



Evidencing the link between the Local Housing Allowance freeze and homelessness

Report to the Local Government Association from Policy in Practice

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Glossary

Administrative data	Data collected by government departments about their customary activities. Its function means it typically covers a large proportion of the real population and has greater granularity to open data, since it contains information at the household level.
Benefit Cap	The benefit cap limits benefits to £23,000 in London and £20,000 elsewhere. It applies to out of work working-age households or those earning below a threshold, without any exempting criteria (such as a disability that limits their ability to look for work).
Broad Rental Market Area (BRMA)	The broad local region across which the Local Housing Allowance is set. It determines the properties in which a person could reasonably be expected to live taking into account access to facilities and services.
CPI Inflation	Consumer Prices Index Inflation.
Housing Association	Not-for-profit organisations which own, let and manage rental homes. Homes rented from housing associations are considered ‘social housing’, along with council-owned properties. Whilst both sorts of social housing offer accommodation at below market rates, housing association rents tend to be higher than council house rents.
Housing Benefit	An income-related (means-tested) benefit paid to tenants on low incomes towards their rent. The ‘maximum’ Housing Benefit is the maximum amount that can be paid to a given household, before any reductions take place due to contextual factors such as income. The scheme is administered by local authorities in accordance with national legislation and is replaced by the housing element in Universal Credit. Throughout the report, Housing Benefit and the housing element of Universal Credit are used interchangeably.
HMRC	Her Majesty’s Revenue and Customs, a UK central government department responsible for tax calculation and collection. HMRC tracks information about earnings through the ‘pay as you earn’ system and this data is used by DWP (see above) in the calculation of Universal Credit.

<p>Local Housing Allowance (LHA)</p>	<p>A way of calculating Housing Benefit or the housing element of Universal Credit for a claimant who rents property from a private landlord. LHA rates are based on the number of people in the claimant’s household, and the area where they live. LHA amounts are based on the 30th percentile of rents in the local area as they were before the benefits freeze in 2016. If the claimant chooses to rent a property which costs less than the appropriate LHA rate, the amount they receive is restricted to the actual rent they pay.</p>
<p>MHCLG</p>	<p>The Ministry of Housing, Communities and Local Government, a central UK government department, previously known as Department for Communities and Local Government (DCLG)</p>
<p>Private Rented Sector (PRS)</p>	<p>The term Private Rented Sector is used by the MHCLG to refer to a type of housing tenure. The other three categories are owner-occupied, rented from housing associations and rented from a local Council. A household is in the PRS if it does not own its own home but is not renting from a housing association or Council.</p>
<p>Open data</p>	<p>Publicly available data that has information about the population in aggregate form.</p>
<p>SHBE</p>	<p>Single Housing Benefit Extract. SHBE contains administrative data on households receiving Housing Benefit (HB). Policy in Practice also use administrative data on households claiming Council Tax Support (CTS). In this report these are collectively referred to as Single Housing Benefit Extracts (SHBE).</p>
<p>Universal Credit (UC)</p>	<p>An income-related (means-tested) benefit for people of working-age who are on a low income. It replaces four existing means-tested benefits, including Housing Benefit and two tax credits.</p>
<p>Working-age individual</p>	<p>From a benefits perspective, an adult individual is either of ‘working-age’ or of ‘pension-age’. The benefits available to each group differ.</p>

Executive summary

Policy in Practice has been commissioned by the Local Government Association to examine the relationship between the freeze in Local Housing Allowance (LHA) rates and the costs of homelessness to local authorities. The project is driven by the four-year freeze on LHA rates that will end in 2020.

Context

The Local Housing Allowance (LHA) is a limit set for means-tested housing support for tenants in the private rented sector through either Housing Benefit or Universal Credit. Prior to 2016, these referenced average local rents and were set at the 30th percentile of local rental costs. Since 2016, LHA rates have been frozen as rents have increased. This has resulted in LHA rates becoming divorced from actual housing costs. The Government's stated intent is that from 2020 the current LHA rate (based on pre-2016 rents) will be increased each year with inflation.

The growing gap between benefit support for housing costs and actual rents has coincided with an increase in homelessness. Although there is little current evidence of causation between the LHA gap and homelessness, there is anecdotal evidence from councils linking the two.

It has been difficult to establish causation between the LHA-rent gap and homelessness because it sits within a wider framework of social and structural pressures on housing and financial resilience. These include the availability of support and preventative services, differences in council approaches to mitigating the LHA-rent gap, regional variation in living standards, employment and the supply of affordable accommodation and social housing. The LHA-rent gap interacts with these other pressures leading to local variations in impact. Even so, in most areas of the country, the demand for genuinely affordable housing has outstripped supply, leaving many households with little choice but to find accommodation within the Private Rented Sector. For households

reliant on means-tested benefits, the LHA cap on housing support means that the vast majority of properties within this tenure are unaffordable.

The lack of affordable housing leaves councils bridging the gap. Many households who are unable to meet their housing costs in the private rented sector will be provided with advice, intervention, support, and housing by the council. The Government recognises the related financial pressure on councils and has provided additional funding in the form of Discretionary Housing Payments (DHPs) and Targeted Affordability Funding. Where council interventions, such as DHP support, are insufficient to prevent homelessness, and alternative housing is not available, the council may be required to resort to housing those unable to afford rental costs in expensive Temporary Accommodation (TA).

This research attempts to establish a strong line of evidence between the LHA-rent gap and the costs of homelessness to councils.

Methodology and approach

There are four key steps to establishing a relationship between the LHA-rent gap, homelessness and the associated costs of supporting homeless people and those at risk of homelessness to councils:

- Examination of the associations between the LHA-rent gap and measures of homelessness to establish the strongest correlations.
- Development of a multiplier by which the LHA-rent gap affects homelessness based on the relationship of the LHA-rent gap and the homelessness measure with the strongest correlation.
- Establishing the most reliable unit cost of homelessness to local authorities.
- Application of the most reliable unit cost of homelessness to the multiplier by which LHA-rent gap affects homelessness. This establishes the relationship between the LHA-rent gap and cost to the council.

These steps establish the link between the LHA-rent gap and homelessness costs. The LHA-rent gap can then be altered to understand how the LHA-rent gap affects the costs of homelessness, and how increasing the LHA can create cost savings to local authorities. Finally, the research attempts to quantify the impact on homelessness if savings to local councils were redirected to preventative work to tackle homelessness before it occurs.

Two sources of rental data are used in the analysis:

- National public data from the List of Rents (LoR) dataset, produced by the Valuation Office Agency (VOA).
- Data from nine UK local authorities on households claiming Housing Benefit (HB) or Council Tax Support (CTS), collectively referred to hereafter as Single Housing Benefit Extracts (SHBE).

Findings

The key findings from the research are shown below. Further details on these findings are contained in the report.

Current situation

The current LHA effectively sits at the 13th percentile of market rents (compared to the 30th percentile it was set at in 2016). This means that the vast majority of privately-rented households in receipt of means-tested benefit support will not receive full housing support and will need to supplement rent costs from income intended for day-to-day-living. This will have an impact on financial resilience and strongly suggests a link to homelessness. Six local authorities showed 100% of private rented dwellings with rents above the LHA. Even so, the vast majority of local authorities had less than 1% of the population in temporary accommodation and prevention and relief duties were generally provided to about 1% of households, with the maximum proportion being just over 3% of households.

The relationship between the LHA-rent gap and homelessness

There is a robust correlation between both numbers and proportions of households with an LHA-rent gap and homelessness. Increases in the number of households with an LHA-rent gap is positively associated with a higher number of households in temporary accommodation.

It is estimated that for every 1,000 households experiencing a shortfall between their LHA rate and rent, 44 households will require temporary accommodation.

It is worth noting that the research found that the relationship between the LHA-rent gap and temporary accommodation is non-linear which may suggest that there is a threshold to the financial pressure created by the LHA-rent gap. The findings also indicate that the impact of the LHA-rent gap is affected by a separate moderator (such as the level of social housing).

Changing the LHA

If the LHA rate were reset to the 30th percentile of market rent (rather than being merely adjusted for inflation), our model estimates that this would have a significant impact on homelessness and the costs of homelessness that is met by local authorities:

- The average council would see 650 fewer households with rent below the LHA and 300 fewer households in temporary accommodation.
- The average gross cost of temporary accommodation for a council would reduce by between £1.4m and by £3m.

If the LHA rate was set above the 30th percentile of market rent, our model estimates that this would effectively remove the gap between LHA and rent as one of the major factors leading to homelessness.

The impact on homelessness prevention

If any cost savings that were generated through increases to the LHA were redirected to preventative work, the impact on homelessness would be even greater.

As part of this research Policy in Practice held a round table with council homelessness experts. A key message from the round table was that local authorities could clearly see the advantages of early preventative work, but funding restrictions limited their work in this area.

“There is an aim to shift more focus into early intervention methods to reduce the risk of homelessness, such as debt advice, tenancy training etc, as opposed to reactionary methods via temporary accommodation.”

Council D (London)

The model outlined in this report can be used to estimate how cost savings that arose in response to changes in the LHA rate could be used to reduce homelessness through prevention and relief. We estimate that if the LHA rate was raised to the 30th percentile, the cost savings through lower temporary accommodation spending could support around 2,500 additional prevention and relief cases and could prevent an additional 975 households becoming homeless. This is based on MHCLG’s estimate for the conversion rate (39%) of prevention and relief into avoided homelessness acceptances.

Application of this model

This report provides an evidence base for the robust correlation of the LHA rate and homelessness costs.

The model developed for this project will provide the basis of an interactive modelling tool, allowing the LGA and policymakers to explore the effects of varying the LHA and its impact on homelessness and costs.

Implications of these findings

This research indicates that the LHA freeze brings with it consequences for both homelessness and for councils' budgets. The costs of the LHA freeze cannot indefinitely be met by councils and a long-term solution is required.

To date, the Government response has been focused on reducing the gap in areas where it is identified as being the largest. In particular through funding of Discretionary Housing Payments and through Targeted Affordability Funding. In both cases, funding is allocated on the basis of the *depth* of the LHA gap. This research indicates that the strongest correlation between the LHA-gap and homelessness is with *number* of households facing an LHA-gap, rather than the depth of that gap. It may therefore be worth exploring whether the current method of allocating funding is the most effective. In the long-term, an increase in the LHA rate across the board may be a more effective response.

There have been many calls for an increase in the LHA rate.¹ These calls cite not just the financial implications but also the impact on affected households (including the impact on health and wellbeing of those households). It is hoped that review of the LHA rate will be a matter of priority for the new Government.

The LGA recognises that Government needs to be able to manage benefits expenditure. Restoration of the LHA rate to the 30th percentile therefore needs to be seen as part of wider measures to increase housing affordability and financial inclusion, to reduce upward pressure on benefits. Councils that participated in this research point to the availability of social housing as being essential to tackling homelessness while controlling cost. They also stressed the relationship between the local mix of tenure and the proportion of households with an LHA-rent gap. This indicates that to effectively

¹ E.g. <https://www.crisis.org.uk/media/240986/crisis-cover-the-cost-solutions-report.pdf>

tackle housing affordability, there needs to be a coherent strategy involving both affordable housing supply, in particular social housing, and benefit support.

Any long-term solution to housing affordability, whether through increased housing supply or through increased benefit support, will come with an initial cost to government. However, this research, and that of other organisations, indicates that much of the cost could be offset by savings to councils in the cost of homelessness services and improved outcomes for low income households, which in turn may deliver savings across other public services. Furthermore, if council savings from homelessness are redirected to preventative work, there could be a significant impact on homelessness numbers.

In the meantime, whilst the new Government formulates a long term solution, councils are playing a significant role in both prevention of homelessness and in supporting homeless households. Many councils are actively identifying, targeting, and engaging with households at risk of homelessness and utilising effective cross-departmental working to understand both housing need and housing supply. These councils seek to implement and evaluate the most effective local solutions. However, despite some funding for homelessness support and discretionary benefits, this comes at a cost to the councils. Given the ongoing reduction in council budgets, this pro-active approach may not be realistic for all councils and is unlikely to be sustainable in the long term.

Introduction

The Local Housing Allowance (LHA) is a limit set for means-tested housing support (through either Housing Benefit or Universal Credit), for tenants in the private rented sector. Prior to 2016, these limits were set with reference to average rents in a household's Broad Rental Market Area (BRMA²) and at the 30th percentile of rental costs for different property sizes. Since 2016, LHA rates have been frozen and not risen as rents have increased. This has resulted in LHA rates becoming divorced from actual housing cost, resulting in a growing gap between benefit support limited by the LHA and private sector rents (the LHA-rent gap). In the 279 local authorities whose public data we had access to for this report, there were 3.7M tenants living in the private rented sector. 87% of these tenants' LHA rates were lower than their rent, meaning that they would not be able to cover their housing costs through Housing Benefit alone. The LGA has been working with a range of partners to understand the impact of the LHA freeze on councils and households, with a particular emphasis on homelessness, the cost of homelessness to local councils, and housing affordability.

The project is driven by the four-year freeze on LHA rates that will end in 2020. The Government's stated intent is for the pre-2016 rate to be the starting point and then increased each year with inflation. The Government has not proposed to return LHA rates to the third decile of local rents, despite repeated calls from local government, front-line organisations, and academics. This means that benefit support for rent will continue to fall well below rental costs in most regions as increases in rent continue to outpace inflation. The separation of rent support from rent costs has implications for the financial resilience of private rented tenants who rely on means-tested benefits to meet their rental costs.

² The BRMA is a regional area where a person could reasonably be expected to live, taking into account access to facilities and services.

The growing gap between benefit support for housing costs and actual rents has coincided with an increase in homelessness. Although there is little current evidence of causation between the LHA gap and homelessness, there is anecdotal evidence linking the two.

The difficulty in establishing causation between the LHA-rent gap and homelessness is due to the relationship being complicated by wider issues including social and structural pressures on housing and financial resilience. These include the level of benefit support, availability of support and preventative services, differences in council approaches to mitigating the LHA-rent gap, regional variation in the supply of affordable accommodation, and variation in the availability of social housing. The impact of the LHA-rent gap interacts with these other pressures leading to local variations in impact. Councils that participated in this research highlighted the local mix of tenure and the availability of social housing stock as key to flexibility of response to households at risk of homelessness. In most areas of the country, the demand for genuinely affordable housing has outstripped supply, leaving many households with little choice but to find accommodation within the private rented sector. For households reliant on means-tested benefits, the LHA cap on housing support means that the vast majority of properties within this tenure are unaffordable.

The lack of affordable housing leaves Councils bridging the gap. Many households who are unable to meet their housing costs in the private rented sector will be provided with advice, intervention, support, and housing by the council. The Government recognises the related financial pressure on councils and has provided additional funding in the form of Discretionary Housing Payments (DHPs). This funding is to assist councils to support households affected by welfare reform and austerity measures, including the impact of the LHA freeze. In 2019/20 the £140m total allocation was increased in the 2019 spending round by a further £40m. Although welcome, this additional funding is not sufficient to support all households affected by the LHA freeze which alone is

estimated to save the Government £655m³. Where council intervention, such as DHP support, is insufficient to prevent homelessness, and alternative housing is not available, councils may need to resort to housing those unable to meet rental costs in expensive Temporary Accommodation (TA).

The number of homeless households that a council has a duty to house may rise following the Supreme Court judgement in July 2019 (*Samuels (Appellant) v Birmingham City Council*⁴). In assessing whether a home is 'suitable' for an applicant, councils need to take into account the financial resources available to them. Essentially, this judgement means that a household cannot be expected to use the personal allowance within means-tested benefits to bridge any LHA-rent gap and cannot be deemed to be intentionally homeless if they do not meet this gap from benefits intended for other living costs. Councils therefore face an increase in the use of emergency solutions such as Temporary Accommodation.

Policy in Practice has been commissioned to undertake research to examine the relationship between the freeze in LHA rates and homelessness. Specifically, to provide an estimate of the cost to councils of shortfalls in benefit income resulting from the freeze in LHA rates associated with homelessness and housing instability. The research also seeks to establish the level of savings to councils if the LHA were to be restored to the 30th percentile of market rents. Furthermore, if savings can be established, the LGA wishes to understand the impact of spending savings on homelessness prevention.

The objective of this research is to enable the LGA to place the impact of the LHA freeze in the context of wider work on housing affordability, availability of social-rented housing, homelessness prevention, financial inclusion and employment support.

³ BRIEFING PAPER Number 05638, 29 December 2016 Housing Benefit measures announced since 2010

⁴ <https://www.supremecourt.uk/cases/docs/uksc-2017-0172-judgment.pdf>

Our approach

There is already a substantial body of published work on the growing gap between rents in the private rented sector and LHA rates, the impact on financial resilience of tenants, and the cost of homelessness to local authorities. This research does not seek to replicate existing studies and uses these previous findings to illustrate and triangulate findings where appropriate. An overview of previous studies in this area is provided in the next chapter.

Our approach to this research attempts to establish a strong line of evidence of correlation between the LHA-rent gap and homelessness costs. In simple terms, this takes four key steps:

1. Examination of the associations between the LHA-rent gap and measures of homelessness to establish the strongest correlations.
2. Development of a multiplier by which the LHA-rent gap affects homelessness based on the relationship of the LHA-rent gap and the homelessness measure with the strongest correlation.
3. Establishing the most reliable unit cost of homelessness to local authorities.
4. Application of the most reliable unit cost of homelessness to the multiplier by which LHA-rent gap affects homelessness. This establishes the relationship between the LHA-rent gap and cost to the council.

These steps establish the link between the LHA-rent gap and homelessness cost. The LHA-rent gap can then be altered to understand how variations in the LHA-rent gap affect the costs faced by tenants, and how increasing the LHA can create cost savings to local authorities. Finally, the research attempts to quantify the impact on homelessness if savings were to be redirected to preventative work.

For this analysis we used the following mixed methodology:

- Data analysis made use of both publicly available data and longitudinal council data. Further information on the datasets used is provided within this report.
- Policy in Practice invited council homelessness departments to complete a questionnaire and also hosted a round table attended by representatives of local authorities. These provided qualitative information that informed understanding of data reliability, triangulated findings, and illustrated possible outcomes.
- A literature review provided the context for this research and enabled the research to make use of previous studies and data compilation, particularly with regard to homelessness unit costs, and to triangulate findings.

Background to the research

The LHA freeze

The Local Housing Allowance (LHA) came into effect in April 2008 as a threshold for benefit support in the private rented sector. It interacts with both Housing Benefit and the housing element of Universal Credit by setting a cap on rental support through means-tested benefits.

The rates used for the cap are based on average rents in a Broad Rental Market Area (BRMA), collected by the Valuation Office Agency⁵. Since rent prices are associated with housing size, there are five rates that relate to the number of bedrooms and whether the property is shared or whole accommodation⁶.

The rate applicable to a household depends on the number of bedrooms that is deemed sufficient for a household. For benefit support purposes it is accepted that a bedroom is required for each person, or couple, over the age of 16 (including boarders and tenants). Children under the age of ten are expected to share a room and children over ten are expected to share a room if the other child is of the same sex. Additional bedrooms are also allowed for foster carers, those that require carers to stay overnight in the property, and those that cannot be expected to share due to medical needs. The maximum number of bedrooms is limited to four, irrespective of household size. Since January 2012, single individuals aged under 35 without children are usually only entitled to the shared accommodation rate.

At its inception, the LHA was based on median private rents (or 50th percentile), meaning that eligible claimants would receive support based on full rent so long as that rent fell within the cheapest 50% of properties in their region. Since then, the LHA has been reduced. In 2011 the benchmark was reduced to the 30th percentile and a cap to rates came into force. In 2013, legislation effectively ended the direct link between the

⁵ BRMAs and local reference rents can be found at:

<https://www.gov.uk/government/publications/local-reference-rents-listed-by-brma-and-property-size-november-2019>

⁶ Shared accommodation rate, 1-bedroom rate, 2 bedroom rate, 3 bedroom rate, 4+ bedroom rate

LHA and rental costs as the LHA was set at the lower of the 30th percentile or CPI inflation. The link was eroded further in 2016, with the introduction of a freeze on benefit rates, including the LHA.

The rationale for the reduction in LHA from 2010 onwards was to reduce Housing Benefit expenditure and to “ensure fairness between working and non-working households”⁷. In effect, families reliant on means-tested benefits should not be supported to live in more expensive housing than those not reliant on means-tested benefit support. It was estimated that the reduction in LHA rates would save £1.3bn in 2016-17, rising to £1.7bn by 2020-21. The LHA freeze alone was estimated to save £655m⁸. These estimated savings for central government did not account for any consequential or related cost to local government, such as the cost of discretionary housing payments, or through local welfare assistance or increases in the cost of homelessness services.

The rise in homelessness

Multiple organisations have noted an increase in homelessness over the same time period as LHA rates have reduced. The National Audit Office reported that homelessness in all its measurable forms has systematically been on the rise since 2010⁹. The report states that increases have been felt across most of England, but the prevalence of homelessness is greatest in London and large cities. In 2018, 170,800 households across Great Britain were experiencing the worst forms of homelessness, according to figures published by Crisis¹⁰ (representing an increase of 42% since 2010¹¹). By 2018, rough sleeping increased to 11,000 (from 5,000 in 2012) and there were 18,000 households in England living in unsuitable accommodation including B&Bs

⁷ House of Commons Library. (2019). Local housing allowance and homelessness. <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CDP-2019-0199>

⁸ BRIEFING PAPER Number 05638, 29 December 2016 Housing Benefit measures announced since 2010

⁹ National Audit Office. (2017). Homelessness.

<https://www.nao.org.uk/wp-content/uploads/2017/09/Homelessness.pdf>

¹⁰ Albanese, F. (2018). <https://www.crisis.org.uk/about-us/the-crisis-blog/what-is-the-scale-of-homelessness-on-any-given-night/>

¹¹ Crisis. (2019). The Homelessness Monitor: England 2019

https://www.crisis.org.uk/media/240421/the_homelessness_monitor_england_2019_es.pdf

and nightly paid hotels. Research by Alma Economics confirmed that this rise in homelessness extends to Scotland and Wales, albeit at a reduced pace¹².

This rise in homelessness has resulted in homelessness prevention services being increasingly eclipsed by the more immediate need to support those that are currently homeless. The National Audit Office reported that in 2015/16, spending on homelessness services was higher for temporary accommodation compared to prevention, support and administration. This reflected a 39% real increase in temporary accommodation spending since 2010/11 at the same time that spending on prevention, support and administration dropped by 9% in real terms. The reduction in preventative expenditure was primarily caused by the end of ring-fenced funding. Prior to 2009, the Supporting People initiative provided funding to local authorities to support vulnerable individuals to live independently in their homes. In 2009, this funding was no longer ring-fenced, and by 2011 was rolled into the formula grant, which has since been drastically reduced as part of austerity measures.

Identical trends were observed in subsequent work by WPI Economics¹³: in a context of falling total expenditure on homelessness services, the share of spending for temporary accommodation has risen while it has fallen for “Supporting People”¹⁴. The upshot is a shift from preventive to emergency solutions, compounded by reduced overall support, despite the acknowledgement that early prevention is crucial for any long-term solution to end homelessness¹⁵.

At the same time, provision of emergency accommodation to house the homeless has moved away from cheaper accommodation that is leased from the private sector to

¹² Alma Economics. (2019). Local Housing Allowance: Options for reform. https://www.crisis.org.uk/media/240978/alma-economics_local-housing-allowance-options-for-reform-002.pdf

¹³ National Audit Office. (2017). Ibid.

¹⁴ Thunder, J., & Rose, C. (2019). Local authority spending on homelessness. WPI Economics. <http://wpieconomics.com/site/wp-content/uploads/2019/04/Local-authority-spending-on-homelessness-FULL-FINAL.pdf>

¹⁵ Department for Communities and Local Government (DCLG). (2017). Homelessness Reduction Act: new burdens assessment. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/652196/HRA_new_burdens_assessment_pro_forma.pdf

more expensive nightly-paid and, to a lesser extent, bed and breakfast accommodation. In 2016, 8% of households in bed and breakfast accommodation accounted for 31% of total temporary accommodation spending. In contrast, the 18% that were in council or housing association properties accounted for a mere 2% of total temporary accommodation spending. This shift is attributed to landlords' preference for a more lucrative option in the face of limited bargaining power from local authorities¹⁶.

Both qualitative and quantitative existing research indicates that undersupplied affordable housing is contributing to higher homelessness. Local Authorities interviewed by the National Audit Office cited lower supply and affordability as key factors contributing to rising homelessness¹⁷. Their analysis of data confirmed this and highlighted that differences in homelessness between local authorities could be explained largely by the broad 'character' of an area; the higher incidence of Housing Benefit; and lower private rent affordability. The NAO report also found that the trigger cause of homelessness has changed. Previously the leading cause of eligibility for temporary accommodation were personal factors (such as an inability to be housed by friends or family), from 2014 onwards this was replaced with the end of an Assured Shorthold Tenancy (AST) as the leading cause. This marks a change in the nature of homelessness risk and puts the private rented sector at the centre of the policy making debate. The Queen's Speech announced an end to Section 21 notices, or 'no fault' evictions, which are behind a significant proportion of homelessness cases from the private-rented sector.

Calls to action

Several organisations have called for action on welfare policy and homelessness. A stand-out characteristic of such calls is their increasing level of specificity: what given policies should look like. In 2018, the government highlighted the need to better understand the local impact of welfare reform, and, in response, Manchester

¹⁶ National Audit Office. (2017). Ibid. <https://www.nao.org.uk/wp-content/uploads/2017/09/Homelessness.pdf>

¹⁷ National Audit Office. (2017). Ibid. <https://www.nao.org.uk/wp-content/uploads/2017/09/Homelessness.pdf>

Metropolitan's Policy Evaluation and Research Unit (PERU) made specific links to LHA rates recommending that the LHA be evaluated in terms of its operation and design¹⁸.

PERU's work sought to explain the rise in homelessness from the private rental sector by exploring three possible reasons: tenure insecurity (pre-2000 legislation that deregulated the rental market and facilitated the process of ending tenancies); affordability (rent-to-income ratios), and welfare changes (in particular, LHA rates). While tenure insecurity following pre-2000 legislation was not considered to be a standalone factor, the report concluded that affordability and changes to LHA play a crucial role. Private renters spend an average 33% of their income on housing, compared to 17% for mortgaged homeowners and 28% for those in social housing. Because of segmentation in the private rental market – i.e. there are numerous niche markets rather than a 'single market' – the 33% figure provides a snapshot of trends overall; it is likely to be different for the "housing benefit" niche. The report described the link between LHA reform and homelessness as a "double-whammy" whereby housing benefit tenants are both more likely to have their tenancy ended by the landlord and, if so, are less likely to find a suitable alternative. The underlying logic is that LHA rates that fall below market rents increase the chances of rent arrears, in turn the leading reason behind landlords' decisions to end tenancies in the housing benefit market; and the shortfall between rent and LHA prices tenants out of otherwise suitable housing alternatives.

In 2019 London Councils¹⁹ and Alma Economics (for Crisis)²⁰ specifically recommend that LHA rates be restored to the cheapest third of rents (30th percentile). Crisis'

¹⁸ O'Leary, C., O'Shea, S., & Albertson, K. (2018). Homelessness and the Private Rented Sector. Policy Evaluation & Research Unit (PERU).

https://www.mmuperu.co.uk/assets/uploads/files/MMU_Homelessness_and_the_private_rented_sector.pdf

¹⁹ London Councils. (2019). Local Housing Allowance freeze is fuelling homelessness, warns London Councils [Press release: Jack Graves] <https://www.londoncouncils.gov.uk/press-release/08-july-2019/local-housing-allowance-freeze-fuelling-homelessness-warns-london>

²⁰ Alma Economics. (2019). Local Housing Allowance: Options for reform.

https://www.crisis.org.uk/media/240978/alma-economics_local-housing-allowance-options-for-reform-002.pdf

conclusion is drawn after quantifying the costs and benefits associated with different LHA rates and different benefit caps. These are considered in terms of:

- Poverty - households that are lifted out of poverty thanks to additional income
- Homelessness directly - due to lower expenditure on homelessness prevention, support and temporary accommodation
- Homelessness more widely - for example, positive spillover effects in health services and the criminal justice system

The Crisis report makes a powerful case for restoring the LHA rate to the 30th percentile; it estimates that savings are expected to be about £250m over a six-year period, 55,000 households would be lifted out of poverty by 2024/25, and that 60% of such households benefiting have dependent children. Our report builds upon this previous research and aims to provide an evidence-based link between the LHA-rent gap and the homelessness cost to local authorities.

Research and analysis

Datasets

Two sources of rental data are used in the analysis:

- National public data from the List of Rents (LoR) dataset, produced by the Valuation Office Agency (VOA)²¹.
- Data from UK local authorities on households claiming Housing Benefit (HB) or Council Tax Support (CTS), collectively referred to hereafter as Single Housing Benefit Extracts (SHBE).

Together these provide UK-wide and council specific data on rents. This data can be used to calculate the average shortfall between LHA and rent on a per-council basis. Further information on these datasets is given below.

National public data

The LoR dataset provides an annual snapshot of rent information from across the UK, grouped by Broad Rental Market Area (BRMA). The LoR dataset is used to calculate LHA rates, which are disaggregated BRMA and dwelling category (number of bedrooms)²². LHA rents are set at the 30th percentile of rents in each BRMA, or the LHA rate from the previous year, whichever is lower. In practice, it is this lower level criterion that has kept LHA rates frozen since the introduction of the policy in 2016²³.

Data for the LoR are submitted by landlords and letting agents to the VOA's lettings information database. No statistical sampling constraints or weightings are applied to the data, meaning that sample sizes between releases, and between regions vary within each release. As such, the LoR is not a nationally representative sample, but does

²¹ <https://www.gov.uk/government/publications/local-housing-allowance-list-of-rents>

²² <https://www.gov.uk/government/publications/local-housing-allowance-lha-rates-applicable-from-april-2018-to-march-2019>

²³ <https://www.gov.uk/government/publications/understanding-local-housing-allowances-rates-broad-rental-market-areas>

include information on rents across all BRMAs in the UK. The VOA publishes statistical releases alongside each LoR dataset, which illustrate the spread of data across regions, as well as summary breakdowns of current median rents²⁴.

Single Housing Benefit Extracts

All UK local authorities routinely gather administrative data on households claiming Housing Benefit (HB) or Council Tax Support (CTS), collectively referred to hereafter as Single Housing Benefit Extracts (SHBE). These extracts include all the demographic and financial information needed to process HB and CTS claims, and are submitted on a monthly basis to the Department for Work and Pensions (DWP). Policy in Practice routinely works with these datasets to give local authorities visibility over the living standards, economic trajectories, and benefit circumstances of their most vulnerable residents. Crucially for this project, SHBE data includes tenure type and rent amounts for each household, allowing us to identify households in the private rented sector where rent exceeds the local LHA rate.

Compared to the national coverage offered by the List of Rents, SHBE data used for this report is not nationally representative, it includes households from a relatively small selection of local authorities. However, the distinct advantage of SHBE data is that it allows the gap between Housing Benefit and rents for individual properties and individuals to be tracked longitudinally. This allows for examination of the divergence between LHA rates and rents over time. For the purposes of this report, we made use of data from nine London local authorities for whom we hold at least 10 snapshots of data, covering a period of time from 2016 through to 2019.

²⁴ <https://www.gov.uk/government/collections/private-rental-market-statistics>

Part 1: Capturing data on LHA rates and homelessness

The current level of LHA

LHA rates can be 'adjusted' to different percentiles of market rents included in the VOA List of Rents dataset. For each percentile, the proportion of households with rents below the LHA can be calculated (as well as the average depth of shortfall) for each BRMA. This indicates that, on average, across all areas and all household types, the LHA currently sits at the 13th percentile of market rents. This means that the vast majority of households renting in the private sector would not receive full support for rental costs should they need to rely on means-tested benefits. As mentioned earlier in this report, rent arrears is one of the leading factors in the ending of private-rented tenancies. This suggests there may be an association between the level of LHA and homelessness. The nature and strength of this association is explored below.

Linking LHA and homelessness

Initial exploratory analysis indicated that the depth of the LHA-gap and the number of households with an LHA-rent gap are similarly associated with homelessness measures. The depth of the LHA gap relies on accurate rental cost data from the Valuation Office or through the council datasets (SHBE data).

In both cases, there are concerns about the accuracy of rental cost data. A 2016 review²⁵ of the Valuation Office rental statistics raised a number of concerns. Amongst these were:

- Valuation Office data is extrapolated from limited initial data. Breaking down statistics by council will mean that in some instances the VOA does not have sufficient sample sizes to produce meaningful averages.
- The data are provided on a goodwill basis (voluntarily), they are not collected as a formal survey for any statistical purpose.

²⁵ Methodological review of the VOA's Private Rental Market Statistics, Neville de Souza, Steph Astley and Chris Gray, <https://gss.civilservice.gov.uk/wp-content/uploads/2016/07/1.2.1-Neville-de-Souza-Methodological-review-of-the-VOAs-private-rental-market-statistics-.docx>

- The sample is not representative of the private rental market as there is no sampling frame available i.e. no complete capture of the market. The median and simple averages published do not characterise the whole population of properties and are affected by selection biases.

There are also concerns around recorded rent levels in Council administrative data (SHBE data). This is because, where the rent is above the LHA, the authority does not need to record the full rent for benefit administration purposes as only the LHA is required. In practice, many local authorities do capture the full rental cost in order to inform their own anti-poverty strategies. Even in these cases, rent increases for households with rent above the LHA may not be subsequently recorded.

Given that the goal of this research is to explore the effects of LHA rates on homelessness, the number of households with rent above the LHA has been chosen as the focus of this analysis (rather than the depth of the LHA-rent gap). Depth of the LHA-rent gap might increase the likelihood of any given household becoming homeless, but the number of households with an LHA-rent gap is a more likely predictor of overall homelessness rates within a council.²⁶

This research makes use of two datasets (national public data on rents and council SHBE data) to examine the link between the number of households with an LHA-rent gap and homelessness. The methodology for analysing the impact of the LHA-rent gap is specific to each dataset.

National public data

The number of households with an LHA-rent gap was calculated using the List of Rents (LoR) dataset, produced by the Valuation Office Agency for April 2018 to March 2019.

²⁶ A possible follow-up to this analysis could be to investigate whether average depth of the LHA-rent gap for a council strengthens the association between rates of households with LHA-rent gaps and rates of homelessness.

This household-level data was then aggregated by council, and dwelling-size, to arrive at the proportion of households with an LHA-rent gap.

The proportion of households with an LHA-rent gap, for each LA and for each property size category, were multiplied by the relevant Ministry of Housing, Communities and Local Government (MHCLG) live data on total number of dwellings by category and LA²⁷. This provided estimates for the number of households with an LHA-rent gap in each LA. As the BRMA boundaries used in the LoR do not perfectly align to council boundaries, the small number of LAs that encompass more than one BRMA boundary were excluded from the analysis (53 out of 332 total local authorities).

The data on the LHA-rent gap was supplemented by public data on numbers of households in temporary accommodation (TA, Table TA1), as well as those owed prevention and relief duties (Table A2) from the MHCLG live tables on homelessness²⁸.

This methodology provided information on the distribution of households with an LHA-rent gap, households in temporary accommodation, and those provided with prevention or relief duties. Figure 1 shows the frequency distribution of local authorities in our sample according to each of our key measures.

²⁷ <https://www.gov.uk/government/statistical-data-sets/live-tables-on-dwelling-stock-including-vacants>

²⁸ <https://www.gov.uk/government/statistical-data-sets/live-tables-on-homelessness>

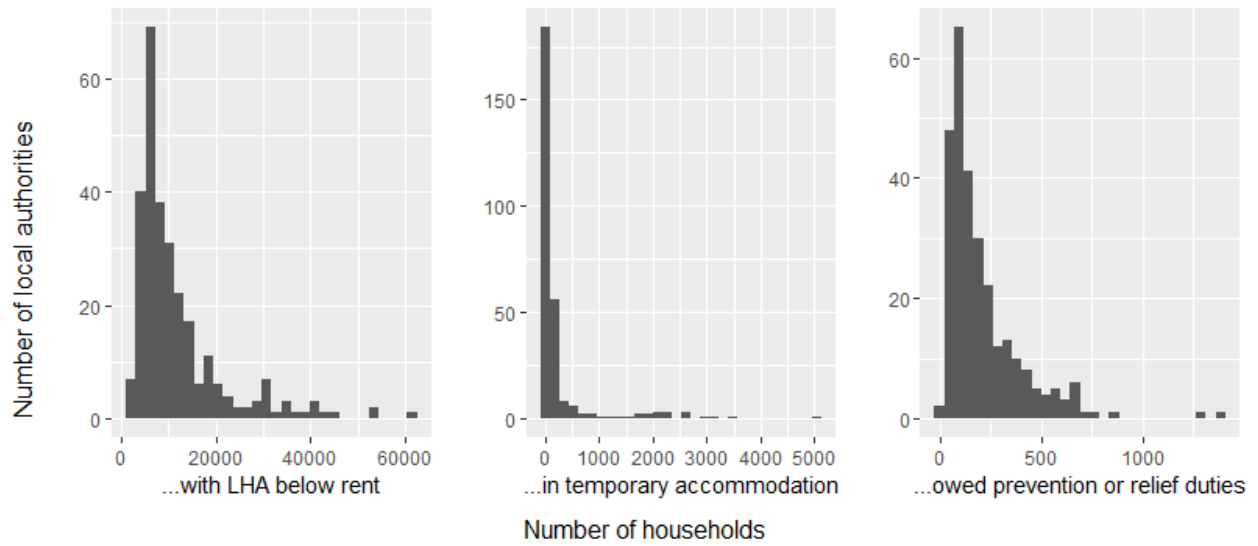


Figure 1: Distribution of households on key variables by council shows that majority of local authorities have 10,000 or fewer households renting at below the local housing allowance rate, fewer than 200 households either in temporary accommodation or owed prevention or relief duties.

In order to account for the large variation in population size between local authorities, analysis was repeated using rates of homelessness and the proportion of households with an LHA-rent gap relative to total population (Figure 2).

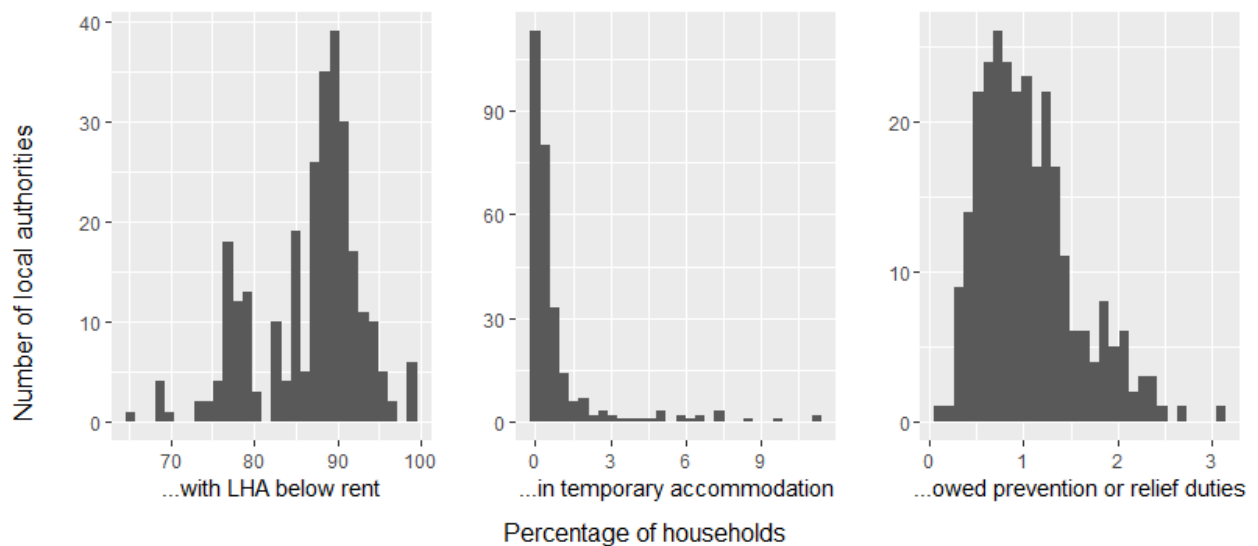


Figure 2: Distribution of population rates of key variables by council shows that councils typically have around 90% of households with rent above the local housing allowance

rate, fewer than 1 per cent of households in temporary accommodation and up to 2 per cent of households owed prevention or relief duties.

The LHA-rent gap was calculated for each household in the SHBE dataset. These were then aggregated to produce a longitudinal profile of number of households with LHA-rent gaps for each LA.

The SHBE data also indicates those households residing in temporary accommodation at the time of each monthly snapshot. This allowed for collation of longitudinal profiles of the number of households in temporary accommodation for each LA in our SHBE dataset.

Figure 3 (below) shows a comparison of the longitudinal profile of households with an LHA-rent gap and those in temporary accommodation. From this descriptive data, seven of the nine local authorities in our sample appear to show a positive correlation between LHA-rent gap and temporary accommodation (represented by parallel lines on the plots below).

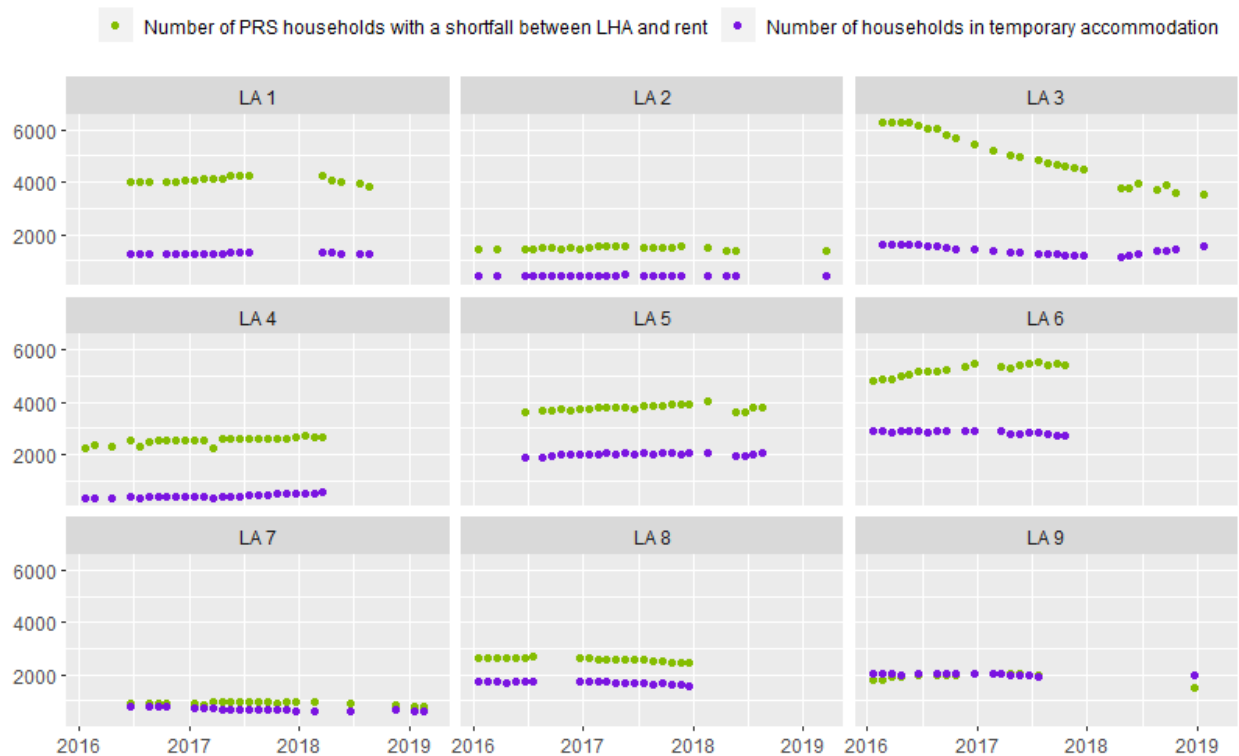


Figure 3: Longitudinal profile of households with a shortfall between LHA and rent, and those in temporary accommodation based on SHBE data

Part 1 Key findings: Capturing data on LHA and Homelessness

- Based on these adjusted LHA values, the current LHA effectively sits at the 13th percentile of market rent (compared to the 30th percentile it was set at in 2016).
- Six local authorities showed 100% of private rented dwellings with rents above the LHA.
- The vast majority of local authorities had less than 1% of the population in temporary accommodation.
- Prevention and relief duties were generally provided to about 1% of all households in a given LA, with the maximum proportion being just over 3% of households.
- Although there were similar trends in temporary accommodation and the number of households with an LHA-rent gap for most local authorities, there was also a large degree of variation between the nine LAs in the dataset.

Part 2: Measuring the impact of LHA rates on homelessness

This section sets out the methodology for establishing the *level* of association between the number of households with an LHA-rent gap and homelessness. Both cross-sectional national data, and longitudinal data from a sample of nine local authorities' administrative benefits extracts were used.

The methodology for analysis with national public data and council SHBE data differs and these are set out separately below.

National public data

Four linear regressions were used in order to estimate the various associations between households with an LHA-rent gap and homelessness. This provides an indication of the strongest correlations.

The first pair of models (Models 1a and 1b) used absolute numbers of households in each council with an LHA-rent gap. The second pair of models (Models 2a and 2b) used proportions of households relative to the total LA population.

- **Model 1a (TA):** examined the association between the number of households in temporary accommodation and the estimated number of households with a shortfall between their rent and LHA rate.
- **Model 1b (Statutory Duty):** examined the association between the number of households owed relief or prevention duties and the estimated number of households with a shortfall between their rent and LHA rate.
- **Model 2a (TA):** examined the association between the proportion of households in temporary accommodation and the proportion of households with an LHA-rent shortfall.
- **Model 2b (Statutory Duty):** examined the association between the proportion of households owed relief or prevention duties and the proportion of households with an LHA-rent shortfall.

Findings indicated a significant association between *the absolute* number of households with an LHA-rent gap and those in temporary accommodation²⁹, and between *the absolute* number of households with an LHA-rent gap and those owed prevention or relief duties³⁰. From this, an estimation can be made of the number of households in

It is estimated that, for every 1,000 households experiencing a shortfall between their LHA rate and rent, 44 households will require temporary accommodation.

temporary accommodation.

Findings also showed a significant positive association between *the proportion of* households with an LHA-rent gap and rate of temporary accommodation³¹. From this, an estimation can be made of the rate of temporary accommodation for a given council. However, the analysis *did not* show a significant association between the proportion of households with an LHA-gap and those owed prevention or relief duties³². This might

It is estimated that for every 10% increase in the percentage of households experiencing a gap between their LHA rate and rent, the proportion of households in temporary accommodation will rise by 1%.

indicate that the association observed between absolute numbers of households with an LHA-rent gap and those owed prevention or relief duties could be explained by council size. It is also possible that those provided with prevention and relief services may comprise households with a greater variation in personal circumstances and different types of contact with homelessness services, meaning that any causal link with LHA-rent gap is less apparent. Given these findings, it is not possible to infer a causal

²⁹ Model 1a - households in temporary accommodation on households with LHA-rent gap, $b = .044$, $SE = .003$, $p < .001$

³⁰ Model 1b - households owed prevention or relief duties on households with LHA-rent gap, $b = .016$, $SE = .001$, $p < .001$

³¹ Model 2a - proportion of households in temporary accommodation on proportion of households with LHA-rent gap, $b = .12$, $SE = .01$, $p < .001$

³² Model 2b - proportion of households owed prevention or relief duty on proportion of households with LHA-rent gap, $b = -.004$, $SE = .004$, $p = .31$

relationship between numbers experiencing and LHA-rent gap and relief/prevention duties from these data.

Regression models exploring the effects of depth of LHA shortfall (i.e., average difference between LHA rate and rent) were also carried out. As expected, these models produced the same pattern of associations as those using number of households with an LHA-rent gap and the proportion of population with an LHA-rent gap. This analysis supports the decision to focus on the number and proportion of households with an LHA-rent gap in this research (rather than the depth of the gap).

Skewed distributions and non-linear associations

Distributions of households on all measures were clustered at the lower end of the scale (see Figure 1 and Figure 2 above). The models were therefore re-examined with log-transformed data, a mathematical technique commonly employed when data has a skewed distribution.

This analysis resulted in the same pattern of statistically significant associations as with the untransformed data³³. However, log-transformed outcomes better reflect the non-linear relationship between experience of an LHA-rent gap and temporary accommodation. In practical terms, this may suggest that there is a threshold to the financial pressure created by the LHA-rent gap. Under this threshold, increasing the number of households with an LHA-rent gap has a relatively small effect on the number of households in temporary accommodation. This perhaps reflects local authorities' capacity to cope with a certain level of homelessness, based on their available social housing stock, prevention funding and staffing etc. However, once the rate of households with an LHA-rent gap passes a certain threshold, the size of the effect on

³³ Model 4a - log(households in temporary accommodation) on log(households with LHA-rent gap), $b = 1.66$, $SE = .11$, $p < .001$;

Model 4b - log(households owed prevention or relief duty) on log(households with LHA-rent gap), $b = .97$, $SE = .05$, $p < .001$;

Model 5a - log(rate of temporary accommodation) on rate of LHA-rent gap, $b = -.46$, $SE = .50$, $p = .35$;

Model 5b - log(rate of prevention or relief duties) on rate of LHA-rent gap, $b = 4.27$, $SE = .42$, $p < .001$;

temporary accommodation increases. This may reflect pressure on local authorities' housing and prevention resources beyond their capacity.

It should be noted that this finding is very much preliminary, and interpretation is based on a relatively narrow analysis. However, the practical plausibility of a non-linear association between numbers with an LHA-rent gap and temporary accommodation rates suggests that this finding may be worth pursuing in more detail. In particular, it may be useful to identify the factors determining a given council's threshold for managing the LHA-rent gap. Identifying these factors at the LA level could help build an evidence base for targeted funding schemes to bolster support and prevention resources where they are most needed.

Finally, it was very clear from all our analyses that the variation in levels of homelessness between LAs increased as the number of households with an LHA-rent gap increased. In practical terms this means that the predictive models established here will be more accurate for LAs with lower number of households with an LHA-rent gap. However, this effect was less apparent for models using proportional rates rather than absolute numbers. Subsequent analysis has therefore made use of these more reliable, proportion-based models.

SHBE data

Separate linear regression models for each of the nine local authorities were used to explore the longitudinal association between LHA-rent gap and homelessness using SHBE data. These models examined the association between the number of households in temporary accommodation and the number of households with an LHA-rent gap at each snapshot in time. The SHBE data does not hold information on prevention and relief duties and so this association was not examined for the SHBE dataset.

The total cohort of households captured in SHBE data remains relatively consistent across time (at least compared to differences between LAs) and so there was no

additional benefit in introducing additional models with proportionate numbers with an LHA-rent gap and temporary accommodation relative to total population.

Across the nine local authorities in our sample, all but one showed a significant association between the number of households with an LHA-rent gap and the number of households in temporary accommodation. Of the eight statistically significant effects, seven showed a positive association between LHA-rent gap and homelessness, in line with our findings from national public datasets.

However, it is clear that there is variation in the relationship between rates of temporary accommodation and rates of households with an LHA-rent gap. This suggests that there are likely to be factors outside the scope of this analysis that are changing the nature of the relationship between the LHA-rent gap and temporary accommodation.

A prime candidate for such a moderator is the availability of social housing. It is very plausible that numbers experiencing an LHA-rent gap would only have a strong effect on rates of temporary accommodation in local authorities with low availability of social housing. As such, we would strongly recommend further analysis into this, and other potential moderators of the relationship between the LHA-rent gap and homelessness, in order to build a more comprehensive model of this complex system.

Part 2 Key findings: Measuring the impact of LHA rates on homelessness

- There is a robust correlation between both numbers and proportions of households with an LHA-rent gap and homelessness. Increases in the number of households with an LHA-rent gap is positively associated with a higher number of households in temporary accommodation.
- It is estimated that for every 1,000 households experiencing a shortfall between their LHA rate and rent, 44 households will require temporary accommodation.
- It is estimated that for every 10% increase in the percentage of households experiencing a gap between their LHA rate and rent, the rate of households in temporary accommodation will rise by 1%.
- Using current data, it is not possible to infer a causal relationship between numbers with an LHA-rent gap and relief/prevention duties.
- The relationship between the LHA-rent gap and temporary accommodation is non-linear which may suggest that there is a threshold to the financial pressure created by the LHA-rent gap.
- There is substantial variation between individual local authorities in the relationship between LHA-rent gap and temporary accommodation rates, suggesting that other factors (e.g., the availability of social housing) may be moderating the strength of this relationship.
- Variation in temporary accommodation numbers increases with number of households with an LHA-rent gap. This means that models using absolute household numbers are most reliable where there are low numbers of households with a rent-LHA gap.

Part 3: What is the cost of homelessness to local authorities?

The number of households, and proportion of households, experiencing an LHA-rent gap show a significant association with greater reliance upon temporary accommodation (although non-linear and subject to variation). In order to understand the implication for local authorities, the cost of homelessness duties needs to be established. This section looks at previous work on the costs of funding homelessness and evaluates its use in establishing a cost multiplier.

Net costs after funding: local authorities in shortfall

The Ministry of Housing, Communities and Local Government (MHCLG) publishes income and expenditure data in relation to homelessness and related services³⁴. Figures are provided gross and net (after income). Gross expenditure refers to the total amount spent by a council, while net expenditure accounts for income from central government for these activities. Net expenditure therefore better represents the costs of homelessness to a council. In 2018/19:

- Gross local government expenditure on homelessness and related services across England totaled £1.59 billion. The majority of this (68%) was attributable to Temporary Accommodation (TA), with 18% attributed to Homelessness Administration and the remainder spent on Homelessness Prevention or Homelessness Support, 9% and 4% respectively.
- Net expenditure on homelessness and related services across England came to £663 million. The majority of spending continued to fall on Temporary Accommodation (42%), although to a lesser extent than with gross figures, reflecting some of the income generated from these activities.

³⁴ Revenue Outturn data table for housing services (commonly referred to as RO4).
<https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2017-to-2018-individual-local-authority-data-outturn>

Temporary Accommodation is therefore a significant outflow for local authorities attempting to relieve homelessness, even after accounting for income from these activities.

The impact of these figures is twofold. Firstly, local authorities are left to meet much of the cost of homelessness services. On average across England, local authorities faced a shortfall of £663 million net of income from benefits. Secondly, temporary accommodation emerges as the dominant area of spending - accounting for 42% of the £663 million figure. This is a cause for concern as temporary accommodation does not present a long-term solution to homelessness and is itself undergoing structural changes that are pushing up its costs-per-placement³⁵.

Specific homelessness-related funding from central Government reduces this shortfall but a funding burden remains on the council to be met from other sources.

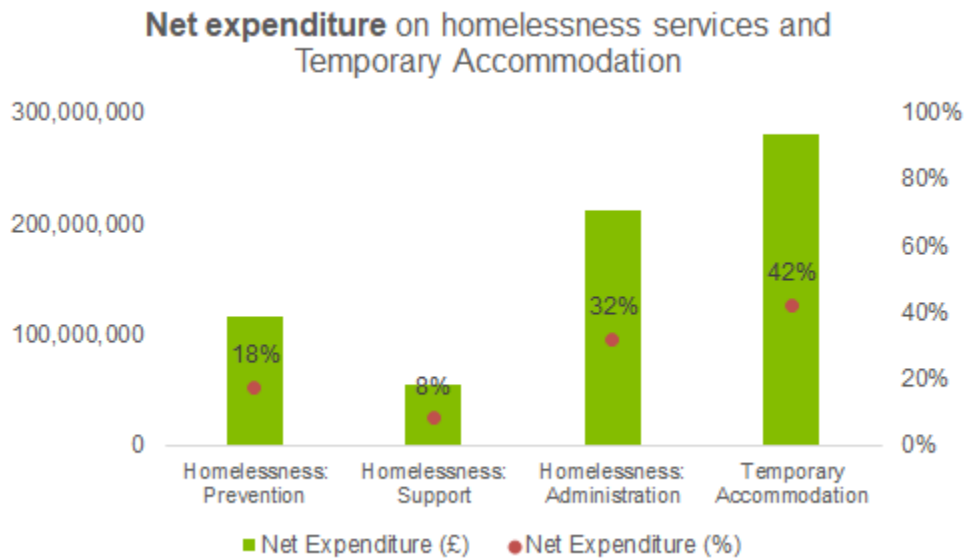


Figure 3. Net expenditure on Homelessness Services and Temporary Accommodation

After application of the Flexible Homelessness Support Grant (FHSG) and New Burdens Funding local authorities are left with an aggregated shortfall of £450 million.

³⁵ National Audit Office. (2017). Ibid. <https://www.nao.org.uk/wp-content/uploads/2017/09/Homelessness.pdf>

After the inclusion of funding related to Discretionary Housing Payments (DHPs), smaller New Burdens funding, and funding from the Rough Sleeping Initiative, a gap of £243 million remains.

The rise in homelessness therefore puts a burden on local authorities to supplement homelessness funding from other sources, and comes at a time when funding from central government has been significantly reduced. The New Economics Foundation recently found that non-ring-fenced government grants have shrunk by 86%, from £32.2 billion to £4.5 billion, in the period 2009/10 to 2019/20³⁶.

Unit costs estimates

Since 2017 there have been two major attempts to estimate a unit cost to homelessness.

MHCLG (then DCLG), attempted to establish the unit costs of homelessness in 2017 to distribute New Burdens funding in respect of the Homelessness Reduction Act³⁷. Costs were broken down by homelessness prevention (or relief) and homelessness acceptances and calculated using aggregated cost data in relation to 2014/15 for England. In essence, total costs for a given activity were divided by the number of cases to arrive at the final unit-cost figure. MHCLG applied this methodology to estimate unit costs for five categories of homelessness services (see Table 1).

³⁶ Arnold, S., & Stirling, A. (2019). Councils in Crisis: Local Government Austerity 2009/10-2024/25. Local Government Association. https://neweconomics.org/uploads/files/NEF_Local_Government_Austerity_2019.pdf

³⁷ Department for Communities and Local Government (DCLG). (2017). Homelessness Reduction Act: new burdens assessment. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/652196/HRA_new_burdens_assessment_pro_forma.pdf

Table 1. Unit cost calculations: MHCLG, uprated MHCLG and LSE/LC

Activity type	MHCLG (2014/15)	MHCLG (2018/19)	LSE/LC
Acceptances (TA)*	£4,200	£4,457	£9,566
Intentionally homeless	£2,200	£2,334	£5,402
Not in priority need	£730	£775	£2,110
Not homeless	£260	£276	£938
Prevention & relief	£530	£562	£2,517

* Acceptances in the LSE and MHCLG reports were defined by new households in Temporary Accommodation (i.e. excluding households already in Temporary Accommodation). These figures are based on a 1 year stay in TA.

Source: reports by MHCLG and LSE/LC (2017 and 2019) and own calculations for uprated MHCLG amounts (2018/19).

A further estimate of unit costs was completed by the London School of Economics in collaboration with London Councils (LSE) in October 2019³⁸. The LSE sought to extend MHCLG’s methodology to arrive at a more accurate London-specific figure. Their methods differed to the MHCLG methodology in three key ways. Firstly, total costs were based on reports from the Society of London Treasurers, as well as the LSE’s own survey of borough finance directors. Both sources of data were collected specifically for the project and had a 100% response rate. Secondly, there was a narrow focus on a smaller geographical area; namely, that of London. Thirdly, the methodology utilised the most up to date data for caseload figures.

³⁸ Scanlon, K., Whitehead, C., Edge, A., & Udagawa, C. (2019). The Cost of Homelessness Services in London: An LSE London project for London Councils. London Councils. <https://www.londoncouncils.gov.uk/download/file/fid/25362>

The LSE figure has advantages over the unit cost figure derived from MHCLG statistical data. For MHCLG returns, a number of local authorities report zero spending on temporary accommodation and some report negative spending.

The challenges in ascertaining costs of homelessness was echoed by senior local-authority stakeholders at a roundtable held by Policy in Practice in November 2019. Stakeholders felt that there was a degree of interpretation around the official guidance on how the information is to be recorded (guidance departing from the Service Reporting Code of Practice, by the Chartered Institute of Public Finance and Accountancy).

The reliability of cost figures: Roundtable findings

The roundtable held by Policy in Practice with local authorities as part of this research indicated that official data on costs is likely to be inaccurate. Particular areas highlighted were:

1. Reliance on HCLIC data which is reliant on similar data entry practices by different housing officers. This differs within an authority and so is likely to differ further between authorities.
2. Some local authorities place an emphasis on preventive intervention and classify all costs, or a greater proportion of costs as preventative.
3. Preventative costs may include a whole-authority approach and so costs are difficult to quantify.
4. Councils offer different levels of incentive to private landlords for accommodation in the private rented sector and in temporary accommodation. This has an impact on landlord preferences and the supply and cost of both tenure types.
5. A lack of definition for costings.

In order to more accurately reflect the costs of homelessness, participants of the roundtable recommended that the approach taken by LSE/LC should be considered nationwide.

It is also worth noting that it was this fundamental inaccuracy of official government data relating to the costs and income from homelessness and related activities (RO4) that gave impetus to the LSE work on costs.

Nevertheless, the MHCLG figures are the most recent available unit cost figures for local authorities outside of London. This research therefore uses the MHCLG unit cost figures for non-London authorities and the LSE/LC unit cost figures for London authorities.

Applying costs to the analysis of LHA rates

Costing based on revenue account budgets

In order to understand the implications for council costs, the analysis needs to relate numbers of households in temporary accommodation to the unit cost of supporting those households.

Having established a model for predicting rates of temporary accommodation based on the LHA-rent gap, one option would be to make use of publicly available, national data on LA homelessness budgets. An exploratory initial analysis showed a statistically significant, positive association between the number of households in temporary accommodation and the total cost of homelessness³⁹, as reported in the MHCLG revenue account budgets 2018-19⁴⁰ and their accompanying Revenue Outturn⁴¹ tables relating to housing services (RO4).

However, although data by in governmental RO4 tables is broken down by activity type (e.g., temporary accommodation vs. prevention & relief), they are not reported on a per-placement basis. Therefore, the analysis uses the unit-cost measure established earlier

³⁹ $b = 3.41$, $SE = 0.15$, $p < .001$.

⁴⁰ <https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2018-to-2019-budget-individual-local-authority-data>

⁴¹ <https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2018-to-2019-individual-local-authority-data-outturn>

- MHCLG's unit cost of an acceptance, which reflects the cost of each placement in temporary accommodation.

In addition, the range of data reported in revenue accounts suggests that the underlying data may not be entirely reliable. For example, a number of local authorities are entered as having zero costs, or even negative costs of homelessness. It is not implausible that these data points could be genuine, especially in LAs with very low numbers of homeless households. However, there is a concern that in using these for estimating the impact of rates of LHA-rent gap and homelessness costs, some authorities could appear to make a net gain from carrying out their homelessness duties.

Costing based on unit costs

Unit costs have been identified in this report, but these are not currently available by local council. However, the estimates provided by MHCLG, and the adjusted London estimates from LSE, are broken down by different cost areas, including the specific cost of temporary accommodation (acceptances). By uprating MHCLG estimates from 2014/15 to match the 2018/19 public datasets, it is possible to derive a unit cost of £4,457 per household in temporary accommodation. The LSE research provides a separate unit cost of £9,566 per household for London Boroughs. Scaling the coefficients from the model of LHA shortfall and temporary accommodation provides a model of cost to the council. Note that these cost figures are provided gross - that is, before accounting for any income that is generated from these activities (e.g. central government grants, council tax receipts).

Part 4: The impact on cost of changing the LHA

Having established unit costs for homelessness these can be linked to the number of households with an LHA-rent gap for each council.

Examination of the strength of association between the number of households with an LHA-rent gap and homelessness measures indicates that the most robust correlation is between the percentage of households with an LHA-rent gap and those in temporary accommodation. In order to understand the cost implications of the LHA-rent gap this research therefore focuses on this relationship.

The total cost of temporary accommodation to the council can be calculated using the estimated percentage of households in temporary accommodation due to the LHA-rent gap and the unit costs established in Part 3.

Linking these together provides an estimate of the impact of the LHA on average council gross cost. Each of the steps used in this methodology, together with illustrative impacts, are shown in Table 2.

Table 2. Impact of changing the LHA rate on local authorities

		Current LHA			
Percentile of market rent used to set LHA	10%	13%	20%	30%	40%
Average shortfall between LHA rate and rent	£254	£232	£190	£144	£106
% households with shortfall between LHA rate and rent	96%	95%	89%	77%	63%
Number of households with shortfall between LHA rate and rent	12,860	12,605	11,761	10,191	8,313
% households in temporary accommodation	2.00%	1.80%	1.10%	0.20%	0.00%
Number of households in temporary accommodation	383	341	203	28	0
Cost of temporary accommodation to the local authority (MHCLG unit costs)	£1.7m	£1.5m	£906k	£123k	£0

Cost of temporary accommodation to the local authority (LSE/LC unit costs)	£3.7m	£3.3m	£1.9m	£263k	£0
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*All statistics are average figures per council

Note that this model estimates temporary accommodation to reach zero once the LHA rate is raised to around the 40th percentile of market rent - specifically the 33rd percentile. This does not mean that raising the LHA rate to 40% would eradicate homelessness, just that the gap between LHA and average rent would cease to be a cause of movement into temporary accommodation. This model predicts the rate of temporary accommodation based only on the gap between LHA and rent. There are of course many other causes of homelessness not captured by this model, but the goal of this project was to explore the effects of the LHA rate in isolation.

Part 4 Key findings: The impact on cost of changing the LHA

If the LHA rate were reset to the 30th percentile of market rent, our model estimates the following impacts:

- The average local authority would see 2,414 fewer households with rent below the LHA.
- The average local authority would see 300 fewer households in temporary accommodation.

The average gross cost of temporary accommodation for a local authority would reduce by around £1.4m (according to MHCLG unit costs), and by £3m (according to LSE/LC adjusted unit costs for London).

Part 5: The impact of spend on prevention

Temporary accommodation is the most immediately costly form of homelessness. In their online response ahead of Policy in Practice's roundtable, one council noted in relation to the costs of homelessness:

“Direct cost is TA and this is driven by the number of those presenting as homeless and the ability to source PRS properties.”

Online response, council D (London)

TA spending in England amounted to £1.27 billion in 2018/19 while spending on other homelessness services came to £316.26 million. Furthermore, costs are rising as a result of structural changes in the form of TA provision, evidenced in a number of recent reports⁴². Nightly-paid, self-contained temporary accommodation is the most costly to councils and represents a growing share of total spending on TA provision, up from 8% of TA in 2011 to 25% of TA in 2017⁴³. The change serves to benefit landlords and is not a reflection of better quality or more appropriate accommodation.

With changes to the underlying structure of TA provision showing little signs of relenting, a fall in the number of households in need of temporary housing could boost the spending power of local authorities. How such additional funding would be spent was one of the key points discussed at our stakeholder roundtable, and there was unanimous agreement that these funds would be spent on preventative services. Participants agreed that additional spending on upstream services would facilitate early intervention and reduce the risk of homelessness. Strategies include tapping into wider

⁴² National Audit Office. (2017). Ibid;

Inside Housing. (2019). The cost of homelessness: council spend on temporary accommodation revealed. <https://www.insidehousing.co.uk/insight/insight/the-cost-of-homelessness-council-spend-on-temporary-accommodation-revealed-57720>;

Local Government Association. (2017). Housing our homeless households.

https://www.local.gov.uk/sites/default/files/documents/5.12%20HOUSING%20AND%20HOMELESSNESS_v08.pdf;
The Guardian. (2019). <https://www.theguardian.com/society/2019/jan/01/councils-ripped-off-by-private-landlords-experts-warn>

⁴³ National Audit Office. (2017). Ibid. In particular, pages 2 and 31.

problem areas, in particular financial management and resilience, but also addressing homelessness aggravators such substance misuse dependency and providing debt and

“[Costs] are shifting to prevention services but the efficacy of any particular piece of expenditure is affected by policy in other areas e.g. tackling substance misuse, early family intervention support services, resettlement work in prisons etc. The list is endless.”

Online response, council A (non-unitary)

tenancy advice. This was reflected by key quotes:

From the supply side, strategies would need to help individuals to find stable accommodation in the private-rented sector and ensure there are incentives for landlord to maintain contracts. There was also agreement that effective prevention would involve a multi-faceted, multidisciplinary approach with holistic support (for example, working in partnership with health and social care):

Such an approach has already had positive results in some of the participating local authorities, although the point was made that multi-agency work is more difficult for non-unitary authorities:

In sum, there was widespread agreement that preventative action should be embedded in strategies aiming to reduce overall cost, exemplified by one council’s comment:

“[Uses for additional funding] multi agency working, early intervention, making advice and information available, and easy access to clients who need this.

“The natural focus should be on prevention and relief, but prevention is not only the responsibility of the district authority.”

Online response, council A (non-unitary)

“There is an aim to shift more focus into early intervention methods to reduce the risk of homelessness, such as debt advice, tenancy training etc, as opposed to reactionary methods via temporary accommodation.”

Online response, council D (London)

Estimating savings to be made from effective prevention

It is difficult to establish a 'conversion rate' for the impact of preventative action on the number of homelessness acceptances (and thus, the number of households that need to be placed in expensive TA). Nevertheless, such an effect is ubiquitous in the policy literature - the result of consultation with senior officials with a deep understanding of housing and homelessness and of successful case-studies.

The experience of Wales following legislation in 2015 is perhaps the best evidence of a successful case study. Wales' 2015 trailblazing legislation had at its core the aim of early intervention and was associated with a 67% reduction in the number of households owed a homelessness duty. It also involved a 28% increase in the number of homelessness prevention cases. In fact, it was this conversion rate that informed the MHCLG's assumption about the impact of the Homelessness Reduction Act 2017 (HRA) for its assessment of New Burdens funding.

In their assessment, MHCLG needed to consider the extent of reduction to the number of homelessness cases due to preventative action due to HRA. Learning from the Welsh experience, the figure relating to prevention and acceptances caseloads were revised. It was expected that, for England, the number of homelessness acceptances would reduce by 10% in the first year, while prevention caseloads would increase by 26%. The implied conversion rate is 1:2.6 (39%) - or that for every 13 additional cases of prevention, there would be a corresponding reduction in the number of homeless acceptances of 5 (i.e. 5 fewer households that need to be placed in TA).

From the unit costs established in Part 2, along with these conversion rates, it is possible to estimate how cost savings due to changes in the LHA rate could be used to reduce homelessness through prevention and relief. An illustration of how this can be done is shown below.

Example: Converting cost savings into prevention and relief

Raising the LHA rate to the 30th percentile of market rent would save an estimated £1.4m of spending on temporary accommodation (based on MHCLG unit costs). Using MHCLG unit cost estimates of £562 for prevention and relief, this cost saving could support around 2,500 additional prevention and relief cases.

According to a 39% conversion rate, the prevention funding unlocked by raising the LHA rate to the 30th percentile could prevent an additional 975 households becoming homeless.

Part 5 Key findings: Converting cost savings into prevention and relief

- Local authorities felt strongly that further investment in preventative work could have a noticeable impact on homelessness.
- It is possible to estimate how cost savings due to changes in the LHA rate could be used to reduce homelessness through prevention and relief using the unit costs and conversion rates established in this report.
- If the LHA rate was raised to the 30th percentile this cost saving could support around 2,500 additional prevention and relief cases (assuming £1.4 million of savings on temporary accommodation, and a unit cost of £562 for prevention & relief, based on MHCLG figures).
- If the LHA rate was raised to the 30th percentile this could support an additional 2,500 prevention and relief cases per local authority, and stop 975 households becoming homeless.

Application of this model

The model developed for this project can be used by the LGA and policymakers to explore the effects of varying the LHA rate, and its impact on homelessness rates and costs by local authority.

To access and feedback on an interactive modelling tool that shows the total gross cost of predicted acceptances, please contact the report's authors.

Conclusions and next steps

This research tested the link between the LHA-rent gap and homelessness. It tested various measures of both the impact of the freeze in the LHA and homelessness.

This research has been wide-ranging, testing correlations between various indicators for the impact of the LHA freeze against various measures for homeless. These included the costs of homelessness, numbers of households provided with prevention and relief, the number of households in temporary accommodation, and the proportion of households in temporary accommodation.

This wide-ranging approach showed that whatever measures are used, there is a general correlation between the LHA freeze and homelessness.

The research identified a number of issues where data may be unreliable. For example, official statistics on homelessness and rent levels recorded by council's benefit departments. Even so, given that the correlation was maintained across measures, the research provided confidence in concluding that a correlation exists. There was a particularly robust correlation between the numbers of households with an LHA-rent gap and the number of households in temporary accommodation. This robust correlation remained when proportion of population, rather than numbers, were examined.

The findings also showed that this relationship is subject to variation between councils and is not linear. This suggests that firstly there is a tipping point at which the numbers with an LHA-rent gap will result in an increase in households in temporary accommodation. And secondly, that other moderators are at play. These other moderators may relate to the circumstances of the household (for example, level of debt and resources) and also to an individual council response to the LHA-rent gap (for example, local welfare provision or a council's ability to house outside temporary accommodation). Identification of these other factors and understanding their impact is

outside the scope of this research. In order to further understand the link between the LHA and homelessness, the LGA may wish to carry out additional research into this area.

The relationship between the number of households with an LHA-rent gap and those in

It is estimated that for every 1,000 households experiencing a shortfall between their LHA rate and rent, 44 households will require temporary accommodation.

It is estimated that for every 10% increase in the percentage of households experiencing a gap between their LHA rate and rent, the rate of households in temporary accommodation will rise by 1%.

temporary accommodation allowed for formulation of a predictive multipliers:

It is worth noting that temporary accommodation is related to the *number* of households with an LHA-rent gap, rather than the depth of that gap. This is perhaps common sense; a shortfall of £10/week or £100/week still results in a risk that the full rent cannot be paid. From a policy point of view, it also indicates that Targeted Affordability Funding should be targeted based on the *number* of households with an LHA-rent gap. This targeting would be possible using administrative data of the kind used in this analysis (e.g., the Single Housing Benefit Extracts, Universal Credit data if it were shared at a council level).

Having established the link between numbers of households with an LHA-rent gap and homelessness, the research attempted to use this relationship to define the financial impact on councils. This part of the research was less straightforward due to reservations around nationally available statistics on homelessness costs. These reservations were confirmed through a roundtable of council homelessness experts.

The research used the best available data; MHCLG UK-wide data on homelessness cost and the more in-depth data from London Councils for London Boroughs.

Application of these unit cost figures showed that cost to the average council of the LHA being at its current level is between £1.5m - £3.3m (depending on whether the MHCLG or London Councils unit cost figure is used).

If the LHA were to be returned to the 30th percentile, it is estimated that the average council would see 300 fewer households in temporary accommodation and costs would reduce by between £1.4m and £3m. Across the UK, this would result in estimated gross savings⁴⁴ of between £441m and £945m to councils in the cost of temporary

If the LHA were returned to the 30th percentile then the average gross cost of temporary accommodation for a council would reduce by around £1.4m (according to MHCLG unit costs), and by £3m (according to LSE/LC adjusted unit costs for London).

accommodation.

A large proportion of the cost of restoring the LHA to the 30th percentile would be met through lower spending on TA and other homelessness services. Research from Crisis found that the cost to the Government would be £820 million per year to restore LHA rates to the 30th percentile in 2020/21,⁴⁵.

This means that a large proportion of the cost of restoring LHA to the 30th percentile could be met through lower spending on TA and other homelessness services. Indeed, Crisis' own report concluded that restoring the LHA rate to the 30th percentile would result in net savings to the UK Government when all the costs of homelessness are taken into account⁴⁶.

⁴⁴ This does not take account of income from homelessness funding and benefits.

⁴⁵ <https://www.crisis.org.uk/media/240986/crisis-cover-the-cost-solutions-report.pdf>

⁴⁶ https://www.crisis.org.uk/media/240978/alma-economics_local-housing-allowance-options-for-reform-002.pdf. Note that the analysis in this report only takes into account savings from the cost of temporary accommodation. Crisis' report also estimates savings to prevention and relief, as well as indirect cost savings via reduced pressure on secondary services relating to drug and alcohol dependency, mental health, criminal justice etc.

This research shows that creating room for investment into upfront preventative work can have a direct impact on the numbers of homelessness people in temporary accommodation. If savings from returning the LHA rate to the 30th percentile were to be directed towards preventative work this would support around 2,500 additional prevention and relief cases and could prevent an additional 975 households becoming homeless.

If the LHA rate was raised to the 30th percentile this cost saving could support around 2,500 additional prevention and relief cases this could prevent an additional 975 households becoming homeless.

Implications of these findings

The research set out in this report points to a strong relationship between the number of households with an LHA-rent gap and the number of households in Temporary Accommodation. This indicates that the LHA freeze brings with it inevitable consequences for both homelessness and for councils' budgets. The consequential costs of the LHA freeze cannot indefinitely be met by councils and a long-term solution is required. Within days of the formation of the new Government of Boris Johnson, MHCLG issued a tweet stating that "One homeless person is one too many", this sentiment, together with the end of 'no fault evictions' indicates a willingness of the new government to tackle homelessness.

To date, the Government response has been focused on reducing the gap and short term mitigation rather than through the development of a long-term solution. There have been attempts to assist councils tackle housing affordability through the funding of Discretionary Housing Payments and through Targeted Affordability Funding. In both cases, funding is allocated on the basis of the depth of the LHA gap. Given that this research indicates that the strongest correlation between the LHA-gap and homelessness is with number of households facing an LHA-gap, rather than the depth

of that gap, it may be worth exploring whether this is a sensible approach. An increase in the LHA rate across the board may be the more effective response.

There have been many calls for an increase in the LHA rate.⁴⁷ These calls cite not just the financial implications but also the impact on affected households (including the impact on health and wellbeing of those households) and the case for just and fair benefit support. This is particularly pertinent to the impact of the reduction of the LHA given that this measure only affects those in the private rented sector and that average local rental charges are outside the control of local residents. It is hoped that review of the LHA rate will be a matter of priority for the new Government.

However, restoration of the LHA rate to the 30th percentile needs to be seen as part of wider measures to increase housing affordability. In many areas the lack of social housing means that low-income households have little choice but to engage with the Private Rented Sector and accept the LHA-rent gap, and councils have little choice but to place those that cannot meet private rental costs into Temporary Accommodation.

This research showed that where there are low numbers of households with an LHA-gap many councils do not need to resort to Temporary Accommodation as a solution to homelessness. Councils that participated in this research point to social housing as being the key to coping with small numbers of homelessness and the local mix of tenure as the main determinant of the proportion of households with an LHA-rent gap.

Therefore, to be effective, there needs to be a coherent strategy around housing and benefits to ensure affordability. Solutions to date, such as DHPs and Targeted Affordability Funding, are short term measures and are insufficient to prevent rental shortfalls.

Any long-term solution will come with a cost to the Treasury; whether through increasing the LHA rate, or through increasing the supply of social housing, or through other

⁴⁷ E.g. <https://www.crisis.org.uk/media/240986/crisis-cover-the-cost-solutions-report.pdf>

solutions. Our research, and that of Crisis, indicates that much of the cost will be offset by savings to councils in the cost of homelessness and improved outcomes for low income households, which in turn may deliver savings across other public services. Furthermore, if savings from homelessness are redirected to preventative work there could be a significant impact on homelessness numbers.

In the meantime, whilst the new Government formulates a long term solution, councils are playing a significant role in both prevention of homelessness and in supporting homeless households. Many councils are actively identifying, targeting, and engaging with households at risk of homelessness and utilising effective cross-departmental working to understand both housing need and housing supply. These councils seek to implement and evaluate the most effective local solutions. However, this comes at a cost to the councils and, given the ongoing reduction in council budgets, this pro-active approach may not be realistic for all councils and is unlikely to be sustainable in the long term.

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