The Cost of Homelessness Services in London

Overview

LSE’s research estimates that – as a result of new duties under the HRA and increasing homelessness demand, caused by an expensive housing market and welfare restrictions such as the freeze on Local Housing Allowance (LHA) – total borough spend on homelessness in London will rise from £919.5 million in 2017/18 to £1.03 billion by 2022/23. Over this period, the spend supported by borough general funds (i.e. spend not met through homelessness grant provided by the government or rental income) will rise from the pre-HRA level of £201 million in 2017/18 to at least £237 million by 2022/23.

The LSE report concludes that the new burdens funding that the government has thus far provided to London boroughs to implement the HRA, has been insufficient by an estimated £50.8 million over the period to 2022/23. This is partly because the government’s original new burdens assessment severely underestimated the cost of managing homelessness cases in London, with the actual cost of managing homelessness cases costing at least double the government’s original assessment. In addition, LSE concludes that the government’s view that councils’ new duties under the HRA will be cost neutral by 2020/21 is unlikely to be realised (at least in London). This is because borough costs are likely to continue rising into the future as a result of rising numbers of homelessness presentations and the challenge of securing settled affordable accommodation.

In their financial modelling, LSE assumes that Flexible Homelessness Support Grant (FHSG) – the largest source of homelessness grant funding for councils – will continue in some form into the next Spending Round period, with allocations increasing at inflation. At present, while the overall national budget for homelessness and rough sleeping provision is set to increase by £54 million in 2020/21, there are no FSHG allocations beyond the current financial year (2019/20). Failure to provide adequate borough-level allocations would significantly increase the draw on borough general funds to support homelessness services.

While London boroughs support the intentions of the HRA, the LSE found that the boroughs face more involved and challenging bureaucratic procedures as a result of the new Act. These include the introduction of the new H-CLIC data monitoring system, handling referrals from
other agencies under the Duty to Refer and preparing Personalised Housing Plans (PHPs) for clients. This has led to increased time spent on administration, and in many cases significant increases in staffing levels and heightened pressure on officers.

In light of the LSE research findings, London Councils will be calling on the government to provide additional homelessness grant funding in the forthcoming Spending Round. London Councils is also urgently calling on government to restore Local Housing Allowance rates to at least the 30th percentile of rents and to properly fund and empower London boroughs to build new council housing at the pace and scale required to tackle the homelessness crisis in London.

LSE research

Background
London boroughs face the greatest challenges regarding homelessness, with more than 56,000 households currently living in temporary accommodation in the capital (about 70 per cent of England total) – a figure which increased by more than 50 per cent since December 2010. The HRA, implemented in April 2018, represents a major change in homelessness legislation in England, placing new duties on local authorities to prevent and relieve homelessness and providing assistance for a wider range of households, including single people.

Against this background, LSE were commissioned to carry out an assessment of:

1. How borough homelessness expenditure had changed considering the introduction of the HRA and other market and policy challenges.
2. The level of funding required to support borough homelessness services over the course of the forthcoming Spending Review period, and
3. Innovative approaches being taken forward by boroughs to address homelessness.

LSE’s core findings
The HRA was expected to bring about three major changes to how homelessness services are provided nationally: 1) introducing a greater focus on prevention; 2) widening support to more household types, particularly single people, and 3) improving the quality of information available to households seeking assistance, including through the introduction of PHPs. From their research, the LSE review highlights three core findings:

- **Increasing caseloads:** As intended, the HRA has increased the number of households approaching boroughs for assistance. In the first year of the HRA (2018/19), an estimated 55,000 households will have been assessed by a London borough, compared to an average of just under 30,000 per year over the preceding decade.

- **Increasing homelessness expenditure:** In 2017/18, London boroughs’ expenditure on homelessness services totalled £919 million, of which £201 million came from boroughs’ own general funds, rather than being paid for by government grant or from income such as rental payments. Based on their most likely financial modelling scenario, LSE estimates that boroughs’ total homelessness expenditure will increase to over £1 billion by 2022/23. The LSE review estimates that, even if FHSG continues into the next Spending Round period at current levels (uprated by inflation), the amount that boroughs will spend from their own general funds is likely to increase to at least £226m in the next financial year (2020/21) before rising to £237m by 2022/23.

- **Insufficient new burdens funding:** The LSE estimate that the new duties specifically resulting from the HRA will cost London boroughs an additional £70.1 million to deliver over the five years to 2022/23, compared to the £19.3 million of new burdens funding that has been provided by government (a £50.8 million shortfall). There are two main reasons for this shortfall:
  a) The government’s official new burdens calculations under-estimated the cost of managing homelessness cases in London, primarily because it used countrywide
cost estimates rather than – higher – London-specific figures. Costs in London are more than twice as high as England as a whole, primarily due to the cost of temporary accommodation.

b) The new burdens calculations also assumed that a focus on prevention would reduce more costly homelessness acceptances cases (which involve boroughs accepting a rehousing duty often with high temporary accommodation costs), without taking account of challenging housing market conditions in London, which make prevention difficult. Instead, the financial model used by LSE suggests that the number of cases are likely to increase in future, and costs resulting from the Act will continue to rise.

The review notes that £30.2 million of new burdens funding was allocated to London (including £10.8 million in 2017/18 for HRA preparations), representing 42 per cent of the national funding pot. In comparison, around 70 per cent of all temporary accommodation placements in England were made by a London borough.

LSE’s detailed findings
The review highlights London boroughs’ support for the intentions of the HRA and that many were already operating with a focus on prevention. However, boroughs felt the HRA had been introduced with insufficient preparation, and that the costs were underestimated.

The review found that boroughs’ ability to manage increasing homelessness varied depending on the local context (such as local housing market conditions, the availability of council stock, the impact of welfare changes and a borough’s temporary accommodation profile) as well as local political decisions, particularly in relation to discharging duties into the private rented sector.

The HRA has also had a highly varied impact on the number of people coming forward for support in different boroughs. However, LSE found that all boroughs reported the following issues:

- **H-CLIC**: The introduction of a new national homelessness monitoring system, called H-CLIC (Homelessness Case-Level Information Classification), coincided with the implementation of the HRA. H-CLIC replaced the previous P1E form. H-CLIC is designed to produce more granular, case-level data. However, boroughs reported that the new system is too complex and was introduced too quickly, making data collection challenging and creating negative impacts on boroughs’ working practices. Government envisaged H-CLIC being completed by front-line officers, however many boroughs have employed additional staff specifically to manage the administrative burden created by the new system.

- **Duty to Refer**: The HRA introduced a new Duty to Refer, which requires a range of public authorities to refer households that are homeless or at risk of homelessness to local authorities. Boroughs have raised concerns that the new system creates unrealistic expectations amongst referring agencies and that the referrals process is working inefficiently. Cases can be referred to any borough regardless of whether they have a local connection, and cases are being referred to multiple boroughs, often with very limited information; sometimes no more than a name and mobile number. This has created duplication and unnecessary administrative burdens within the system.

- **Personalised Housing Plans**: The HRA requires a PHP for each applicant, which sets out what the applicant and the council need to do to ensure the applicant has somewhere suitable to live for the next 6 months. London boroughs reported that whilst PHPs assisted applicants in taking greater responsibility, the systemic shortage of affordable housing in London, meant the time-consuming PHP process (which at least doubled the time needed for initial assessments) was not the best use of resources. Applicants have mixed reactions to PHP process – some applicants never returned, at least partly because of the process.

- **Staffing**: Many boroughs have recruited more staff to meet increasing demand, while all
have problems retaining existing staff due to the heightened pressures of the new system. Recruiting new staff is also problematic, leading to greater use of costly agency staff.

The LSE review highlights the wider impacts that London’s tightening housing market and successive restrictions on welfare payments – in particular the government freeze on LHA rates – have had on homelessness in the capital. Borough efforts to help low income households avoid homelessness by retaining their current private rented home, or to secure alternative accommodation, are both impaired by the LHA freeze. LHA sets the maximum amount of support benefit claimants can receive, through either Universal Credit or Housing Benefit, to help them pay their rent. In 2011, LHA was reduced from covering the bottom 50 per cent of rents to the cheapest 30 per cent, in 2013 the link between LHA and actual rent increases was broken and, finally, in 2016 a four-year freeze was imposed. However, rents continue to rise, further restricting the range of properties available. Recent London Councils research has shown that, on average, only 8 per cent of the private rented market in London is now affordable to households reliant on LHA as a result of the restrictions on uprating.

Commentary

LSE’s research highlights the extent to which the cost of maintaining homelessness services in London is likely to continue increasing, particularly following the introduction of the HRA. Without significant interventions from government, in the form of increased LHA entitlements, higher homelessness grant funding for councils and – in the long term – a significant increase in affordable housing delivery, boroughs will continue to be under-resourced to deliver the aims of the HRA. The primary conclusions of the LSE report – that rather than being cost neutral, the costs of the HRA duties will continue to increase in London – should be of concern to government and provoke a rethink as to the resources that are being made available to councils to deliver this new legislation.

The growing reliance placed on council general funds to deliver homelessness services should also be seen as unsustainable, given recent local government finance cuts and the competing pressures councils face in maintaining broader service delivery. In light of the LSE research findings, London Councils will be calling on the government to increase homelessness grant funding, in order to reduce pressures on general fund budgets caused by rising homelessness, and for this funding to recognise the higher costs of delivering homelessness services in the capital.

London Councils is also urgently calling on government to restore Local Housing Allowance rates to at least the 30th percentile of rents and to properly fund and empower London boroughs to build new council housing at the pace and scale required to tackle the homelessness crisis in London. London Councils has reflected the findings of the LSE review in its response to the current MHCLG consultation reviewing the HRA.

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Links:
The Cost of Homelessness Services in London (full report)

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Portfolio holders and those members who requested policy briefings in the following categories: Housing

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