings would then be shared between individuals and the taxpayer.

From electricity to eating

What if we applied that thinking to food, and persuaded retailers to develop a food subscription package for every budget? What if retailers took advantage of eliminating inventories and lower transaction costs to offer a special deal to families in receipt of means-tested benefits?

They would of course they'd have to allow for specific dietary requirements, but a more standardised package would be a strong incentive to offer discounts.

"This has significant public health benefits, helping to tackle rising rates of obesity and diabetes"

If retailers could produce a monthly food subscription for, say, £200 per month, then the government could offer predictable sales volumes contracted in advance. This could be worth a further discount, enabling government to offer that subscription to families in exchange for a benefits cut of, say, £150 – whilst keeping enough of a saving back to return something to the taxpayer.

Maybe the retailer could include some vegetables which don't meet the most demanding customer requirements? I'm heartened to see a market developing for 'wonky veg boxes'; in exchange for spending a few extra seconds peeling, families could access more affordable healthy food.

Talking of healthy, we frequently hear complaints that cheap food is often highly processed, with added sugar and salt. Could we take advantage of economies of scale and predictable demand to provide healthier food for families trying to feed themselves on small budgets? We aren't talking about rationing – but some techniques from that era could be useful. If lots of people in a region are eating similar food subscriptions during a particular week, will we see TV programmes and recipes produced about how to make a range of meals with this week's ingredients?

Benefits all around

What else is in it for retailers? Customer acquisition: if families like the food they receive and the service they're provided with, then as people move off benefits into work they may choose to sign up to the supermarket's regular or premium

subscription models – and the retailer has recruited a customer.

What's in it for families? Healthy food arrives each week, no matter what other demands are placed on the budget, and no debt is allowed to come above food in the pecking order. What's in it for government? Potentially, this has significant public health benefits, helping to tackle rising rates of obesity and diabetes.

Reduced packaging could see a reduction in landfill and, perhaps, public refuse collection costs. And the concept could help to ensure that poorer families never find their cupboards bare, reducing the need for food banks.

Just because an idea makes sense, that doesn't mean it'll be taken up. But it's interesting to see how, if we follow a line of reasoning on the development of two very different areas of activity, synergies emerge that could produce further benefits. So we'll keep on thinking about how disruptors might apply digital technologies to address our social, public and political priorities.

Why? Because in a world in which we are becoming used to constant change and in which innovators can access crowd-funding and reach markets at scale through digital channels, new useful ideas can take hold very quickly: often, the only limiting factors are our ambition and our imagination.

"Many people don't have enough to eat, and many food banks say they're experiencing fast-rising demand. This is outrageous"



11 Reimagine Zero- hours contracts

Iain Gravestock

Sometimes an idea is so good that two people may have it at the same time. So when I read Matthew Taylor's review of modern working practices, commissioned from the RSA chief executive by the government in 2017, I was heartened to hear he had drawn similar conclusions to my own. Like me, he wants to give workers on such contracts a higher rate of pay for any unplanned work, as well as the right to request guaranteed weekly hours. But I would go even further taking the opportunity to create new financial products for some of society's more vulnerable people.

The Taylor Review expresses concerns that whilst zero-hours contracts provide flexibility to employers and employees, that's not always to the benefit of the latter. Some employers may even see zero-hours as a way to transfer risk by avoiding salary commitments or potential future redundancy payments.

But when you're on such a contract, it's much harder to get a mortgage, loan or mobile phone contract, while the uncertain cashflow creates considerable economic insecurity. Furthermore, a lack of rights over redundancy or unfair dismissal could make zero-hours workers more fearful of their positions and open to exploitation.

But these concerns don't mean we have to throw the baby out with the bathwater. After all, the CBI's submission to the Taylor Review emphasised that "the UK's flexible labour market has been an invaluable strength of our economy, underpinning job creation, business investment and our competitiveness." And Taylor himself commented "to ban zero-hours contracts in their totality would negatively impact many more people than it helped¹⁵⁵."

"These proposals should reduce low-paid workers' dependence upon state benefits – both during their working lives and in retirement"

Taylor's (and my) recommendation is to retain this flexibility, whilst tilting the balance of power away from the employer in the direction of greater equilibrium.

To do so, we propose that any hours not guaranteed in the zero-hours contract should be paid for at a higher rate (perhaps 15-20% higher), compensating workers for the unplanned nature of these hours. What this means is that if an individual is on a contract guaranteeing, say, 15 hours a week, but is frequently asked to work more than this, she/he should receive the standard (i.e. at a minimum, the National Minimum or National Living Wage) rate for these 15 hours, and the new higher rate for any hours beyond.

This is not unlike the Australian model of 'casual loading', which specifies a 25% wage premium for such work⁵⁶. One hoped-for consequence is that, rather than have to continually pay above minimum wage, employers would opt instead to give workers a greater number of guaranteed hours – thus increasing workers' certainty of income.

They might even give workers a straight choice between a fixed-hours employment contract (providing the attendant security and other benefits) and a zero-hours contract with the promise of higher pay for extra hours worked. Taylor feels zero-hours workers should get the chance to request a new contract guaranteeing a set number of regular hours, after they've been working for an employer for a year.

Let's not forget that some workers actually like the flexibility of zero-hours, as it fits in with their lifestyles, and gives them the choice to take on additional hours as and when it's convenient.

And, interestingly, when McDonald's offered some zero-hours workers the option of fixed contracts with a minimum number of guaranteed hours, about 80% chose to remain on a flexible arrangement⁵⁷.

The government has already agreed to ask the Low Pay Commission to look into the Taylor Review's recommendations for a wage premium⁵⁸, and is also consulting on the right to request more regular hours⁵⁹.

Taking control of finances

As I mentioned though, my ideas go beyond Taylor – to consider how to use these proposed changes to give some of our lowest-paid workers a better shot at financial planning.

Currently, those on zero-hours contracts find themselves having to put money aside, in preparation for any weeks in which they earn either less than usual. And given their precarious financial position, they may not be making any pension provision. To make matters worse, failure to pay regular National Insurance contributions – an all-too-common occurrence when your income might fluctuate from week-to-week – can leave them short of a full state pension on retirement.

Indeed, one of the contributors to the Taylor Review states. "There is a need for financial services designed for people with irregular incomes. People with irregular incomes still need to meet regular outgoings such as rent, food, etc⁶⁰."

My suggestion for addressing this challenge is to hold back any surplus 'premium' income – earned by working additional hours – in a separate account, to be accessed during periods when there is no work coming in and assist with 'income smoothing'. Ideally, this could be done in a tax-efficient way, with the savings invested gross (i.e. no tax or National Insurance is applied until the money is accessed.) A zero-hours worker would ideally draw this money only when needed, to avoid succumbing to the temptation of short-term or payday financing.

Another option would be to direct the additional income directly into some form of private, managed pension, to help workers get on the road to a better-planned financial future.

As well as boosting pay packets, taken in the round these proposals should reduce low-paid workers' dependence upon state benefits – both during their working lives and in retirement – as they'd have more reliable income streams. Such a scenario can only spell good news for both the workers' wellbeing, and the government's coffers.

With the Taylor proposals still being considered by the government, the future of zero-hours is uncertain. It's clearly in everyone's interests to come up with a solution that incentivises businesses as well as providing appropriate rights to flexible workers, as part of a mutually beneficial arrangement. I think the ideas set out in this article do just that. gives appropriate rights to flexible workers as part of a mutually beneficial arrangement. I think the ideas set out in this article do just that.



12 Reimagine lifelong learning

Claire Warnes and Mark Essex

Employers' needs are changing rapidly and our education ecosystem is struggling to keep up. Reimagine and Mark Essex argue that our further education sector is well placed to lead the way, building new partnerships with employers, digital learning providers and universities to provide lifelong learning for a 21st century economy.

The world of work is changing fast. Chasing the opportunities created by digital technologies and globalisation, companies are adapting – launching new services, reforming business processes and transforming workforce management. And public policies and services must also reform to meet the needs of citizens in our rapidly evolving economy.

This is particularly true of our education ecosystem, which is charged with preparing and retraining people for the world of work. To thrive over the years to come, people will need to keep up with technological and organisational changes; yet an education ecosystem built around a fast-departing world of lifelong careers, permanent jobs and 20th century technologies is struggling to teach the right mix of skills and capabilities.

With the proportion of contractors and freelancers growing in the workforce, people need the autonomy to work independently and much more flexibly. With digital and data capabilities reshaping every industry, the workforce needs to understand their power and nature. With the pace of workplace change accelerating, people must find more time to learn. And with lifespans and pension ages rising, many more of us will want to retrain and switch careers completely during our working lives.

In his excellent KPMG paper *Rise of the Humans 2*, my colleague Robert Bolton introduces the concept of 'workforce shaping'. In the digital future he foresees, organisations are not based around specific, full-time jobs, but around capabilities – often provided by skilled 'gig economy' workers on short-term engagements⁶¹.

Policy makers are thinking along similar lines: as one recent government publication puts it, "the impact of technological change and dynamic global markets on jobs makes it important for individuals to reskill throughout life to remain competitive in the modern economy"⁶².

To rebuild our education ecosystem around these emerging realities, we must alter not just the technical skills we teach, but also the ways in which people learn and the capabilities and attributes they develop. And whilst every branch of education – from primary school to university postgraduate courses – will need to adapt, there is one element of our education system that is both well-equipped to move early on this crucial agenda, and well-suited to providing the skills required by tomorrow's workforce. That element is Further Education.

An evolving role for Further Education

Further Education (FE) providers are experts in designing and delivering lifelong learning and retraining, building on people's existing capabilities and providing new skills. They have close links to businesses (large and small) and to public sector organisations, many of which provide placements and on-the-job learning through frameworks such as apprenticeships. They're expert at developing vocational skills, prioritising real-world challenges and directly applicable learning. They're skilled at building courses and training programmes around people's working lives, enabling people to keep on earning as they learn. And they're able to deliver a wide range of qualifications, from degrees and diplomas to apprenticeships and the emerging 'T-levels'.

So they're well placed to deliver the ongoing training and development that the UK's workforce will increasingly need to compete in our fast-evolving, globalised economy.

Many FE providers – which include FE, tertiary and sixth form colleges as well as public and private training providers – also display the entrepreneurialism, resourcefulness and adaptability required to reconfigure education provision for today's challenges. Their success has always depended on their ability to analyse communities' training needs, and to find sources of funding – pulling in resources from learners, government and the private sector. And their staff are passionate about what they do: as one recent study found, the FE sector has "a highly-committed workforce that chooses to work in relatively disadvantageous conditions"⁶³.

And government is keen to make more use of this highly capable element of our education system. Theresa May has launched a major review of post-18 education, addressing what she calls the "outdated attitudes" that favour academic over technical qualifications⁶⁴, whilst the sector recently won an additional £500m in annual funding – helping to fund reforms championed by chancellor Philip Hammond as essential to training and "upskilling" young people⁶⁵.

Realising the opportunities

What's missing is scale and collaboration: our FE sector lacks the buildings, staff or facilities to ramp up training – and to extend it throughout people's careers – that will be required. But in an education ecosystem in need of transformation, simply providing more of the same will not provide what our economy needs. How could we reimagine further education, finding new ways to generate the capacity that we need?

The solution may lie in building new learning models that connect FE institutions with both digital training systems and local employers, as well as with more collaboration with universities. By putting online learning at the heart of their education offer, FE providers could provide more flexible, accessible training. By channelling learners through partners in industry and public bodies, they could connect learning much more closely to its ultimate purpose: giving people the skills to succeed in their working lives. And by collaborating more with universities, FE providers could enhance progression routes into learning and new career avenues for all citizens. These three elements provide the potential to radically expand capacity, tapping into the learning environments available in both the virtual world and the modern workplace.

Virtual learning environments fit more easily into working people's days. Learners can access elements of their programme at work, whilst travelling and, importantly, when it suits them best. Digital learning can be updated swiftly and packaged in modules and sessions which suit the learner's specific needs. And emerging digital learning technologies present a new swathe of opportunities – virtual reality learning environments, online tutorials and learning sets, and seminars connecting learners globally and to the world's leading specialists.

So digital technologies offer a range of capabilities which complement FE providers' traditional skills in practical, flexible classroom learning. But the virtual world can only go so far in providing the hands-on experience so important to adding value in the workplace. And to provide this, FE could build on its existing links into the real-world economy.

Seeking out synergies

FE providers are expert in assessing learning needs and demand for training; in building partnerships with other providers and employers; in finding sources of funding; in recruiting and managing trainers and lecturers; in fashioning hands-on courses built around demand in the jobs market. Meanwhile, many employers are struggling to find the skilled workers they need – a situation set to grow more acute as Brexit constrains the flow of labour into the UK. And employers are charged with getting a return on their facilities, plant and systems, many of which spend periods idle out of working hours and in less busy times. There is a clear synergy here.

If FE providers became commissioners of training too providers, they could build partnerships with local organisations – from hairdressers and engineering firms to local authorities and NHS trusts – able to provide well-equipped workplaces and experienced, professional staff as trainers.

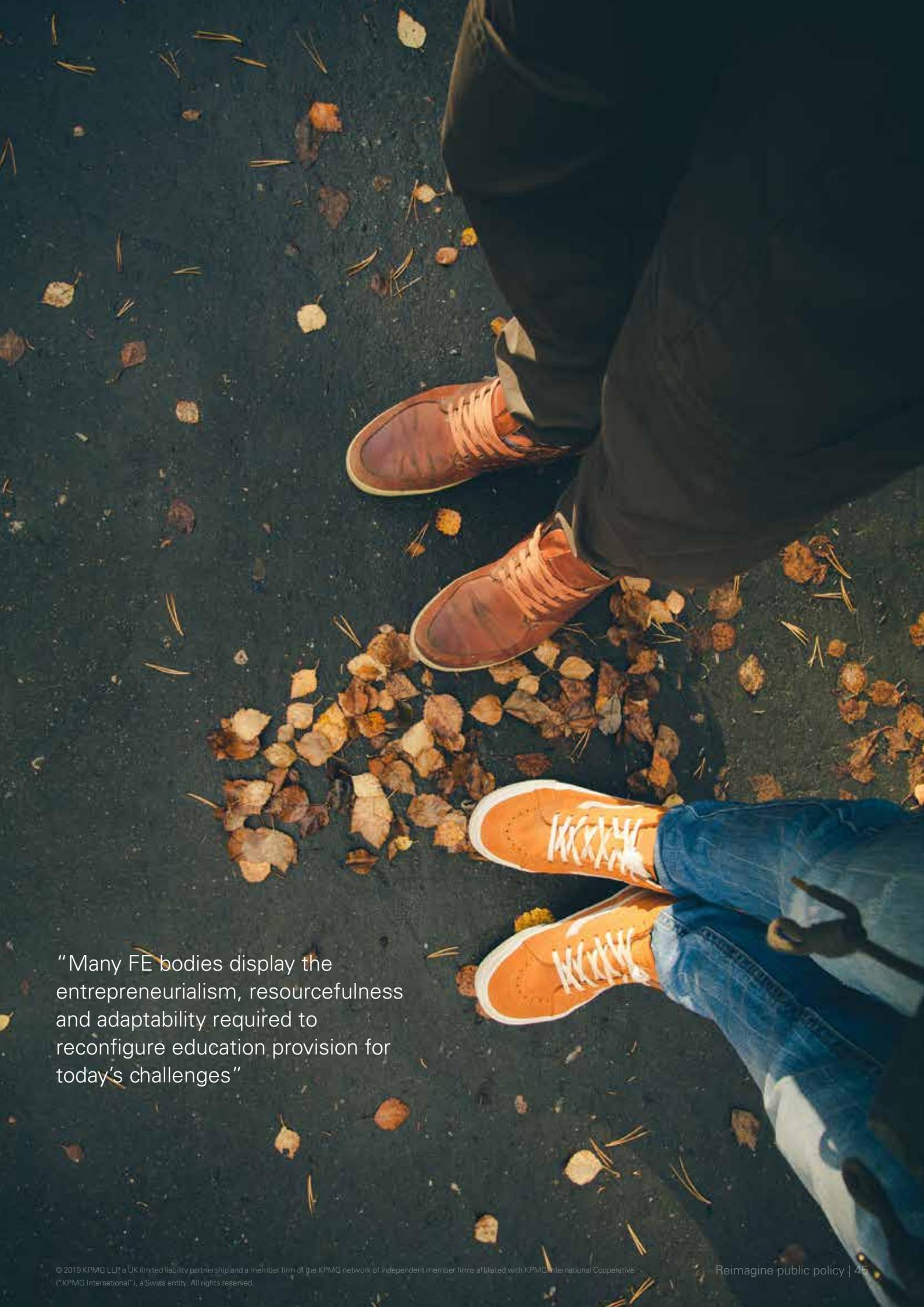
They could meanwhile commission online learning – tapping into the latest technologies – to supplement and reinforce classroom teaching. Then students would benefit from a mixture of classroom, digital and on-the-job learning, whilst practicing their skills on the kind of modern, advanced equipment only available in the working economy; a far cry from the basic, ageing kit on which many FE providers must rely.

FE providers could build courses that provide experience and training in a wide range of employer bodies, giving students an overview of the various roles and organisations in a sector: perhaps a car manufacturer, along with businesses in its supply chain such as robotics and tools specialists, parts suppliers and automotive design firms. And students would be getting a foothold in the working world, providing them with the contacts and hands-on experience to find jobs at the end of their courses.

Employers, meanwhile, would tap into new revenue streams, strengthen their links into local communities, help address their recruitment problems, and improve their return on investments in facilities and plant. Some of their own staff would benefit from the training required to teach, and the introduction of students into their workforce could help build a future workforce and provide flexible staffing to meet peaks in demand. They would also, of course, win a far stronger role in helping to shape the content and nature of courses – bringing the skills they need into the local workforce. And this too sits neatly with the government's thinking: minister for apprenticeships and skills Anne Milton recently commented that the ongoing FE reforms package is designed to "put control in the hands of employers"⁶⁶."

For FE providers the advantages are obvious. The FE sector is a product of its patchwork history – accumulating roles and providing services that others don't, won't or can't. Yet its proximity to local communities and employers, its agility its vocational focus, and its expertise in identifying funding sources surely leave it well positioned to play a significantly greater role in addressing the economy's changing demands – putting the sector at the heart of Britain's economic and social development.

Ultimately, though, our economy would be the biggest winner from a reformulated education ecosystem – one with an FE sector which is focused on digital tuition, practical vocational training, lifelong learning, and direct connections into the worlds of business and public sector employment. If we are to equip our workforce for the challenges of tomorrow's economies, we'll need to reimagine education; and it seems that we already have all the ingredients in place. All that remains is to bring them together.



“Many FE bodies display the entrepreneurialism, resourcefulness and adaptability required to reconfigure education provision for today’s challenges”



13 Reimagine sentencing

James Dearman

Incarceration may prevent crime in the very short term – but as long as reoffending rates remain high, our prisons are failing the public. James Dearman argues that sentences should help offenders address their behaviour and build the skills for life on the outside.



In an ideal world, every aspect of the justice system would be set up to maximise the chances of people emerging from prison fully rehabilitated. Yes, punishment and deterrence are important aspects of criminal justice – but with those goals satisfied, it's better for everyone if prisoners can fully integrate back into civil society on their release, rather than becoming trapped in a revolving door between a life of crime and incarceration.

Unfortunately, one key aspect of the justice system simply isn't making the contribution that it could: sentencing.

Under political, public and legislative pressure, judges are giving longer sentences for serious crimes; according to the Prison Reform Trust⁶⁷, the use of long sentences has grown alarmingly in recent years. At the same time, judges are using prison as a deterrent for more and more minor offences, replacing alternatives such as community sentences; this has got to the point where in 2017 nearly half (47%) of prisoners were serving sentences of six months or less.

If the current system was succeeding in minimising reoffending, this wouldn't be problematic; but the statistics indicate otherwise. Quite simply, prison has a poor record when it comes to rehabilitating prisoners and reducing reoffending – especially for the many serving short sentences without purposeful activity. Again according to the Prison Reform Trust, 44% of adults are reconvicted within one year of release; a statistic that increases to 59% for prisoners serving sentences of less than 12 months.

Personal development alongside punishment

It is time to reimagine sentencing. Instead of simply specifying the length of a sentence to be served, what if judges had more options at their disposal – enabling them to set relevant, positive goals for offenders to achieve whilst in prison?

So instead of sentencing somebody to a 10-year prison term, with a possible 50% reduction for good behaviour, judges could stipulate that offenders can only be released early if – as well as exhibiting good behaviour – they've completed activities or achieved goals designed to reduce the likelihood of their reoffending.

For instance, a prisoner whose poor literacy has prevented them from finding work might have to pass a reading and writing test before they are eligible for early release – assuming that their tutors didn't uncover dyslexia or learning difficulties, in which case they could receive appropriate support. The incentive to study would be great indeed.

Similarly, a prisoner sentenced for crimes of dishonesty might have to demonstrate a level of trustworthiness before earning the right to parole. Having identified a suitable job, the prisoner would not be able to demonstrate genuine 'good behaviour' until they had completed vocational qualifications and undertaken a period of release on temporary licence (ROTL) work experience. A similar strategy could be deployed to demand that prisoners engage with drug rehabilitation programmes.

Addressing objections

One potential objection to the idea is that prisoners could game the system to ensure they qualify for early release. So it might be in their interest to fail a reading test pre-sentencing, only to then make apparently miraculous progress on a literacy programme once inside. Prisoners are, as HM Prison and Probation Service staff will know, experts in playing the system. This risk could be minimised by stipulating a package of conditions – making it harder to cheat – and by cross-referencing test findings with other data held on the offender, with punitive tariff increases for those caught trying to deceive parole boards.

Another concern is that some people may find it impossible to meet the requirements set, particularly when it comes to issues such as drug addiction. And certainly, the system could not be 100% successful. Yet tying early release to passing regular drugs tests would provide a strong incentive for many offenders to engage positively with a rehabilitation programme. Importantly, our proposal would not cover those given indeterminate sentences, so there would be no danger of inmates languishing in prison forever. And whilst the system we propose would not work for everyone, it would be a vast improvement on how sentencing works at present.

By allowing the courts to specify the type of rehabilitative programmes to be completed, our proposal hands more control to the courts. But by setting dual objectives for offenders to attain before winning parole, it would – all else being equal – be likely to increase average incarceration periods, whilst making it more difficult to predict how long prisoners will serve. In response, the Prison Service might fairly ask: how can we budget on that basis? The answer is that judges would be given far more information on the costs of various interventions, with the goal of keeping overall spending steady.

So a shorter custodial sentence with more interventions might cost less than a longer sentence with fewer rehabilitative programmes; and where the evidence – gathered as similar offenders pass through the system – suggests that the former option would be likely to drive down reoffending and improve rehabilitation, judges would be able to justify choosing such an option. Obviously, in the first instance such changes to sentencing tariffs could only be made within the flexibility already available to judges under current legislation; we acknowledge that further work with the Sentencing Council is required.

For instance, judges would know that it costs about £36,000⁶⁸ a year to incarcerate a single prisoner; and they'd understand both the costs of various interventions, and the evidence available on their efficacy with other prisoners in similar circumstances. And they'd be tasked with specifying the mix of time served and relevant interventions likely to best blend the needs for deterrence, punishment, protection of the public and rehabilitation, feeding in their judgement and the available data on the chances of each intervention succeeding – whilst keeping overall spending at a similar level.

Data-driven decision-making

To improve judges' understanding of the likely outcomes of different interventions, data on release provisions and reoffending rates – enriched by information on offenders' criminal records, demographic profiles and probation assessments – would be gathered and fed back to the judiciary, directly linking the sentences handed down for different groups of offenders with the outcomes achieved.

There are already systems in place – albeit underutilised – to allow court administrators and probation officers to access information on what works in terms of rehabilitation; but this system would demand a much more data-rich and formal way for judges to understand the likely outcomes of the sentencing decisions they make, and to track the real outcomes in the case of individuals they've sentenced. Putting in place this feedback loop would give judges more confidence to engage in more creative, rehabilitation-focussed sentencing.

We acknowledge that this system would be likely to lead to shorter average sentences, as judges cut tariffs in order to release money for interventions within the existing financial envelope. That obviously has political implications, and risks being seen by the public as 'soft on crime'. Against that, though, we should recognise that sentences have increased over time – with only a proportion of that due to legislated tariff increases. Between 2006 and 2016, the average length of all sentences rose from 12.4 to 16.4 months, while tariffs for indictable (more serious) offences increased from 35.7 to 56.8 months⁶⁹.

Incentivising improvements

Moreover, the changes we are advocating actually make life tougher for prisoners – increasing the expectations on them, and transforming a life of enforced inactivity into one of structured, goal-oriented work.

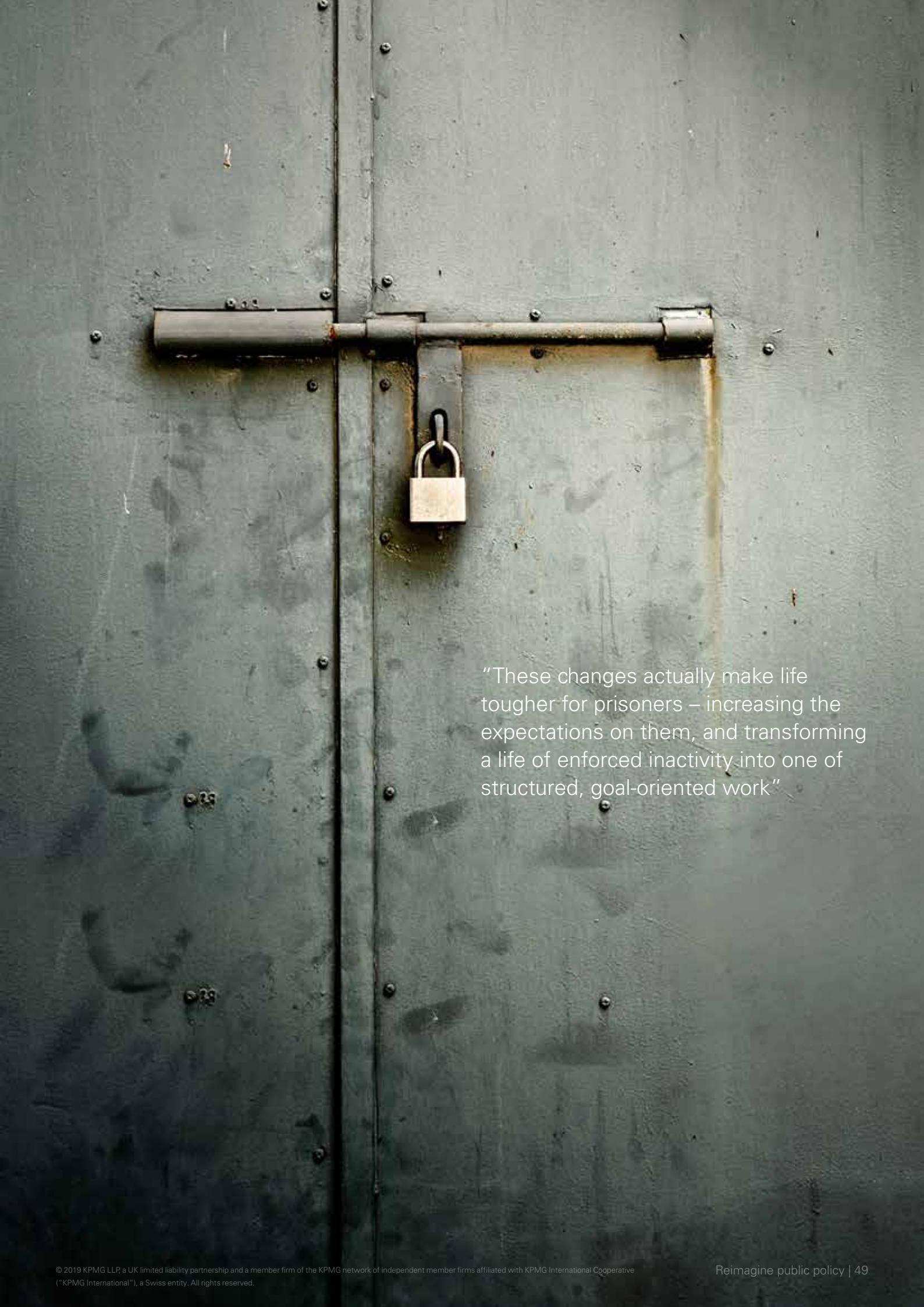
At present, prisoners only need to stay out of trouble in order to qualify for early release: to avoid doing anything negative, rather than doing something positive. By making early release conditional on completing the rehabilitative programmes specified by a judge, prisoners would have to work harder – to engage positively with their personal development – in order to qualify. And those who refuse to take steps to improve their chances of contributing to society after release would actually see their prison terms increasing; something that would appeal to the public's sense of natural justice.

Above all, the completion of a set of programmes – and the attainment of specific goals – designed to minimise the chances of people reoffending should drive down crime rates, reducing harm to the public. This would also, of course, release more resources to fund longer sentences for the most serious offenders and those who refuse to engage with the programme.

Precisely how the system would work in terms of the facilities required and how rehabilitative programmes could be designed are the subjects of other Reimagine papers. But reimagining how sentencing could be changed to focus on both punishment and rehabilitation should itself produce benefits, whether introduced alone or alongside these other ideas.

At present, there is a massive disconnect between the sentences laid down by judges and the rehabilitative outcomes achieved. Ensuring that judges are engaged with the impacts of their decisions would lead to a greater focus on rehabilitation; something that would work for both prisoners and society at large.

What we are doing at the moment is clearly not working. The question is not whether we can afford to reimagine sentencing, but whether we can afford not to do so.



“These changes actually make life tougher for prisoners – increasing the expectations on them, and transforming a life of enforced inactivity into one of structured, goal-oriented work”



14 Reimagine prisoner classification

Nicholas Fox

We expect our prisons not only to hold prisoners securely, but also to prepare them for life on the outside. But as Nicholas Fox argues, the current system is built around risk rather than rehabilitation: by reshaping our prisons to meet both objectives, we could drive down reoffending and cut the costs of crime to society.

From Charles Darwin's theory of evolution to the contemporary wave of highly-profitable tech companies, specialisation is often the lynchpin of success. In the Galapagos, Darwin observed how more than a dozen finch species – with common roots in a single ancestor – had evolved to occupy each available environmental niche. And in today's digital economy, each of the apps installed on our smartphones has a unique function – from Uber's ability to connect passengers with drivers, to Shazam's prowess in identifying individual music tracks. Entities that focus on doing one thing often do it very well indeed.

On the flipside, companies that diversify too far have got into trouble. Taking just one example, the chief executive of Sadeh Lok housing group wrote some years ago about how over-diversification nearly led to the collapse of his organisation⁷⁰. Businesses that try to be too many things to too many people risk failing to deliver for everyone.

This is a problem that afflicts our prison system. At present, we expect all prisons to provide a vast range of services and to manage all offenders' needs and goals, despite their limited ability to specialise or take advantage of local expertise or circumstances. Prisoners are classified according to risk – principally their risk of absconding – rather than their needs in terms of rehabilitation.

In theory, prisoners have their needs assessed at the outset of their sentence, and are provided with a rehabilitative programme that both delivers the sentence laid down by the court and maximises their rehabilitation in terms of education, work experience and treatment.

In practice, however, it is not always possible to assess prisoners in a timely way; and prisons – asked to provide services from vocational skills to drug treatment, from basic literacy training to mental health counselling – struggle to provide a really high-quality offer across this wide range of requirements.

Where prisons do specialise is in managing the risk of escape, violence and organised gang activity – operating a system of security categories which simplifies security, processes and staffing requirements. Within each category of offenders, however, there are prisoners with a huge variety of needs; and with the focus on risk, few are able to deliver rehabilitation programmes as effectively and efficiently as is desirable. This is an area sorely in need of reimagining.

Classification by needs as well as risk

Instead of segmenting the prison population simply according to risk, what if we divided people according to both risk and need? Then we could create prisons that – whilst retaining the risk and efficiency benefits of security categorisation – had the assets, staff and resources required to specialise in the needs of a particular offender group, delivering better services and improving outcomes. New prisoners' initial assessment would include a decision on which kind of prison would best support their rehabilitation and, in time, their ability to build a new life back in wider society – perhaps one specialising in drug treatment, basic skills, vocational training or mental health conditions. Each facility would be set up to address a specific cohort's needs.

At set-up, capital investments would be required to reshape the prison estate; but as we embark on building a series of new prisons, now is the right time. And the ideas contained in this article do not necessitate completely new facilities: they could be implemented with the relatively inexpensive subdivision of existing prisons. Prisoners could then move between facilities as their needs change, in much the same way that patients move between units in a hospital.

As an example, prisoners who are addicted to drugs would begin their sentence in a facility with a specialist drugs rehabilitation capability. Such facilities would have extraordinary levels of scrutiny of mail, visitors and other potential forms of drug delivery – including additional checks on staff – to minimise the risk of drugs entering the premises. Prisoners would undergo intensive treatment and regular testing, and would be subject to enhanced searches if they fail a test. They would only be permitted to move to other types of facility once they have been demonstrably drug-free for a required period.

Elsewhere, bespoke facilities would be designed to provide prisoners with the life skills that will reduce the risk of their reoffending once freed. For example, prisoners with learning needs could attend prisons with facilities and regimes entirely focused on helping them with basic literacy and numeracy skills, and equipped to identify and cater to problems such as learning difficulties or dyslexia.

There are, of course, risks around housing prisoners with addiction issues under one roof – as revealed by the attempts to ban smoking from parts of the prison estate, which have made some prisons more difficult to manage. The same concerns apply to facilities exclusively occupied by prisoners with mental health issues. However, such concerns only really make sense if you imagine a prison as currently constituted.

The benefits of specialisation

The idea here is to provide facilities that are specifically designed to cater for prisoners' needs. So in the case of drug addiction, facilities would be designed to provide the most supportive environment possible – with the expert staff, medical facilities, intelligence channels and physical spaces to both minimise drug dealing, and maximise offenders' chances of kicking their habits.

The situation is similar when it comes to mental health. Creating bespoke facilities for people with mental health issues risks being labelled as building a new generation of asylums; but the fact is that such people are already incarcerated – and in facilities that are quite unsuited to their needs. A properly planned mental health prison would both improve the safety, security and treatment of offenders, and reduce the risks to staff of housing prisoners with mental health conditions in mainstream prisons.

And there's another point here. In a drug treatment prison, addicts would receive much better specialist services – but there would also be benefits for other prisons, which should see a much lower incidence of drug-taking and the associated dangers such as gang violence, staff corruption and medical problems. Similarly, whilst prisoners with mental health issues would gain from being housed in a suitable specialist environment, this approach would also have advantages for other prisons – which would have to expend less time and resources on the health and security issues around this cohort of offenders, freeing them up to build services focused on the needs and goals of the wider group.

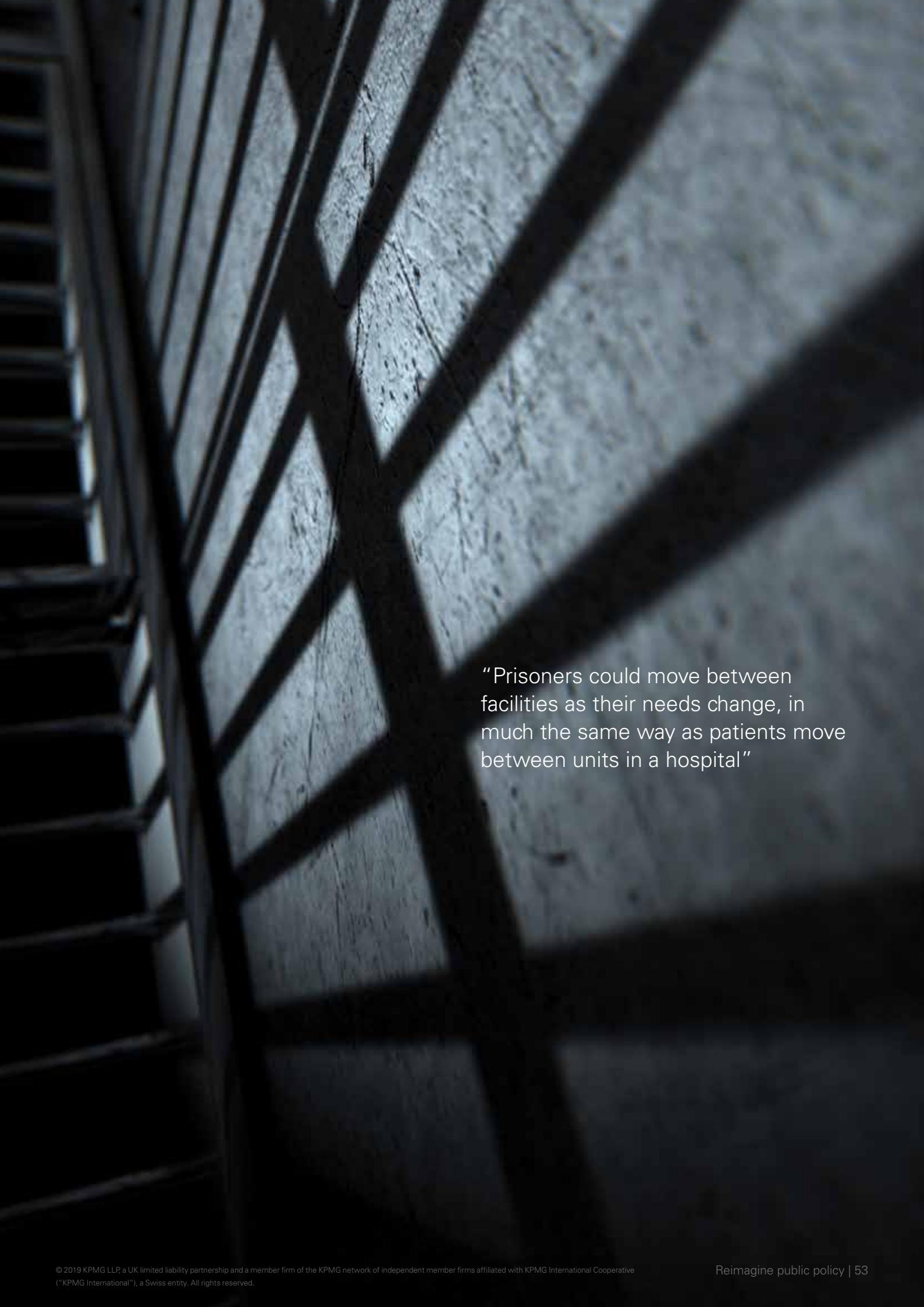
Meanwhile, prisoners whose rehabilitation would be best served by improving their job opportunities could enter institutions focused on training, education and work experience. This might particularly suit the cohorts given longer sentences, and thus have the time to develop new skills. The scale and scope of operations could be increased significantly compared to current facilities – for instance, by offering CSCS (Construction Skills Certification Scheme) cards to help former prisoners get work in areas such as scaffolding, painting and decorating.

Preparing prisoners for life on the outside

With prisoners based in training units specialising in their medium-term needs – and with a reduced requirement to focus on managing problems such as those around drug addiction and mental health – it should be possible to provide more advanced skills and experience than is currently the case. Inmates might, for example, learn management skills – perhaps turning their experience in running gangs or drug rings to good use – or concentrate on gaining technical or production qualifications. With a more stable population, workshops could operate in a more commercial way than is possible at the moment. Prisons set up along these lines would prioritise work and make provision for increased release on temporary licence (ROTL), easing offenders' transition into the working world at the end of their sentence.

It is worth stressing that prisons do need to be segmented according to security risk. What we are proposing does not eliminate the need for such categorisation, and would certainly not eliminate the need for high-risk prisoners to be held in Category A facilities. However, given the size of the existing Category A estate, many offenders could be safely transferred to specialist facilities without compromising security. Many prisoners are currently held in far more secure prisons than required by their own risk categorisation; ensuring that offenders are only held at the minimum security category required would save more money that could be ploughed back into specialist services.

Combined with other ideas such as 'Reimagine sentencing' (see chapter 15), rethinking the way our prison estate is configured could decrease drug use and its associated violence, improve outcomes in terms of basic skills and employment prospects, and reduce reoffending. Prison staff would enjoy more highly-skilled jobs, with greater potential to help people stop offending and build better lives. And the greatest beneficiaries would be the public – whose vast investment in prisons could produce not more waves of recidivist criminals, but cohorts of ex-offenders equipped to build a new life in wider society.



“Prisoners could move between facilities as their needs change, in much the same way as patients move between units in a hospital”

A man with a beard and dark hair, wearing a long blue coat and blue trousers, is walking on a paved city street. He is looking towards the right and talking on a black smartphone. The background shows a modern building with a curved, light-colored facade.

15 Reimagine local authority funding

Louise Sunderland

Local authorities' funding is increasingly dependant on their ability to raise revenues within their boundary. But successful people often leave the place they grew up as their careers develop, taking their tax contributions with them – which often disadvantages the country's poorest areas. Louise Sunderland has a solution.

Earlier this year, it emerged that Liverpool FC star Mo Salah had donated £330,000 to his home village in Egypt so it could buy land to build a water treatment plant⁷¹. Previously, the striker has paid hundreds of thousands of pounds to build a hospital, youth centre and school in the area. Salah might earn a higher weekly wage than the average Egyptian playing for the Reds, but he has not forgotten his roots.

Salah's generosity is far from rare among the financial elite – there are lots of examples of millionaires donating money to the places they grew up. Such examples of giving, however, are very much down to the individual: many areas that have produced enormously wealthy people never receive a financial payback. And still fewer benefit from their more everyday success in producing much larger numbers of successful middle-class professionals – many of whom build their careers in major cities far from their home towns.

But what if there was a way to ensure greater consistency in how local areas are rewarded for producing financially-successful individuals? Could the reallocation of a small part of every citizen's income tax revenue back to their home town help to improve the prospects of the most deprived parts of the country, whilst ensuring that local public services are rewarded for their success in providing people with the best possible start in life?

Vicious circles

Currently, local authorities in areas with under-performing economies are hit by a double whammy. Not only is it difficult for them to attract workers, but the brightest and most talented amongst their young people often move away to more affluent areas in search of work. Each council helps to create the circumstances in which its youth can thrive.

But as soon as people leave the area to take the next step on their career ladder, the council loses their contributions to council tax and business rates revenues – plus the flow of their disposable income into the local economy.

People's success in their careers has much to do with the quality of local services and councils' contribution to forming strong communities. Early years and social services; primary and maintained secondary schools; youth clubs and local amenities; anti-crime initiatives, small business support and planning policies – all of these feed into people's life chances, helping to shape their prospects of setting up a profitable business or attending a top-flight university. Yet the moment that people move away from their home areas, those local services stop receiving the rewards of their success.

Equally, areas struggling economically and providing poor services are often spared the consequences of their failings. Troubled individuals who end up in the criminal justice system can incur huge costs to the state – more than £35,000 a year if the resident ends up in prison⁷². And when people commit crimes or exhibit anti-social behaviour outside their home areas, it's the councils, public services and residents of their new neighbourhoods which must pick up the pieces – and experience the disruption, costs and harm that they cause. Like areas which export entrepreneurs, areas which export criminals break their connection with those individuals as soon as they've moved away.

Looked at from the perspective of the national economy, the system of local authority funding is inherently unfair, and helps to entrench existing economic inequality.

Areas with historically high levels of economic activity – such as central London boroughs – gain the tax revenues and economic activity of people whose life chances were shaped far away. Meanwhile, in poorer areas, successful and effective councils fail to benefit from the rewards of their work as people depart in search of educational and job opportunities. Indeed, the poorer the area – and thus the greater the council's achievement in helping to create high-potential individuals – the more likely it is that those people will up sticks and leave.

Integrating policies

This dynamic is set to grow stronger still – for government is currently examining proposals which would make councils even more reliant on income from business rates collected in their area. The aim is to promote economic growth, rewarding councils which increase their business rates take. However, the councils with the worst prospects for growth often have both the highest need for public funding, and the lowest proportion of households which are economically active – and thus paying council tax.

As part of this move, the government intends to go some way towards levelling the playing field through a 'fair funding review'. This would alter the current needs-based formula, which redistributes some business rates income from richer to poorer areas. However, whilst this amended formula is likely to cushion the blow, the logic of the government's approach is that the existing economic climate in a local area is set to become still more important in determining their resources.

“The system of local authority funding is inherently unfair, and helps to entrench existing economic inequality”

Our suggested reforms – like the government’s business rates changes – would reward areas according to their success in achieving public policy goals; but they would make the system more truly fair by ensuring that councils are measured on the economic growth they create outside their patches as well as within them.

Separately, the government’s Industrial Strategy includes a ‘Place’ and ‘People’ focus. But if local government is to be part of place-making and have an important role in inclusive growth, then we need to think differently. Only when councils’ contributions to creating successful people are fully recognised will they have the resources to invest in improving places.

Virtuous circles

Nobody is suggesting a radical move away from the current system, which is based on the principle that local revenue is raised and spent within a local area. This model has various advantages – including providing incentives for authorities to promote growth in order to boost business rates, and the democratic accountability of local leaders being held responsible for the economic health of their areas.

But the current paradigm, as we have seen, is far from perfect. And there are tweaks to the system that could better reward – or indeed penalise – councils according to their performance. It would be fairly straightforward to redirect a small proportion of each UK worker’s tax contributions back to the place where they were raised; but it could also be transformative.

Under this system, councils would be granted a share of the future national insurance or income tax revenues paid throughout the working lives of that place’s ‘alumni’. This income, collected by Her Majesty’s Revenue and Customs, could be redistributed to the hometown local authority by the Ministry of Housing, Communities and Local Government.

This would overcome one of the biggest problems with the current redistribution formula, which relies on fiscal transfers based on need. If councils knew they would benefit from the success of those raised in their areas, they would be given a much greater incentive to invest in services likely to increase the life chances of their population.

Instead of being seen as a problem, an exodus of talented people leaving to make a better life in another part of the country would then be seen as a benefit. And the contributions they make to their home town could be used to improve services for future generations, or to fund investments transforming the fortunes of less prosperous areas.

The system would provide an additional source of income for those councils which have low business rates incomes and a high proportion of non-council tax payers.

The mechanics of reform

For bureaucratic simplicity, each citizen’s home town could be recorded as the local authority where they live when they’re issued with their National Insurance number on their 16th birthday. This would enable the seamless allocation of a proportion of all future income tax or national insurance to their hometown local authority as they move from job to job.

The new system could be introduced on a place-by-place basis, with central government setting criteria for an area to qualify. And a mechanism would be required to recognise the very different circumstances of different local authorities: it’s much easier for a leafy Home Counties area to export high-earning individuals than for a post-industrial northern town – so baseline statistics on council areas’ levels of deprivation and unemployment could be used to create a ‘value added’ metric.

This concept could change local authorities’ calculations about resourcing and prioritisation. For under the existing system of local government funding, there is little economic incentive for hard-pressed councils to provide services such as youth clubs. But if keeping their young people out of trouble and less likely to drop out of education had a positive impact on councils’ future income, such spending would make more sense. Indeed, it would be sensible for them to invest in maximising the opportunities available to their talented young people – perhaps providing tuition scholarships for the brightest schoolchildren, or offering youth services designed to build kids’ ambitions and identify their potential.

Of course, it would take some time for the results of such investments to reap rewards. As a way of recognising this, the system could be phased in over a number of years. Over a period of time, increased funding for local authorities should – assuming that councils succeeded in boosting their output of successful young people – result in a steady reduction in the need for central government spending on ‘safety net’ services such as prisons and health services.

Gradually moving to a system where all citizens pay back into the communities which raised them would create a direct link between local authorities’ effectiveness in providing life opportunities for their young people, and the rewards accruing to those authorities. And most people – however far they move as they build their careers – retain a strong emotional link to the place they grew up. Under this system they could, like Mo Salah, take pleasure in the knowledge that their success will help to benefit the generations who come after them.





16 Reimagine regeneration

Louise Sunderland

Traditional approaches to regeneration give public bodies the responsibility for identifying and funding effective investments; but this is exactly what the private sector does best. Louise Sunderland and Mark Essex suggest a new model, handing investors both the risks and the rewards of shaping and pursuing regeneration programmes.

In 1934, the UK government sent a roving commissioner with £2m in his pocket to distribute to industrial areas badly hit by the Great Depression. Two years later, the Spectator magazine argued that this early example of economic development intervention by central government had achieved little. Its editorial concluded that the measures taken were “mere palliatives of unemployment; they have done little or nothing to create employment”.

Initiatives aimed at cushioning the impact of industrial decline have grown more sophisticated over the years, but their impact is still disrupted. While enterprise zones, city grants, regional development agencies and holistic, area-based initiatives have had some success, the country retains areas of concentrated and persistent poverty. These ‘social mobility cold spots’ continue to require large amounts of public money in the shape of benefits bills for low-income workers and the unemployed.

Parts of Britain – particularly some of the former industrial heartlands and coastal towns – can often feel left behind, with low revenues from council tax and business rates creating a vicious cycle of underinvestment. Given the patchy legacy of previous central government attempts to attract investment and reverse these communities’ fortunes, is it time to try a fresh approach?

After all, many national and international companies are sitting on huge reserves of capital on which they seek modest returns. Rather than facilitating investments and subsidising businesses – either directly, or indirectly through tax breaks – to invest in deprived areas, the government could try a different approach: giving businesses both a share of the rewards generated by their investments, and the direct responsibility for helping to boost local economies.

This could both encourage businesses to sink their capital into the areas which need it most, and pass the task of stimulating and attracting investment to the organisations which best understand how business decisions are made: investors themselves.

A fiscal swap solution

Under this model, HM Treasury could offer a ‘fiscal swap’ – inviting private consortia to bid for the right to take on the task of planning and delivering regeneration strategies, along with the risks and rewards of investing to turn around deprived areas. If the winning bidder succeeded in driving down the benefits bill within their patch by generating jobs and boosting the local employment rate, they could receive the savings that would otherwise accrue to the Department of Work and Pensions; and, of course, if the benefits bill increased, the consortium would have to hand the difference to government.

The bidders’ tenders would be based on their forecasts of how programmes they introduced could help reduce the benefits bill. These interventions could, for example, include work programmes, training courses, investment in infrastructure, or the direct creation of employment space such as factories, offices or distribution hubs. The money to fund this work would be put in by the consortia, with the goal of reaping the benefits of the resulting reductions in benefits spending.

Contracts could last five years and be awarded after a competitive auction, similar to those used to award contracts to Train Operating Companies.

Predictions relating to the wider economic climate would play a part in helping consortia formulate their bids, with any suspicion that dark clouds were looming over the economy being priced into the tenders submitted to central government.

The winner of the auction would be the consortium making the lowest bid. Bid too high, and you might lose the competition. Bid too low, and you would face lower returns and the risk of making a loss; benefits payments would be underwritten by the government in such a scenario, removing the risk of hardship among benefit recipients.

The winning consortium would be required to raise enough money to cover a worst case scenario – such as the huge rise in the benefits bill that would result from a one-in-100-years slump. To cover the additional benefit payments in this event, a ‘backstop reserve’ held in escrow would be required – ensuring that winning consortia could meet their commitments to cover any rise in payments, even if key members went bust. The consortia could raise this money through share offers, with the number and price of shares defined within the bid. Shareholders would make their investment based on the confidence in the consortia reducing the benefits bill.

Risks and rewards

Let's take an example. One deprived local authority saw benefits totalling £45.5m paid to the unemployed and low paid in the last financial year. The highest annual benefit bill since the financial crisis was £50m. Doubling that difference to £9m could create a safety net for a worst-case scenario. If the benefits paid out by Treasury each year were fixed in real terms at the previous year's bill then the consortium would then need to raise £45m as a safety net (five x £9m), roughly one year's payments.

In this local authority, the lowest annual previous bill since 2008 was £41m. So if the consortium succeeded in keeping benefits at this level for five years in a row, the total return on investment over five years for shareholders would reach £22.5m (five years of £4.5m savings). This would equate to an annual real internal rate of return to shareholders of over 8%.

Conversely, five years of a sum equivalent to the worst bill over the past decade (£50m) would lead to payments to Treasury of £4.5m a year for shareholders. This would equate to a loss of half the investment if the downturn was sustained over the whole period of five years. Shareholders would be taking a risk – with a downside broadly comparable to the broader equities market under such an economic crash.

The transparency of markets

A secondary market in the shares would also be created, allowing shareholders to buy and sell shares throughout the period of the initiative. If a consortium failed to reduce the benefits bill in the first two years, the price of a share could slip. However, if the consortium subsequently did enough to put 1,500 people into work, then the share price could rise considerably.

These share prices would create transparency to inward investors. A multinational looking for a location for a new office park would be able to spot an opportunity to buy shares when they were low. With the confidence that their investment would reduce unemployment over coming years, they would stand to benefit from the increase in the share price resulting from their investment. This secondary market would effectively allow investors to receive a subsidy for investing in an area.

Market mechanisms would prevent companies from 'playing the system' to manipulate the price of shares. For example, large companies owning shares which misleadingly hinted at big investments in order to reap the resulting share price rises would suffer a big hit to their reputation. Smaller companies' announcements wouldn't be likely to have a significant impact on share prices, though if they did go through with successful investments they might see some uplift.

The scheme would not require the creation of any new bureaucracy. Benefits and assessments would continue to be carried out by existing government agencies and offices. The consortium would merely have to settle up with the government at the end of each year, either receiving a payment or paying the government – depending on the total benefits paid.

Let investors shape investments

Transferring the risk and rewards associated with regional economic development initiatives to the private sector via a fiscal swap would provide a number of gains for the policymakers. Companies would have a direct stake in the welfare of their local economies and citizens, and could become valuable partners to local authorities in the place-making agenda.

Just as importantly, the model passes the responsibility for assessing and pursuing viable regeneration and economic development projects to the investors and businesses which are expert in this process, replacing the more process-led approach of the public sector – which by definition has limited experience of judging the financial sustainability of capital investments and a poor track record of delivery.

The scheme would also have a major advantage over some of the current government initiatives which attempt to transfer some of the risks of service provision to the private sector. Payment-by-results and social impact bonds often require complex measurements of outcomes before the government pays its private sector partners. Here, the market provides the transparency necessary to reward the consortia for their efforts. And whilst the government wouldn't see its benefits bill fall over the five-year period as a result of successful regeneration programmes, it would receive plenty of other benefits – including lower medium- and long-term benefits bills, lower demand on public services such as policing and health, and rising revenues from income tax, business rates and corporation tax.

Society as a whole – citizens, government and businesses – stands to gain much from a system where the private sector has a greater stake in the welfare of local communities. And poor economic growth is fundamentally a markets problem: the market may be best placed to identify the solutions, focusing businesses on what they do best. Allowing the private sector to take on the risks and rewards of economic interventions could allow the market to succeed where the public sector has often struggled to make a long-lasting difference. Nearly a century after the government's first attempts at urban regeneration, we could have a policy mechanism to genuinely reduce unemployment – rather than simply providing a palliative.

“Companies would have a direct stake in the welfare of their local economies and citizens, and could become valuable partners to local authorities”



Conclusion

Nicholas Fox

Dear Reader

I hope you have enjoyed reading our ideas. If experience is anything to go by, you will have thought some ideas inspirational; some lousy. Perhaps you think that some should already have been implemented; others you may view as wildly impractical. Whatever your view, please engage with us. Visit our Reimagine public policy website, and leave a comment. Engage with our authors on social media and tell them what you think. If you agree, that's fantastic – perhaps you can suggest ways to turn the ideas into reality? If you don't agree, tell us that too – let's start a conversation.

What's next?

We are also open to suggestions for new ideas. One area we are working on at the moment is digital government. We were originally going to write a final chapter of this book called 'Reimagine digital government'. We have ideas around using AI and digital personal assistants to support interactions with government. Imagine saying to your assistant after your flatmate moves out: "Can you inform the council that there is only one mobile phone regularly interacting with the wifi – it's clear that only one person lives here. Could they apply the single person discount from now on?" And then imagine that your bill is updated from that point on. No forms, no call centres, no admin staff, no guidance to filling in the form. Instead your bot, programmed and updated with the latest policy, acts for you; and is trusted by government, which delegates authority to appropriately audited AI software.

Then we realised that the potential of that idea went way beyond paying council tax and into the whole area of making policy understandable. Micro-targeting of interventions becomes possible, so policies are no longer limited by the ability of service users to understand and adapt – their AI can do it for them.

Which means AI has the potential not just to disrupt policies, but to disrupt the business of policymaking itself. We have set ourselves a bigger challenge than we started with, so instead of a final chapter it becomes the subject of the next book. I look forward to sharing "Reimagine digital" soon.



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