

The temporary accommodation subsidy gap in London: Analysis and implications

An LSE London report for London Councils, the Society of London Treasurers and the London Housing Directors' Group

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Executive summary

This report provides evidence of the financial and social impact of the gap between expenditure on temporary accommodation (TA) by London local authorities and related income in the last financial year (2024/25). The research was funded by London Councils, the London Housing Directors' Group and the Society of London Treasurers.

Local authorities are legally required to provide and pay for TA for qualifying homeless households. To help cover the cost they receive certain income streams; the largest is TA Housing Benefit (HB) subsidy, which is administered by the Department for Work and Pensions. TA HB subsidy has been frozen since 2011 and falls well short of what local authorities pay out for TA, especially in London. This shortfall, which boroughs must meet from their own resources, is often known as the 'TA subsidy gap' though might more accurately be called the TA income gap.

These shortfalls have ballooned in recent years and the cost to boroughs of meeting them now represents a threat to the overall financial position of many. The reasons for this, and their consequences, are the subject of this research. The methodology included a review of existing statistics and literature; collection of financial data from a sample of London boroughs; and a programme of interviews and round tables of London borough officers.

While the rules that generate the TA subsidy gap apply across England, the situation is particularly acute in London. The most recent MHCLG quarterly figures show that London accounts for 57% of English households in TA. Some 66% of London TA households have dependent children, for whom long-term stays in poor accommodation can be particularly harmful. London Councils now estimates that 1 in every 21 children in London are resident in TA – the equivalent of one child in every classroom in the capital.

Costs are highly affected by the type of TA used. Authorities may accommodate households in their own council stock; if no such homes are available (as is usually the case in London) they must 'procure' and pay for accommodation owned by private landlords, commercial hotels or B&B owners. There is no regulatory limit on what landlords may charge.

Two-thirds of TA in London is supplied by private landlords, most commonly on a night-by-night contract (the most expensive for boroughs). Other types of accommodation, including B&Bs—a stereotypical image of homelessness in the past—are relatively little used, usually only for immediate, short-term stays pending full

assessment and placement. While there are some significant differences in the types of TA used by different boroughs, all make heavy use of PRS properties.

Local authorities can set rents for TA residents at any level but commonly charge much less than the accommodation actually costs them. Households in TA usually have their rent paid entirely by Housing Benefit (HB). Local authorities assess claims for HB from residents in TA, then claim the allowable subsidy for the assessed amount from the Department for Work and Pensions (DWP). One main source of TA-related income to local authorities is this HB TA subsidy, although this is generally significantly below the amount required to cover costs.

There are two main drivers of the gap between borough expenditure and income. One was the decision, 14 years ago, to freeze the allowable amount of HB subsidy on claims for tenants in TA at 90% of the January 2011 Local Housing Allowance rate. The cost of TA has risen significantly in the intervening period, as have the amounts of HB subsidy which can be claimed on non-TA rents. The second is the fact that even *current* LHA rates are well below the cost to boroughs of procuring private TA accommodation and indeed well below private rents in the mainstream market.

This gap between TA expenditure and income must be plugged by local authorities' General Funds or other available reserves, and the growth in General Fund expenditure on TA is of increasing concern to boroughs' elected members and senior officers. It now poses a threat to the overall financial stability of some authorities, putting them at risk of issuing Section 114 notices (akin to declaring bankruptcy) or needing to seek Exceptional Financial Support (i.e., the use of borrowing / asset sales to fund ongoing operations). The situation has ramifications in a range of other areas:

- Cost pressures combined with the shortage of supply mean families are being accommodated for longer periods in poor quality homes, with potential long-term effects, especially on children and often out of their local area.
- The financial drain on the General Fund reduces the resources available for all other local authority activities, both statutory and non-statutory. Those services that are not legally required may be cut back or eliminated entirely, while services that are mandated may be subject to stricter cost controls and demand management.

'It just can't work in the longer term, and the impact is beyond homelessness services. It makes itself felt in every other part of the Council because everyone else's budgets have to go down in order to pay for the homelessness service...Which means that I am probably one of the least popular people in the Council because my budget impacts every other part of the Council.' (Outer London borough)

Beyond the financial implications for boroughs, the funding arrangements for TA, including the subsidy gap, create a range of negative impacts for homeless households themselves:

- Managing the TA crisis and the intense workload required to secure sufficient TA diverts resources away from other aspects of the homelessness service, making it harder to both prevent homelessness and move households on from TA.
- The subsidy system means many boroughs set very low rents for households in TA. These act as a disincentive for households to move on into mainstream PRS tenancies.
- When councils cannot secure long leases they are left with no other option than nightly paid TA, strengthening the market position of these providers and creating poor value for money and worse outcomes for households.

Boroughs have adopted several approaches to try to mitigate the greatest harms - both financial and to TA residents - from the gap between expenditure and income. These include:

Increasing the supply of better TA: Many authorities have undertaken initiatives to increase the supply of cheaper and better-quality TA. These include building or buying homes for use as TA (often ex-Right to Buy properties) or repurposing their own non-residential buildings. Boroughs' ability to invest in these solutions, which can increase the housing stock and save money in the long term, depends on both the availability of capital—which usually must come from government – and developing financially viable models, which are dependent on income.

Reducing cost Some authorities have received legal advice that holding properties under long-term lease arrangements can be treated as outside the more restricted TA HB subsidy rules and can allow them to receive the higher rate of HB subsidy. Accommodating households in other local authority areas, whether within London or beyond its boundaries, access additional supply (and may also be at lower cost for this available supply), and many boroughs have changed their policies to allow this. Some boroughs have dramatically increased the proportion of social housing vacancies going to households in TA, which reduces expenditure on TA by enabling households to move on more quickly to permanent homes though at the cost of reducing access for other households on the waiting list.

Managing demand Initiatives here include encouraging households to find their own homes, which can shift some of the administrative work of hunting for available affordable vacancies to applicants, or more strictly limiting assistance to those owed a statutory duty when assessing eligibility for TA.

Table 1: total expenditure on TA and percentage not covered by income in the eight boroughs, 2024-5

Borough	Total expenditure on TA	o/w not covered by related income (call on the General Fund)	Average General Fund cost per unit of TA	% of TA cost expenditure not covered by income
a	£27,567,000	£9,428,000	£6,375	34%
b	£27,525,000	£8,580,000	£5,394	31%
c	£36,915,000	£12,344,000	£6,678	33%
d	£85,058,000	£22,045,000	£8,306	26%
e	£65,497,000	£22,537,000	£7,344	34%
f	£80,174,000	£43,805,000	£12,714	55%
g	£86,895,000	£38,185,000	£11,007	44%
h	£133,706,000	£66,192,000	£17,184	50%
Totals	£543,337,000	£223,116,000		

Source: LSE analysis of survey data from 8 London boroughs

Note: order: lowest to highest number of households in TA; rounded to nearest £1000

The main aim of the research was to establish the size of the gap between boroughs' expenditure on TA and related income. There are published statistics about local authority expenditure on TA through the Revenue Outturn system, but the information is not suitable for analysing local authority costs in any detail. We therefore collected data from a sample of eight authorities (four in inner London and four in outer London) about the volume of TA used and the related cost and income. For the eight the total cost of providing TA in 2024/25 was £543 million; after income from TA HB subsidy and other sources there was a **shortfall of £223 million** to be met from their general funds or other resources. One way to look at this cost is to relate it to the wider populations of these boroughs. On average, the unfunded cost of TA was **£202 a year** per resident household – equivalent to approximately 11% of Council Tax. We estimate a London-wide overall shortfall of more than **£740 million**.

In the short term there is a critical need for funding to prevent further financial collapse amongst London boroughs. Longer-term solutions should centre on capital funding for permanent new supply which would reduce exposure to inflation in the private market and put more control in the hands of Boroughs for quality. Government should consider:

- Raising the TA HB subsidy rate to current LHA rates and allowing it to change with the underlying rate
- Funding a crisis package to address the shortfall in the boroughs at most risk of financial collapse
- Providing capital funding for boroughs to build or acquire additional homes, which would improve the amount and quality of TA and deliver better value for money
- Confirming that properties that are council owned as TA, or leased for long periods fall under a different HB regime, and clarify the length of lease required to qualify
- Reviewing the R04 return system to determine whether and how it could be improved to provide better information for government.

Aims and methodology

This report aims to provide evidence of the financial and social impact of the gap between costs of temporary accommodation (TA) and the income available to meet those costs in London local authorities in the last financial year (2024/25). The research was funded by London Councils, the London Housing Directors' Group and the Society of London Treasurers.

The research questions are:

- How big is the gap between expenditure on TA and related income, for different boroughs and types of TA?
- How does covering these gaps affect borough finances?
- What are the knock-on effects on
 - the quality, type and location of TA?
 - boroughs' capacity to carry out prevention activities?
 - tenants' ability to move on from TA?
 - other local authority services?
- What could be done to reduce the financial gap and improve the system?

We employed a mixed-methods approach using both quantitative and qualitative research techniques. The research had four main phases, which overlapped:

- Preparation: literature review, data audit and scoping interviews
- Empirical work: collection of detailed financial data from local authorities, interviews and round tables
- Quantitative analysis: Excel spreadsheet analysis of government statistics on TA use and expenditure, and of financial data provided by boroughs to LSE. This focused both on the DWP TA HB subsidy gap and the wider gap between the costs of TA to authorities and related income
- Synthesis and drafting: bringing together the findings from the various research elements

This research project had a compressed timetable¹. It ran from end-April 2025 to August 2025 (four months) and the original plan was for an even shorter study. The methodology evolved over the course of the project; the summary above and the more

¹ This tight schedule was partly driven by the timing of central government consultations and decisions.

detailed description in Annex A reflect the final programme agreed by LSE and London Councils.

Local authority TA duties and funding

Legal duties

Local unitary and district councils and London boroughs have legally defined responsibilities to assist certain qualifying households experiencing homelessness or at risk of homelessness in their area. These responsibilities were established nearly five decades ago and have since undergone several revisions and extensions. The Homeless Persons Act of 1977 initially placed a duty on authorities to provide long-term housing for specific groups of homeless individuals. This legislation legally obliged them to secure permanent housing (the ‘homelessness relief’ duty) for certain people after assessing the housing needs of anyone applying to them for advice and assistance. To qualify, households had to be resident in the authority and not have made themselves ‘intentionally’ homeless. Most qualifying households had a ‘priority need’ for rehousing (for example because they had children, or because of their age or poor health).

The 1977 Act also created a duty to provide temporary accommodation (TA) in some cases where no suitable long-term housing (either from the authority’s own housing stock or from Registered Social Landlords or private landlords) can immediately be offered. In addition, TA must be provided to certain homeless households while the authority determines whether it has a relief duty. When fulfilling their responsibilities under this and subsequent acts, councils must follow legal requirements and have regard to statutory guidance detailed in the Homelessness Code of Guidance for Local Authorities, which outlines what constitutes suitable TA. There is a very large and growing corpus of case law around the interpretation and application of these statutory responsibilities.

The Homelessness Reduction Act 2017, which came into force in April 2018, expanded the range of duties placed on local authorities. It expanded prevention and relief duties, requiring councils to assist individuals at risk of becoming homeless, even if they did not meet the main criteria relating to priority need. This change notably brought single individuals—previously often excluded—into the system. While this did not include any additional duties to provide TA (except possibly during the initial assessment period), it did have wider impacts on authorities’ homelessness related activities. Authorities were required to assess and advise more people, and

prevention activities frequently involved financial assistance either to help individuals remain in their current housing or support their transition into new tenancies. This created an additional burden on local authority budgets, despite the introduction of a specific grant to address the costs of prevention. It also can indirectly reduce the number of affordable tenancies for relief-duty households who need to be placed immediately in TA or moved on from TA.

Placing households in TA was originally intended to be a short-term solution while councils carried out enquiries and assessments and households searched for permanent housing. However, many families now stay in TA for extended periods—sometimes over a decade or more.

Expenditure and income sources

Local authorities have a legal duty to provide TA to any eligible resident who may be homeless, eligible for assistance and have priority need, and any gap between expenditure on this duty and related income must be covered by the borough. TA is very expensive in London, and related income rarely covers councils' costs. Almost all London boroughs incur considerable losses, which must be covered in some way, mainly by their general funds.

Expenditure

Government statistics on expenditure and numbers of households in TA distinguish six main types of accommodation:

- bed and breakfasts (B&Bs)
- nightly paid (private rented accommodation paid for by the night)
- hostels
- private sector leased (private rented accommodation leased for a longer period—usually a year or more—by the local authority for use as TA)
- local authority or housing association properties
- other

London boroughs face a severe shortage of local accommodation for use as TA. Vacancy rates are very low in social housing, whether owned by councils or by housing associations, so most TA is procured from private suppliers. The costs of these differ considerably. Some hostels are provided at low cost by charitable bodies, while some are run as businesses with higher costs. As a category, Bed and Breakfast accommodation covers non self-contained units where essential facilities are missing or shared. As such, use of hotel rooms, whether under short or long-term arrangements, is also reported under the category of B&B. Private sector leasing

allows an authority to secure housing for TA for a fixed period which may be weeks, months or even years. However, landlords can recover a significantly higher return from nightly paid lettings when compared to amounts a borough can offer for a private sector lease. This is because TA subsidy rates do not come close to covering what the borough would need to pay to enable a market return for a property held on a lease, and boroughs cannot enter leases that commit them to significant general fund contributions on a long-term basis. Some authorities place TA residents in their own social housing, whose finances are normally run through the Housing Revenue Account. This may impose little financial cost on the authority, although there is an opportunity cost in that the homes could otherwise be used to meet the housing needs of other local residents. Some boroughs are able to place TA residents in council units taken out of general use pending renovation or renewal projects.

Income

There are several types of income related to TA. All TA tenancies (formally licence agreements) charge residents rent². Local authorities are free to set rents for TA residents at any level but in London they are almost always well below what the boroughs pay to suppliers. In practice most households in TA have very low incomes and make little or no financial contribution to their rent. Such households are normally entitled to HB to support their housing costs.

The rules around HB are set out in Annex B but for boroughs there are two serious issues. First, the amounts charged to boroughs by private landlords are generally far above the limits set by DWP for any HB claim. Authorities under a relief duty must provide “suitable” accommodation, which includes the requirement that it should be affordable, and much of the TA which is available for authorities to use would not be affordable if the full private market rent they pay for it were to be charged to TA residents. Many authorities therefore restrict TA rents to “affordable” which often means to the levels allowable under HB regulations and incur a loss due to the higher amounts they pay to private landlords.

Although the authority can ‘pay’ HB³ up to current LHA rates, DWP reimburses a much lower amount. For TA, the DWP HB subsidy has been fixed for 14 years at 90% of the January 2011 LHA rate. This issue is often referred to as the ‘TA subsidy gap’. However, as the preceding discussion makes clear, there is a wider gap because rents

² Residents of TA are formally licensees and pay licence fees, not rent. We have used the term rent in this report.

³ In fact the authority usually does not actually pay money to TA households but uses the HB award as a vehicle to claim HB subsidy from DWP.

paid by tenants (usually supported by HB) are far below boroughs' underlying payments to private landlords and other providers of TA.

Local authorities also receive grants to cover the cost of certain homelessness duties, of which the most important is the Homelessness Prevention Grant (HPG). Many authorities have used considerable proportions of their HPG to subsidise their financial losses from TA. In a proposed change from 2026/27, part of the HPG will go into councils' General Fund as an un-ringfenced allocation that can be used to pay for TA, while funding for prevention activities will be ringfenced.

After applying TA HB subsidy income and grant, boroughs must meet any remaining shortfall from other parts of their budgets. Some authorities may be able to draw on reserves or have other available income, but most often the deficit becomes a charge on the General Fund.

The next sections provide context on the numbers of households in TA, related income and expenditure, and the wider implications for London boroughs of funding TA deficits.

The London context: households and types of TA

This section provides figures on and analysis of the use of TA in London and its constituent boroughs from the latest MHCLG Live Tables on Homelessness. Not all authorities submitted returns, but we supply data for individual boroughs where available. MHCLG's figures for London as a whole are adjusted for missing values so do not equal the sum of individual borough numbers.

Tables 2-4 are a snapshot from 31 March 2025, when there were 73,320 households in TA in London (Table 2)⁴—some 57% of all English households in TA. 48,410 of these (66%) included dependent children. There is a large body of evidence that long stays in TA have significant and damaging long term effects on children.

Table 2: total households in ta and households with children in TA in London, as at 31 March 2025

Total households in TA	73,320
Of which with dependent children	48,410
Percentage of households with children	66%

Source: MHCLG live table on homelessness TA1

MHCLG figures distinguish six main types of TA. The most commonly used type in London was nightly paid private accommodation (44%), followed by private sector leased (25%). Overall, more than two-thirds of TA in London is provided by private landlords.

Table 3: TA use by type of TA, all London, as at 31 March 2025

B&B	Nightly paid PRS	Hostels	Private sector leased	LA/HA stock	Other	London total
5,300	32,190	2,760	18,210	12,890	1,960	73,320
7%	44%	4%	25%	18%	3%	

Source: MHCLG live table on homelessness TA1

⁴ Note that in later parts of this report we use earlier data from either 2024-5 as a whole or in some places for Q3 of that year which represents the picture at 31 December 2024 and not the more recent data of 31 March 2025 noted above. Consequently, there are some differences in numbers depending on the specific context of the data cited

Table 4 overleaf sets out the types of TA used by the 24 boroughs for which the latest data were available (though there are some gaps). The tables are ordered by the number of households in TA, from lowest to highest.

The left-hand side of the table (unshaded) gives numbers of households, and the right-hand side (shaded) the corresponding percentages of households in TA in that borough. Cells are shaded red to indicate more than 40% of TA households live in that type of accommodation. Green cells indicate that less than 10% of TA households are in that type.

Table 4: number of households in TA by type of TA in London boroughs and percentages in each type of TA, as at 31 march 2025

Borough	Inner/ outer	B&B	Nightly paid PRS	Hostels	Private sector leased	LA/HA stock	Other	Total	B&B	Nightly paid PRS	Hostels	Private sector leased	LA/HA stock	Other
Bexley	0	5	93	19	101	169	0	387	1%	24%	5%	26%	44%	0%
Hounslow	0	124	119	34	148	62	4	491	25%	24%	7%	30%	13%	1%
Richmond upon Thames	0	14	412	0	128	41	5	600	2%	69%	0%	21%	7%	1%
Merton	0	44	643	0	8	0	2	697	6%	2%	0%	1%	0%	0%
Barking & Dagenham	0	94	0	186	517	270	0	1,067	9%	0%	17%	48%	25%	0%
Sutton	0	48	500	0	67	415	39	1,069	4%	47%	0%	6%	39%	4%
Havering	0	94	205	209	537	279	10	1,334	7%	15%	16%	40%	21%	1%
Waltham Forest	0	259	506	97	627	79	6	1,574	16%	32%	6%	40%	5%	0%
Islington	1	9	1,024	39	67	597	42	1,778	1%	58%	2%	4%	34%	2%
Bromley	0	2	1,584	18	15	183	0	1,802	0%	88%	1%	1%	10%	0%
Greenwich	1	223	852	0	33	782	4	1,894	12%	45%	0%	2%	41%	0%
Kensington & Chelsea	1	179	109	47	1,537	111	36	2,019	9%	5%	2%	76%	5%	2%
Haringey	0	246	1,539	74	525	305	0	2,689	9%	57%	3%	20%	11%	0%
Barnet	0	119	1,626	9	330	728	7	2,819	4%	58%	0%	12%	26%	0%
Redbridge	0	387	848	198	1,245	141	5	2,824	14%	30%	7%	44%	5%	0%
Enfield	0	80	822	25	1,955	80	72	3,034	3%	27%	1%	64%	3%	2%
Ealing	0	508	539	378	1,152	438	35	3,050	17%	18%	12%	38%	14%	1%
Tower Hamlets	1	315	1,246	1	2	649	910	3,123	10%	40%	0%	0%	21%	29%
Croydon	0	47	1,849	221	777	385	283	3,562	1%	52%	6%	22%	11%	8%
Hackney	1	358	1,593	647	542	340	87	3,567	10%	45%	18%	15%	10%	2%
Wandsworth	1	81	1,631	0	638	1,263	1	3,614	2%	45%	0%	18%	35%	0%
Southwark	1	113	1,559	46	918	1,563	9	4,208	3%	37%	1%	22%	37%	0%
Westminster	1	768	1,684	6	1,470	244	82	4,254	18%	40%	0%	35%	6%	2%
Newham	1	394	3,537	0	1,395	1,654	0	6,980	6%	51%	0%	20%	24%	0%
Average								2,435	Key	>40% of households in this type of TA			<10% of households in this type of TA	

Source: MHCLG live table on homelessness TA1. Note: order: lowest to highest number of households in TA

The left side of Table 4 demonstrates the wide range in demand for TA across these 27 boroughs--from 387 to 6,980 households on 31 March, with an average of 2,435. There is no obvious inner/outer split: six of the twelve boroughs with the highest number of households in TA are in outer London.

The right side of Table 4 shows that only two boroughs placed more than 40% of households in their own stock—unsurprising given the very low turnover in social housing in London. Twelve boroughs placed 40% or more of households in units rented from a private landlord that charges by the night (nightly paid), which tends to be the most costly type of TA. By contrast five boroughs used private sector leasing for over 40% of their provision. These are properties leased from private landlords for longer periods, generally of a year or more. B&Bs are relatively little used by most authorities.

Effects on borough finances

This section presents data from an anonymised sample of eight London authorities (four inner London, four outer) that provided financial and other information in response to an Excel survey questionnaire designed in consultation with London Councils. This was a purposive sample of boroughs designed to include representation from both inner and outer London and all geographical areas.

Numbers of households in TA

Table 5 breaks down the types of TA used annually by each sample borough in a similar way to the right-hand side of Table 5. (To maintain the anonymity of sample boroughs we do not provide the raw numbers of households in TA.) MHCLG statistics on the number of households in TA are snapshots for the final day of each quarter; the percentages in Table 4 are based on four-quarter averages of these numbers.

All eight of the sample boroughs had a significant number of households in TA and five of them had more than the 2,435 average shown in Table 3. The average number in TA across the group over the four quarters of 2024/25 was 2,344.

Table 5: percentage of households in each type of TA in eight London boroughs, 2024/25

Borough	Inner/ outer	B&B	Nightly paid PRS	Hostels	Private sector leased	LA/HA stock	Other
a	O	6%	29%	5%	38%	21%	1%
b	I	0%	53%	2%	5%	38%	2%
c	I	16%	44%	0%	2%	39%	0%
d	O	5%	53%	0%	13%	29%	0%
e	O	5%	21%	1%	68%	3%	3%
f	O	5%	45%	6%	27%	12%	5%
g	I	10%	42%	19%	16%	10%	3%
h	I	17%	36%	0%	38%	7%	2%
All above		9%	38%	5%	31%	15%	3%
Key				>40% of households in this type of TA			
				<10% of households in this type of TA			

Source: LSE analysis of based on MHCLG live tables on homelessness averaged over all four return dates

Note: order: lowest to highest number of households in TA

In line with the pattern shown in the quarterly figures for all of London, the most expensive type of TA (nightly paid) accounted for the highest percentage of units in most of the eight boroughs, mainly as a result of the impact of the HB TA subsidy rules as noted above. 69% of households lived in units owned by private landlords, the same proportion as for London as a whole. Use of social stock is more limited, and in

most of the sample B&Bs accounted for less than 10%. Households are often placed in B&Bs for immediate, short-term stays pending full assessment and placement.

Expenditure on TA and the overall shortfall

Local authorities provide information to central government about their expenditure on TA through the Revenue Outturn system of required reports, data from which is published online. However, the information is not suitable for analysing local authority costs in any detail. It is not timely or granular enough, splitting expenditure on TA into only two categories: employees and running expenses. In addition, there are inconsistencies in how authorities record expenditure (some report no expenditure at all on TA administration, while others report spending many millions of pounds). Local authorities themselves tend not to use RO4 information, instead depending on their own systems for collating and analysing homelessness expenditure. For this research we therefore collected information from the eight sample authorities based on the information they use internally.

The LSE survey asked boroughs to provide their best data on

- the overall **cost** of the provision of TA including payments to landlords and administration
- related **income** from all sources (DWP HB subsidy, rents paid by households in TA, MHCLG grants, other contributions) **excluding payments from the General Fund**

Cost less income represents the unfunded cost that must be met from the General Fund.

Table 6: total expenditure on TA and percentage not covered by income in the eight boroughs, 2024-5

Borough	Total expenditure on TA	o/w not covered by related income (call on the General Fund)	Average General Fund cost per unit of TA	% of TA cost expenditure not covered by income
a	£27,567,000	£9,428,000	£6,375	34%
b	£27,525,000	£8,580,000	£5,394	31%
c	£36,915,000	£12,344,000	£6,678	33%
d	£85,058,000	£22,045,000	£8,306	26%
e	£65,497,000	£22,537,000	£7,344	34%
f	£80,174,000	£43,805,000	£12,714	55%
g	£86,895,000	£38,185,000	£11,007	44%
h	£133,706,000	£66,192,000	£17,184	50%
Totals	£543,337,000	£223,116,000		

Source: LSE analysis of survey data from 8 London boroughs

Note: order: lowest to highest number of households in TA. Rounded to nearest £1000

There are significant variations in the average cost per unit shown in Table 6. While a range of factors explained below impact on this, overall the scale of required accommodation means more exposure to the most expensive forms of accommodation. The other factors include the different situations facing individual boroughs:

- Some boroughs have particular circumstances that reduce their costs—e.g. If a borough is undertaking regeneration projects they can place TA households in decanted units at minimal cost in the short term.
- Some authorities have entered into long-term lease arrangements or purchases that give them a lower nightly cost. Not all boroughs are able to do this because (a) the upfront cost is high and/or (b) they see this as a legally unclear area and consequently inadvisable to act on.
- Some boroughs have significant Right to Buy receipts which have enabled them to do more acquisitions, allowing for lower nightly cost properties.

Table 6 shows that all eight boroughs incurred unfunded expenditure on TA. The amount ranged from 26-55% of TA expenditure. These proportions tended to be higher in boroughs with the most households in TA (bottom of the table), though the relationship is not linear.

One way to look at this cost is to relate it to the wider populations of these boroughs. MHCLG figures for Q3 2024-5 show there were 21,733 households in TA in the eight sampled authorities, representing 2.1% of the total 1.015 million households in these boroughs. Their total expenditure on TA in 2024/25 was £543,337,000, according to our survey. The amount not covered by related income was £223,116,000. On average, then, the unfunded cost of TA (loss borne by the General Fund) was £220 a year per resident household. The cost can also be related to council tax. Per MHCLG figures, the average Band D council tax charge in London in 2024/25 was £1,893 per household. The £220 going to the unfunded cost of TA represents about 12% of this.

Based on the data from the sample authorities we have estimated figures at London-wide level. In London there are 3.659 million households in total (again using MHCLG data for Q3 2024/25), of whom 72,170, or 2.0%, were in TA. The figure for the eight sample authorities was similar, at 2.1%. The sample included both inner and outer London authorities from all areas of the capital and appears to represent a reasonable cross section of the situation in all London authorities. Grossing up the shortfall across London, and adjusting for the 0.1% overall fewer households in TA in the capital as a whole, we estimate that London boroughs had a collective shortfall of £740 million. This unmet cost representing £202 per London household or 11% of average council tax. These are monies that could otherwise have been spent on other statutory services and non-statutory council services like libraries, youth services or community support including family support or citizens advice.

Income: HB and TA HB subsidy

The main source of TA-related income to local authorities is HB subsidy paid by DWP. As set out above, households in TA commonly have their rent paid entirely by HB, although some working households make a financial contribution. Local authorities are free to set rents for TA residents at any level, partly as they are not part of the main Housing Revenue Account which only covers their own social housing provision. Local authorities are responsible for administering HB to claimants living in TA; they then claim a corresponding subsidy from DWP.

The LSE survey asked authorities to provide figures from their DWP returns on the amounts of HB they paid to TA residents and the amount of HB subsidy received. Five boroughs provided information, summarised in Table 7.

Table 7: Percentage of HB paid to ta residents in 5 London boroughs, 2024-25, and its relationship to TA subsidy rates

Borough	% above TA subsidy rate
a	0
c	0
d	31
f	16
h	1

Source: LSE analysis of survey data from 5 London boroughs

There is significant variation between boroughs in terms of the percentage of HB recovered. As explained above, some authorities set rents at the level that DWP will reimburse, which explains the very low percentages in three cases. Some set rents at current LHA rates and others may peg them to average rents for social housing, sometimes in the expectation that the households in TA would be able to contribute more from their incomes.

Regardless of what rent is charged to TA residents or the limits on TA HB subsidy, boroughs must pay the going rate to private suppliers. Later in this report we explore options for reducing boroughs' reliance on the private market, some of which are already being trialled.

Wider effects

This section explores the wider consequences of the TA income gap on borough finances and services and discusses some of the approaches boroughs have taken to address the gap. It draws on our qualitative research including LSE interviews of housing and finance officers from six London authorities (three outer London, three inner; four north London and two south). In all, 19 individuals took part in these interviews⁵ during the months of May and June 2025.

The discussion is arranged around four themes: (i) Finances (ii) Supply issues (iii) Managing demand and (iv) Knock-on effects on TA residents and others seeking housing.

Finances

Effects on boroughs' overall financial positions

The wider issue of growing General Fund expenditure across London boroughs, including and particularly in relation to addressing homelessness and TA, is of concern to their elected members and senior officers, and in some cases now poses a threat to their overall financial stability. Some interviewees reported that their boroughs might be forced to issue Section 114 notices⁶ as a consequence of homelessness spend from the General Fund.

We're three years away from issuing a 114 if nothing changes on TA costs. (Inner London borough)

The main impact is financial.... It no longer works. Basically the whole thing is bust. We spend more on subsidising housing benefit than... what we're supposed to run our entire homelessness service on... and that can't be right. (Outer London borough)

It just can't work longer term and the impact is beyond homelessness services, it makes itself felt in every other part of the council because everyone else's budgets have to go down in order to pay for the homelessness service... Which means that I am probably one of the least popular people in the Council because

⁵ The interviews were recorded and transcribed. Quotes in the report are clean verbatim, with grammatical errors and filler words removed.

⁶ A S114 notice is a declaration issued by a local authority's chief financial officer that the council is unlikely to be able to balance its budget, which is a requirement of the Local Government Finance Act 1988. Akin to a declaration of bankruptcy, it prevents the council from incurring any but essential expenditure and signals a potential financial crisis.

my budget, you know, what I do impacts every other part of the Council. (Outer London borough)

Interviewees said the number of households in TA was the single biggest factor affecting a local authority's homelessness expenditure—and indeed expenditure on all council activities. More people in TA meant less money to spend on everything else, across the council as a whole.

The subsidy gap is about the money that it costs the local authority. So what it means is that we can't afford to keep people in TA. TA is the largest single cost. It dwarfs any kind of expenditure on rehousing people or staffing or anything else.... The number of households in TA is the single biggest factor in determining our budget. And that means that the more people we have in TA, the less money we have to spend on anything else. Across the council it's £30 million a year. How much is the budget for children's services? How much is the budget for adult social care? And you put it into context. Because the biggest cost from our perspective is the number of households in TA, it's not staffing. It's the cost of the number of units of TA that we have. In other services, it is a pure staffing cost. We're going to dwarf everyone else in terms of that financial impact. (Outer London borough)

Growing homelessness costs, including TA, also include staffing costs for additional management of demand, such as prevention work and bad debt.

Our staffing bill alone is £10 million to run the homelessness service. (Outer London borough)

TA is obviously the core problem in terms of that net deficiency. But (there are other) costs: incentive payments, bad debt and arrears, and all these other factors that we monitor. (Inner London borough)

We heard that resource challenges meant some boroughs were too short-staffed to ensure that people moved on from TA as quickly as possible.

Moving people on... is starting to take slightly longer and longer, partly because staff are becoming overwhelmed, they're becoming stretched. We haven't been able to necessarily expand our staffing base for processing case work support at the level at which people are coming in. We simply have limits to our resources. (Inner London borough)

Interviewees said the TA subsidy gap fuelled council efforts to generate more income e.g., through parking charges.

Increasing use by landlords of nightly paid charging

A key driver of increasing costs – and losses – was that many landlords were terminating existing long-term leases and re-offering units as nightly paid to generate higher incomes, or working through agents who provided nightly paid homes as TA.

Increasingly, the nightly paid stuff is what previously has been leased to us, you know, so it's kind of people flipping accommodation. (Outer London borough)

...what we've seen over the last at least 18 to 24 months, is that predominantly most landlords will engage with us if it's on a nightly paid basis. (We increasingly rely on) nightly paid accommodation, I'll say we're running about 58% of our portfolio as nightly paid... what I tend to see is there are some agents who operate specifically in the homelessness space, and they tend to encourage independent landlords to channel their properties through them and they bring it to us more on a nightly basis. So we know there are some really large providers, but they actually act as intermediaries to try and encourage landlords with a higher rent, and they do so by promoting those properties through the nightly route. (Outer London borough)

Use of Homelessness Prevention Grant

Despite its name, Homelessness Prevention Grant (HPG) was not in the past ring-fenced only to prevention⁷, and the grant conditions have always allowed a portion to be spent on TA costs. However, as TA costs have ballooned some London authorities had been spending all of it on paying for TA in order to reduce the amount which has to be covered by the General Fund.

If I'm being totally honest, we use it [HPG] to pay a proportion of the TA subsidy bill. (Outer London borough)

Setting rents and licence charges for TA households

Local authorities themselves determine what licence fees or rents to charge TA tenants. Many, but not all, of the eight boroughs for which we had detailed DWP information link rents or licence fees to the amount of allowable HB subsidy they can reclaim.

⁷ For 2025/26, MHCLG has introduced a new provision that requires local authorities to spend 49% of their HPG allocation on prevention, relief and staffing activity. <https://www.gov.uk/government/publications/homelessness-prevention-grant-allocations-2025-to-2026/homelessness-prevention-grant-2025-26-technical-note>

(Charging) 90% of LHA is pretty much universal across the piece, isn't it? (But) that's so low now as an amount, it's nowhere near the unit costs of those different types (of accommodation). (Outer London borough)

That's where you can see the gap...We are charging (tenants) 90% of LHA rates from 2011 against what we're actually paying the landlord. (Outer London borough)

Current LHA rates, though higher than the reimbursement ceiling of 90% of 2011 LHA, are still well below market rents in almost all of London while the evidence suggests only around 5% of available private rented accommodation is affordable. Several authorities observed that there was nothing on the market available at those rates. This can have act as a major disincentive for households wanting to move on from TA.

Monitoring of TA use and costs

Because expenditure on TA has such an effect on authorities' finances, borough officers and politicians monitor it closely. Monitoring often involves senior management, partly because of the threat of S114. As well as overall costs, they may look at cost per unit, unusually high-cost units, value for money, voids and efficient matching of units to households.

And each month I appear before the executive management team, including the Chief Executive and the Exec Director of Finance to explain why it is that we're over budget and what we've done to address that. My service is probably the only service within the Council that does that. Because it has such a direct impact on the rest of the Council's finances. (Outer London borough)

Every month, that gap grows...you see the expenditure against the income growing. So that gap grows and that's what we report on a monthly basis. We do try and forecast very early on in the year to say this is what we expected to be for the full year and then run that every month. (Outer London borough)

...there's a monthly cabinet return (with) a whole section on housing and the General Fund. And in there we report the average nightly amount that we're paying. You can also see where the gap is and where the pressure is...and it says clearly in the paper it's led by temporary accommodation (Outer London borough)

For internal monitoring, boroughs use data from their own accounting systems and specialised housing management software. The expenditure statistics that authorities are obliged to report to central government through R04 are not used for internal decision making or monitoring purposes as they are not granular or timely enough. R04 data are not used to drive management decisions around TA and may

under-report actual expenditure. This can have serious consequences for allocations through the local government funding formula.

Supply issues

The current market for TA properties

Many interviewees discussed the general lack of supply of affordable accommodation in their areas, saying it was increasingly challenging to find properties within the private rented sector to use either for TA or to move on TA households into permanent tenancies.

So, the whole edifice of homelessness, legislation and processes and systems and all the rest of it, is designed about how you move people into the private rented sector. Two years ago, the private rented sector effectively collapsed. (Outer London borough)

Yeah, even at a full LHA, it's becoming hard to find anywhere that's affordable. (Outer London borough)

You end up having to place more people in temporary accommodation because the (PRS) options are just not there. (Outer London borough)

The general development market has dropped quite considerably. Housing associations are meant to be sort of bridging the gap between local government and private market to try and bring more affordable [homes] and they are just not developing at the moment ... That's been quite a bit of challenge in terms of getting more supply into the market. (Outer London borough)

The low availability of properties was attributed partly to landlords exiting the sector as a result of recent tax and regulatory changes which had made private renting less profitable and more difficult to manage.

Several authorities also said they were in competition with the Home Office for TA properties.

You've now got the Home Office with an increased offer to landlords. They're now guaranteeing rent to PRS landlords for five years. (Inner London borough)

Managing demand

Boroughs told us about techniques they employed to reduce demand for TA.

Encouraging households to find their own PRS properties

One authority told us that at prevention stage they strongly encouraged households to find their own PRS accommodation. This reduced the number of households for whom they had to find TA. The accommodation procured by the authority itself was mostly outside London, which constituted a strong disincentive for many households to enter TA. Very high demand on officer time meant that any assistance from households would relieve pressure on the authority and could represent a better solution for the households themselves.

The reason why we have such a large number of people who are finding their own home is because of (our borough's) national placement policy. This means that (the household) knows that if they don't do anything, they will be offered somewhere a long way away. It is really grim and it's not very nice. And it's not what any of us came into housing to do. But that's the reality of it. (Outer London borough)

Strictly limiting assistance to those owed a statutory duty

Some authorities said they had been forced to move away from prevention, early intervention and strategic work to focus their homelessness efforts exclusively on those households to whom they owed a statutory duty.

The fact that we have no money means that we have had to make decisions about who we can help and who we can't. Five years ago we set out to create the housing advisory service, a holistic approach to homelessness and housing need that would aim to tackle all forms of housing need rather than just homelessness. That's not possible anymore. We can't do that. We can't afford to do that. (Outer London borough)

So when we first started out, we had a contract with a single homelessness prevention service that would take our non-priority need cases and they would secure private rented [accommodation] for them. We had a whole range of services that were geared at non-priority - none of which we can afford to do anymore. If you're not priority, you're not going to get help. We will give you advice, a bit of assistance, but we are a statutory service now. We will be bound by the legislation and that's all we can afford to do. (Outer London borough)

Knock-on effects on TA residents and others seeking housing

Poor quality accommodation

There was a common message from interviewees that they tried hard to maintain standards and quality within their TA. However, this was challenged by the urgent need to provide accommodation.

And obviously [there are] challenges in terms of the quality of the accommodation... Obviously we're part of Setting the Standard, but not all accommodation is registered. And then that's the real difficulty, isn't it? In terms of on the one hand, the financial pressure, but then on the other hand, ensuring that people are accommodated... (Outer London borough)

Boroughs said quality was often poor because the units are at the very bottom of the PRS and councils have limited ability to encourage landlords to improve them.

I think the reason why TA is poor quality is because all of the temporary accommodation is at the very bottom end of the private rented sector. That is the reality, because any other landlord can charge more and still get it on the open market and have a decent income from it. (Outer London borough)

And so, you know when you've got that level of pressure presenting, inevitably you're going to compromise on some of the quality because you just need to secure something for a household. You're procuring on the day to meet demand. There is an incapacity to go and inspect any of those properties. You're taking as given until someone moves in and they cite their issues with a problem - sometimes we don't know until that happens. So yeah, the pressure means that sometimes you're taking substandard accommodation because you're in dire need of doing that. (Outer London borough)

Landlords can be assured of rental income without having to invest in upgrades. If one borough refuses a property because of quality issues, another will accept it. Boroughs are all fishing in the same pond and under pressure to find properties. This undermines market incentives to provide better quality.

On the quality front we seem to compete with other boroughs, particularly in [Borough] and therefore if we don't accept that property and we force more quality on the landlord, that landlord is simply going to go to another authority and we lose the benefit of the property. It's our financial challenge but also wider market matter that seems to be affecting us. (Outer London borough)

Perverse incentives for TA residents

The approach to charging TA residents rent or licence fees at allowable TA subsidy rates, as set out in the section above, could have the unintended consequence of deterring households living in TA from moving on into the private rented sector where rents are much higher. Even though the household may well qualify for housing support in their new home, they may be deterred by taking on responsibility for higher rent levels even where these are at or close to current LHA levels. Although the effect of the overall LHA rates often means that low income households do not get enough in Universal Credit to meet the cost of private renting, as market prices are higher than the maximum allowable, this issue is exacerbated by keeping TA rents even lower than comparable local market rents. This can present a financial disincentive to working or to accepting an offer of a PRS property.

If we're charging a tenant a rent that is linked to LHA 2011 at 90%, they cannot then afford to go out into the market and get their own property, so we're keeping them stuck in this rut. We're not empowering them to go out and do it for themselves because we're not charging them anything that's market comparable. So we are keeping them in a temporary accommodation cycle that isn't facilitating their move on. (Outer London borough)

Reduced access to social housing for non-homeless households

Placing households into TA was originally intended to be a short-term solution while councils carried out eligibility assessments and households searched for permanent housing, but many families now reside in TA for extended periods—sometimes over decades. We asked boroughs how TA pressures had affected their allocations policies for social housing, and in particular whether they had increased priority for households in TA.

Table 8, taken from our survey of eight boroughs, shows the frequency distribution of offers of general needs social housing tenancies, now and in 2019/20. The categories are households in TA, other people from the homelessness register who were not in need of TA, those on the main council housing waiting and those on the transfer list.

Table 8: sources of social housing allocations 2024/25 and change in allocations to households in TA since 2019/20

Borough	% of allocations going to TA in 2024-5				
	Households in TA	Main duty households not in TA	General waiting list	Transfer list	Change for TA households since 19/20
a	48%	0%	43%	9%	13%
b	44%	6%	24%	26%	16%
c	35%	15%	N/A	N/A	16%
d	37%	N/A	N/A	N/A	-5%
f	47%	N/A	36%	17%	30%
g	74%	N/A	26%	N/A	17%
h	56%	0%	16%	28%	19%

Source: LSE survey of eight London boroughs. "NA" indicates only partial information was provided

All but one borough has seen a significant increase in the proportion of allocations going to households in TA. This better enables authorities to move such households into long term stable housing which can better help meet their needs and provide a higher quality and stability of life. However, it also reduces the chances of securing a social tenancy for other qualified households who are not homeless.

In our interviews several boroughs said they had revised their council housing allocations policies to increase the proportion of vacancies going to households in TA. This has the benefit of reducing the number of households living in TA which is financially desirable. However, it also means that other households on the social housing waiting list are less likely to be housed. Equally it can have perverse incentives in that some households may be motivated to meet the TA criteria as a route into social housing.

Not only do we have a higher council homes stock (through purchasing ex-RTB properties), we also have now moved to 65% allocations of that stock to TA households. (Inner London borough)

So we've just revised our allocations policy this year. It will be 80% [going to TA households] This is the first time ever we are going to those levels. I think in previous years we didn't really set any target. ... It's targeted so we can move a number of households...through that route into social housing and try and reduce our costs that way. (Outer London borough)

Equalities implications

Most households in TA have very low incomes and many have one or more protected characteristics. The makeup of households in TA differs from that of the population as a whole. Table 9 compares the ethnic makeup of TA households in London (where known) from MHCLG figures with GLA data on the ethnicity of London households overall. and comparing these proportions of TA households to the overall London population by ethnicity shows a significantly later group of Black / African / Caribbean / Black British TA households:

Table 9: ethnicities of ta households in London vs overall London population. 31 march 2025 / 2021 census

Ethnicity	TA households*	All London population
White	28%	54%
Black / African / Caribbean / Black British	36%	14%
Asian / Asian British	19%	21%
Mixed / Multiple ethnic groups	7%	6%
Other ethnic groups	11%	6%

Source: LSE London analysis of data from MHCLG live tables and census data from GLA London Datastore

*MHCLG figures adjusted for 'not known'

Per MHCLG statistics (live table TA2, figures as of 31 March 25), some 35% of London households in TA were single mothers with dependent children and a further 3% were single fathers with dependent children. This was a much higher proportion than in the population of London as a whole, where 22% of households had dependent children according to the 2021 census.

New approaches and options for reform

The boroughs in our detailed review of TA show considerable skill and initiative in addressing the quality and financial challenges of managing TA. This is hardly surprising given the risks it poses to their financial stability (including the possible triggering of Section 114) and council members' deep concerns about growing TA losses.

Boroughs have adopted several approaches to try to mitigate the greatest harms - both financial and to TA residents - from the cost vs income gap. Some approaches reflect the political decisions of elected councillors. In each borough the range of possible options depends on context, including the characteristics of the local private rental market, the demographic profile of households presenting (e.g. single person households vs families with school-age children) and the availability of capital funding from asset sales or grant. Borough resilience is further conditioned by their wider financial position and by constraints on the use of revenue and capital funding.

Examples of borough innovation

Purchasing housing for use as TA, or repurposing non-residential buildings

Several boroughs have begun to purchase property (often former council stock purchased under the Right to Buy) specifically for use as TA. Some of these purchases have been facilitated by central government grant.

What we're trying to do is buy as many ex-Right to Buy properties to reduce the loss. Let's be quite frank about that...that's our ambition... Over 600 properties have been purchased since 2018, which again doesn't necessarily mean we have solved the issue, but it means we have put people in cost neutral accommodation to us. So our costs are relatively lower than other boroughs for any size of the homelessness population. (Inner London borough)

Purchasing property for use as TA can benefit residents because the council controls the quality. The council avoids paying large amounts to private landlords. In addition, boroughs can claim higher levels of subsidy for rent rebates awarded to residents, which are not subject to TA LHA rules.

(I)f we are the landlord, and we own the property, then there is no cap on the housing benefit side. So with some of our acquisitions, we are relying on... grant funding that's come from central government which comes with a memorandum of understanding that the Secretary of State waives the rent standard

requirements and allows us to apply temporary accommodation exemptions to charge a higher rent. (Outer London borough)

The accommodation we are purchasing is of very high quality... Loads of boroughs do this of course, you know, acquiring stuff. What you try to acquire is ex-Right-to-Buy stuff so it's in a council block anyway and you're buying it back. (Inner London borough)

Properties purchased in this way are not necessarily within the borough itself. The trend for out-of-borough purchasing had accelerated in the last few years. This raised concerns about the effects on housing markets in the receiving authorities and about the effects on residents who were moved far from their social and support networks.

We're now starting to buy and long lease accommodation in other boroughs for TA, which is something we've never done before.... Now we have lots of London councils that are purchasing properties both in their borough and other boroughs. How do we know we're not driving the price up and we're not chasing the same property? Because I believe a lot of times we are, but we don't know it. (Inner London borough)

Some boroughs have repurposed council-owned non-residential buildings for use as TA or worked with nonprofits to do so. This can include unused commercial units that can be cost effectively converted into high-quality new affordable homes. This could be done by either the borough itself or as part of a wider programme of stimulating private investment in office conversions into homes.

We do look at our assets to see if they can be repurposed for our own services and then there is an...options appraisal to say which option gives us the best outcome. (For example) selling it would reduce our debt and our interest payments and our minimum revenue provision payments have come down. But then if we can repurpose it for, say, temporary accommodation, does that give us a better return than just simply selling it? So we do that where it's applicable. And currently we've been looking at some of our old office blocks that we don't need, to see if they can be repurposed for a children's care home, an extra care scheme or even for temporary accommodation. (Outer London borough)

Use of long leases so different HB rules apply

Long-term PRS leases have long been and still are generally considered the most cost-effective and low-risk way to procure TA properties, at least in London where demand is consistently high. However, the proportion of TA properties held under long-term lease has been falling as landlords have found it more lucrative to charge by the night, as set out above. Nevertheless, in our interviews we found a division of opinion about the desirability of long leases. Some authorities were very positive, while others said

that entering into such a long-term agreement posed risks for boroughs as well as for landlords.

Most of the stock that we currently have are on short leases directly with landlords, in which case we are stuck with the 90% of 2011 rate levels. Part of the challenge is with those private sector landlords...we don't want to be tied into a long-term arrangement on a very expensive rate (as) commercially that would be quite detrimental for us. And so we're kind of stuck in this situation where we are having to do short leases. (Outer London borough)

Some authorities are trying to move to leases long enough that the properties fall outside the subsidy regulations for TA. This would allow the authority to increase the amount of HB subsidy claimed on these properties.

This is a grey area in the legislation and legal experts have different views about how long the leases must be to qualify. At least one borough has received legal advice saying properties that were used for 'temporary social housing' and were leased from an RSL or private landlord on a lease or licence with a term of between 2 and 30 years would be exempt from the TA HB subsidy rules - if used for households for which the authority has a duty under Part 7 of the Housing Act 1996. Other authorities have been advised that the leases need to be at least ten years and one day long.

We're also looking at all our other leased accommodation, TA accommodation that is under 10 years, so we took legal advice and basically the legal advice we got was that any leases that are over 10 years and a day... won't lose as much housing benefit subsidy. (Inner London borough)

The cheapest way of procuring (TA) is to do it on a lease of over 10 years. You're still going to pay 160% of LHA to begin with and you cross your fingers and toes and everything else, and hope that at some point local housing allowance will go up. And (that) it will go up by a bit more than inflation. (Outer London borough)

Out of borough placements

An increasing number of authorities are using out of borough placements to reduce costs and meet demand for both TA and more permanent move-on accommodation. Such placements could be in neighbouring boroughs with cheaper accommodation, but increasingly are outside London entirely.

Prior to last year, I think predominantly we wanted to keep people within [borough]. It's just not sustainable, not affordable. So in the last year we took a placements policy through cabinet, which means we can go as wide as possible. Now we can go literally anywhere in the country, subject obviously to a suitability assessment of that household. And we have started doing that. We have started

accessing accommodation outside London probably for the first time. Our temporary accommodation portfolio at the moment (is) about 65% in borough. Another maybe 20% are in the neighbouring borough, so we haven't really been going outside of London. We're just starting that, but the numbers are still small. (Outer London borough)

Well, it's increasing the number of out of borough placements. And obviously, you know, we don't want to be a service that's moving people here, there and everywhere, these are our borough's residents that are coming for assistance and we don't want to be having to say: How would you find Nottingham or Llandudno?... You know, it's not what we want to be doing. (Outer London borough)

Two years ago, we introduced our national placement policy, and we place people all over the country now. I think the furthest we've gone is Gateshead. So we really do place anywhere and everywhere. It's anywhere we can secure something that is affordable and of decent quality. (Outer London borough)

There are drawbacks, as the quotes suggest. Homeless households may well prefer not to move away from their local communities, families, schools and roots; and homelessness legislation places considerable limitations on out of area placements. Some of the London boroughs most impacted by placements out of borough have taken steps to address some of the negative aspects. This includes the Pan-London Inter Accommodation Agreement (IBBA)⁸ which sets out best practice and procedure on out of area placements, reflecting legislation, statutory guidance, and wider good practice, and also the more general guidance on ensuring the appropriateness of TA *Setting the Standard*⁹. These have become harder to sustain in the face of market pressures. In addition, the authorities in destination areas may find it difficult to absorb and support new residents with no local ties. Out-of-borough TA placements also reduce the stock available for the receiving authority, and it is not only London authorities that need to procure TA: councils outside the capital have their own needs as well.

⁸ See <https://www.local.gov.uk/publications/local-government-out-area-placements-guidance>

⁹ See https://commissioningalliance.co.uk/wp-content/uploads/2022/03/StS-documents_LAs-Info-FINAL.pdf and <https://commissioningalliance.co.uk/setting-the-standard/>

Possible policy changes to address the situation

This section puts forward some potential policy changes that could increase the value for money and quality of TA and reduce financial pressures on local authorities.

Amend HB award and HB subsidy arrangements

Perhaps the simplest short-term change, and one which local authorities have long advocated, would be to increase the TA HB subsidy to current LHA rates. Raising the TA HB subsidy rate to current LHA would increase the funds coming into authorities and would cover the formal TA subsidy gap. As this report makes clear, however, the formal subsidy gap is only part of the problem: the bigger issue is that most TA is supplied by private landlords who charge rates well in excess of current LHA.

There is a separate argument, also advanced by many housing experts, for increasing the general LHA rate as it applies to mainstream PRS homes. In London in particular there are very few properties available with rents at or below LHA. The problems caused to low-income renter households by this situation are well-documented: they face financial stress and are at risk of homelessness if they cannot cover the shortfall, and, in the worst cases, households may shuttle between the PRS and TA.

Provide capital funding to increase the supply of social housing

Current government policy recognises the need to expand the supply of homes generally¹⁰ and affordable housing in particular. Several boroughs have taken initiatives to deliver more new homes and/or more affordable homes to rent, including units for use as TA. Actual or potential approaches include:

- Setting up local-authority-owned housing companies that buy or build units for use as TA, which can eventually be used as mainstream social housing once homelessness demand declines
- Accepting leases of 10+ years for privately owned units, which are then treated legally as local authority property. This means that the tenant HB rebates can be fully subsidised
- Converting unused borough-owned non-residential properties to affordable green homes
- Buying back ex-RTB properties
- Systematically using boroughs' own long-term vacant HRA stock (eg units vacated in advance of regeneration) for TA

¹⁰ <https://www.gov.uk/government/news/housing-targets-increased-to-get-britain-building-again>

- Act as landlord for homes that are not social housing through the General Fund.

Providing capital funding for boroughs to build or acquire additional homes improves the amount and quality of TA and delivers better value for money than paying very high amounts to private landlords. This serves to provide improved experience and outcome for homeless households. In the long term the units could be repurposed as affordable permanent homes, helping to contribute to longer term supply and government housing targets. Government initiatives such as the Local Authority Housing Fund have been successful in delivering these outcomes, but their scale is nowhere near enough to meet demand.

Confirm the legal permissibility of promising innovations

In addition to capital funding, authorities need official confirmation that they are permitted to engage in these activities without putting themselves at risk of subsequent legal challenge or attempts to recoup HB subsidy. More widely, innovation could be unlocked if there were definitive guidance in areas where the legal situation is currently unclear. The main questions are around the use of long leases and directly owned council properties used as TA to access different HB rules. Confirmation is required that the activity is allowable in principle, and about the length of lease required to qualify for the different regime.

Improve information collection about the cost of TA

Above we have noted the importance authorities give to good management of TA and the use of real time data. In contrast The RO4, which provides the data that central government relies on to track the cost of TA, is not well suited to this purpose, despite being an important element of the allocation of monies to support homelessness and TA functions. Local authorities themselves make little or no use of the information, instead relying on their own more detailed management information systems. The urgency and depth of the current crisis mean it is essential for decision makers, both at national and local level, to have detailed, timely and consistent information about TA-related expenditure and income. A review should be conducted of the RO4 returns to determine whether and how they could be improved to provide better information for government.

Conclusions

General tensions

The private rented sector in London is becoming more expensive and more difficult to access, not only for councils looking for TA but also for mainstream tenants. This in itself is leading to more homelessness. The phenomenon is not confined to inner London; rents in the outer boroughs and the home counties are also increasing and there is an overall shortage of supply.

Young people in overcrowded family homes are expected to leave home but often are unable to find housing they can afford. Hostel accommodation suitable for such individuals has become more expensive and difficult to access. The result is that almost all boroughs – including those in parts of outer London that were traditionally more accessible – are finding it harder to accommodate additional households. The pressures in London are pushing up costs across the capital and in authorities well beyond its boundaries.

Reaching crisis point

DWP has for many years paid less than the full cost of TA, so there has almost always been a difference between revenues from government and the cost of accommodation with the residual being borne by the local authority. The 2011 rule change acted as a wedge to drive an increasing gap between costs and income. The limit of 90% of January 2011 LHA rule has now been in place for 14 years, during which period rents to landlords have risen steadily. Particularly for this reason, the boroughs have to contribute increasing amounts. The costs of dealing with homelessness were manageable some years ago but are now the single biggest threat to the financial security of London boroughs.

Shortfalls are covered by boroughs' general funds, and most of that money comes from council tax. The average cost of the income/cost gap is £211 per year per London household. Most of this money goes to private landlords for accommodation that is too often of poor quality and represents very bad value for money.

Whilst DWP may have the view (valid or otherwise) that freezing LHA levels for PRS lettings helps to limit rent inflation, the same cannot be argued for TA Subsidy. As explained above, the HB arrangements and legal responsibilities on local authorities mean that the landlord is distanced from amounts charged and recovered, and in a heated market the local authority has no choice but to pay the asking price. The TA subsidy freeze does not encourage lower charges. Increasing TA subsidy would have

no impact on landlord profits, but it would help boroughs to recover more of the costs they are required to pay.

The TA Subsidy rules force all councils to focus on a very small, cheapest and poorest quality part of the lettings market. That competition probably inflates this bottom sector of the market and provides no incentive to improve standards because authorities cannot afford under the current arrangements to go elsewhere. If HB subsidy rates were raised, this could have the result of increasing market competition on rent levels by widening the pool of properties that are available. This would give councils more choice, and therefore more leverage to raise standards in this poor-quality bit of the market.

Wider impacts

The current crisis of unfunded TA costs affects all local authority services, both statutory and non-statutory. There is simply less money available to spend on the things that local authorities do, including providing leisure centres and sports facilities, community lunch clubs, children's centres and advocacy services. The reduced availability of such services is likely to affect low-income households most heavily and may well have equalities implications by having a disproportionate negative impact on several of the protected groups.

The current funding model drives the use of poor-quality TA. The TA HB subsidy cap makes longer-term financial models for TA, such as leasing and acquisition, difficult for many authorities to pursue. Councils may have no option but to use nightly paid accommodation, strengthening the market position of the landlords who provide it.

Long stays in TA are deleterious for residents, especially for the 66% in London who have children. It is well documented that lengthy stays in TA, especially if it is overcrowded and/or of bad quality, harms children's development, health and wellbeing. These adverse effects increase demand for public services such as healthcare and can affect educational costs and outcomes. There are also equalities implications: households in TA are some of society's most vulnerable and many have multiple protected characteristics.

Current HB rules and their interaction with TA rents often generate a perverse incentive for households to remain in TA, as their overall housing costs are lower than they would be in the PRS – which may also be of worse quality.

Local authority responses

Local authorities can and do try to charge TA households for their accommodation, but the amount such households can pay is very limited. Many boroughs are

Increasing the use of their own stock for TA; in some authorities up to 90% of vacancies in council housing go to households in TA. This means however that other households on the social housing waiting list have to wait a lot longer.

Many authorities have been experimenting with novel ways of acquiring, owning and managing housing for use as TA. Their aims are twofold: to increase their control of the TA stock, so as to ensure better quality, and to reduce financial pressures. Some of these approaches fall into a legal grey area and many boroughs are understandably reluctant to risk possibly breaching the rules. A clear statement about what methods are and are not allowable would help.

Boroughs can sometimes reduce costs by procuring out of borough accommodation but there are limits to what is possible and elected members often wish to meet needs locally. There are trade-offs (not examined in detail in this report) between keeping households in London at high cost and sending them a long way away. Each borough makes its own decisions, and the budgetary impact is only one of the factors considered.

Policy recommendations

In the short term there is a critical need for funding to prevent further financial collapse amongst London boroughs. Longer-term solutions should centre on capital funding for permanent new supply. Government should consider:

- Raising the TA HB subsidy rate to current LHA rates and allowing it to change with that underlying rate
- Funding a crisis package to help boroughs at most risk of financial collapse
- Providing capital funding for boroughs to build or acquire additional homes, which would improve the amount and quality of TA available and deliver better value for money
- Confirming that properties owned by Councils or leased for long periods fall under a different HB regime, and clarifying the length of lease required to qualify
- Confirming that councils can own and manage homes that are not social housing through the General Fund.
- Reviewing the R04 return system to determine whether and how it could be improved to provide better information for government.

Annex A: Detailed methodology

Preparation: Literature review, data audit, engagement with national stakeholders

We conducted a short, focused review of policy and academic literature on the cost of TA and specifically on the TA subsidy gap. We looked mainly at material from the last five years, a period during which the problem has become much more acute.

We carried out a data audit to identify and collate relevant secondary data to understand what they tell national government about local authority expenditure on TA and receipts from TA subsidy. Official national sources include the Homelessness Case Level Information Collection (H-CLIC) for numbers of households in TA, and Revenue Outturn 4 data for local authority expenditure on homelessness and TA.

We also held background discussions with relevant officials in both DWP and MHCLG to learn more about the origins of the TA subsidy policy and what they would regard as a helpful contribution to the debate around possible policy changes.

Empirical work: Interviews, round table, case studies, collection of financial data

We carried out a programme of empirical work that included interviews, round tables, case studies and collection of financial data from boroughs. In discussion with London Councils we agreed a purposive sample of local authorities that included both inner and outer London boroughs that employ a range of approaches to the location and type of TA used. We collected both qualitative and quantitative data collection from all of them.

We began by conducting interviews with a subset of the sample authorities. The original aim was to speak to about five; in the event we spoke to almost all. In each we tried to speak to officers from both the housing and finance departments. The interviews explored the effects of the subsidy gap on borough finances, on the characteristics of TA used, on resident experience and on other borough services. We also discussed the use of funds from the Homelessness Prevention Grant.

In parallel we asked boroughs to provide copies of any publicly available information about the magnitude of the TA subsidy gap in their authority and its effect on borough finances and services. A number of authorities provided information in the form of papers prepared for committees of elected members or for senior management teams; presentations to outside audiences; and internal documents that contained relevant information.

The Excel survey questionnaire and analysis of financial information are described in the main report.

Annex B: Background

Local government powers and finance

The financial impact of TA has become increasingly burdensome for local authorities. Although some costs are offset by government subsidies, grants, and housing benefit reimbursements, councils are responsible for covering any expenditure which is not covered by these other sources. These shortfalls are placing serious pressure on local budgets¹¹.

Local authorities have limited revenue-raising powers: most of their funding comes from council tax, but central government limits the allowable annual increase in this tax. A further 20% or so of council income comes in the form of grant from central government, some of which is hypothecated or ring-fenced for certain activities. The main homelessness-related grant is Homelessness Prevention Grant which until 2024/25 was ringfenced for homelessness activity though not exclusively for prevention. Now the TA element is being rolled into an un-ringfenced General Fund allocation, with prevention funding remaining ringfenced.

Unlike central government, local authorities cannot borrow to finance revenue expenditure. Councils are legally required to set a balanced budget, and persistent deficits due to the TA subsidy gap may contribute to projected spending in excess of a council's expected income. When this happens, a council is obliged to issue a Section 114 notice. According to the House of Commons Library, between 2018 and 2023, seven councils in London issued such notices.

English local authorities manage two main revenue accounts: the General Fund and the Housing Revenue Account (HRA). The General Fund covers the bulk of local government's day-to-day financial activity, while the HRA is ringfenced for transactions related to council-owned social housing stock. Councils can own homes that are not social housing through the General Fund. Because most TA is in the private sector the related income and expenditure appear in the General Fund. This structural separation means councils cannot cross-subsidise TA costs using HRA income. It also means that any overspend on TA affects the General Fund budget available for other council activities, including other statutory services.

¹¹ Hastings (not a London borough), which in 2023 reported it was nearing the point of issuing a Section 114 notice, spent nearly half of its core budget on temporary accommodation in the 2022/23 financial year.

Councils must distinguish revenue expenditure (rental payments, service costs) and capital expenditure (such as purchasing properties for use as TA). Receipts from asset sales are typically earmarked for capital use and cannot be used to fund TA subsidy shortfalls.

The Housing Benefit system

Housing benefit (HB) is a means-tested payment intended to help meet the housing costs of low-income working age renters, and was one of a number of separate benefits that from 2013 have been progressively merged into a single payment called Universal Credit. Almost all benefit recipients renting mainstream housing now receive Universal Credit rather than a separate payment of housing benefit, but TA residents remain eligible for Housing Benefit (HB) under the legacy system (even if they are otherwise subject to Universal Credit). In most cases TA residents receiving HB have their housing costs (that is, the rent or license charges levied by the local authority for the TA accommodation, which may be less than the cost to the authority of securing the accommodation) covered in full.

Regardless of the actual rent paid by the benefit recipient, Housing Benefit payments are limited to the Local Housing Allowance rate. In response to unsustainable increases in HB expenditure, a new Housing Benefit scheme was first announced in 2010. It took effect in April 2011 and applied not just to TA but to all HB claims. The main changes were to cap LHA at the 30th percentile of local rents (it had been set at the 50th centile) and to reduce the maximum property size band for LHA to four bedrooms from five. The relevant LHA rate depends on the number of bedrooms the household is entitled to (from shared accommodation up to four bedrooms). Rates vary by the location of the rented property, with 152 Broad Rental Market Areas in England. LHA rates were for a period updated annually but have been frozen since April 2024. They are meant to represent the 30th centile of the local market rents at that time.

DWP holds the budgets for HB and pays Universal Credit but local authorities administer—and award —Housing Benefit to eligible households in TA. Some working households in TA contribute to their rent from earned or other income and sources. TA residents in principle pay rent to the local authority but in practice those receiving full HB do not see the funds; the award of HB made simply becomes the legal basis for a claim for HB Subsidy payments from DWP.

Different rules may apply when the council houses TA residents in its own stock. For social housing owned within the HRA, all costs and income (including 'rent rebates', which are equivalent to Housing Benefit for residents in private sector accommodation) must be accounted for within the HRA. For council housing let on standard tenancies to non-TA tenants, LHA rates do not apply in the same way because of government restrictions on the levels of social housing rents perform a similar function of controlling costs. Increasingly authorities are acquiring homes outside the HRA, including by borough-owned housing companies or leased on longer leases, to use as TA. This is set out in more detail in the main report.

Specific subsidy rates for TA

LHA rates for mainstream claimants have been frozen since April 2024, but for TA residents the rates have been frozen for 14 years, at 90% of the 2011 LHA rate. Before the 2011 HB reforms, local authorities received full current LHA for all TA units, plus an administration fee of £40/night.¹² However when consulting on the changes DWP said there was evidence that some authorities had effectively been making a profit from TA, attracting surplus HB subsidy revenues by charging higher rents than were necessary.¹³ The TA subsidy limit introduced in 2011 was meant to change that incentive structure and encourage local authorities to move households on faster.

The DWP recognised that the change would affect local authority finances but believed that councils would be able to mitigate any negative effects and/or that the change would cause landlords to reduce the rents they charged.

(The reduction in HB subsidy) will encourage local authorities or housing associations to look at ways of reducing costs in line with the new subsidy rates, which may lead to reduced rents for the household. If costs remain above the maximum level of Housing Benefit subsidy, local authorities would have to meet the shortfall, or consider relocating the household. Overall the Department expects there to be a reduction in Housing Benefit expenditure on cases affected by the extension of the Local Housing Allowance-based scheme from April 2011.¹⁴

¹² In 2017 the management cost element was removed from the TA subsidy.

¹³ <https://assets.publishing.service.gov.uk/media/5a748f3ee5274a410efd090b/hb-subsidy-temporary-accommodation.pdf>

¹⁴ Ibid

Benefits were anticipated in terms of lower DWP spending but there was no detailed examination of anticipated detriment to local authorities.

The change was introduced when the number of households in TA was low. According to the DWP consultation at the time the fix was intended to last only until the end of March 2013 - not for more than 14 years.

A graphic representation of the flow of payments

The following figures show, in simplified form, the main flows of TA-related funds into and out of local authorities. Two cases are shown: the case where households receive HB that covers all of their rent (the most common), and the case where the household makes a contribution to the rent of their TA unit.

Figure 1: how TA is paid for: household receiving full HB

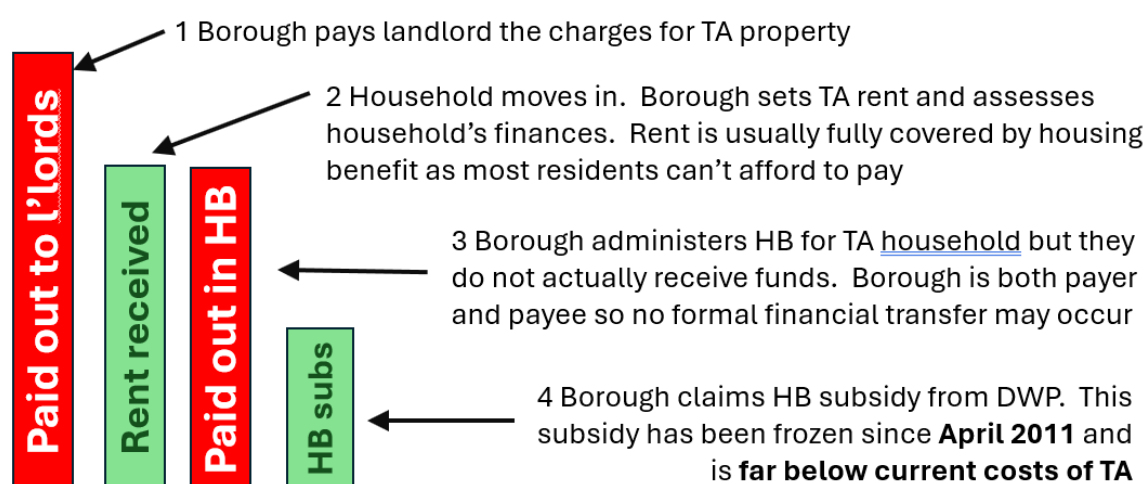
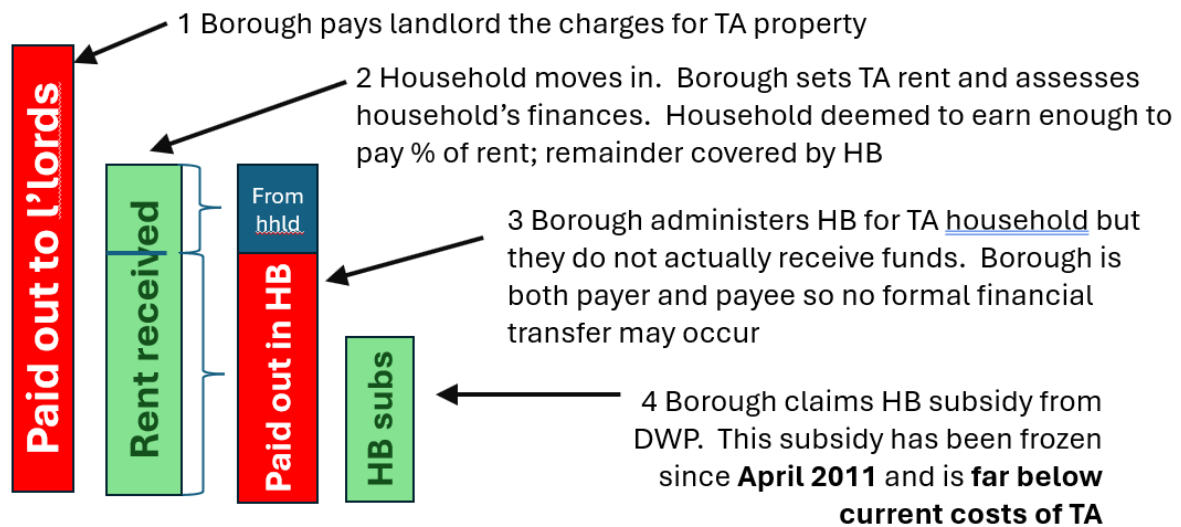
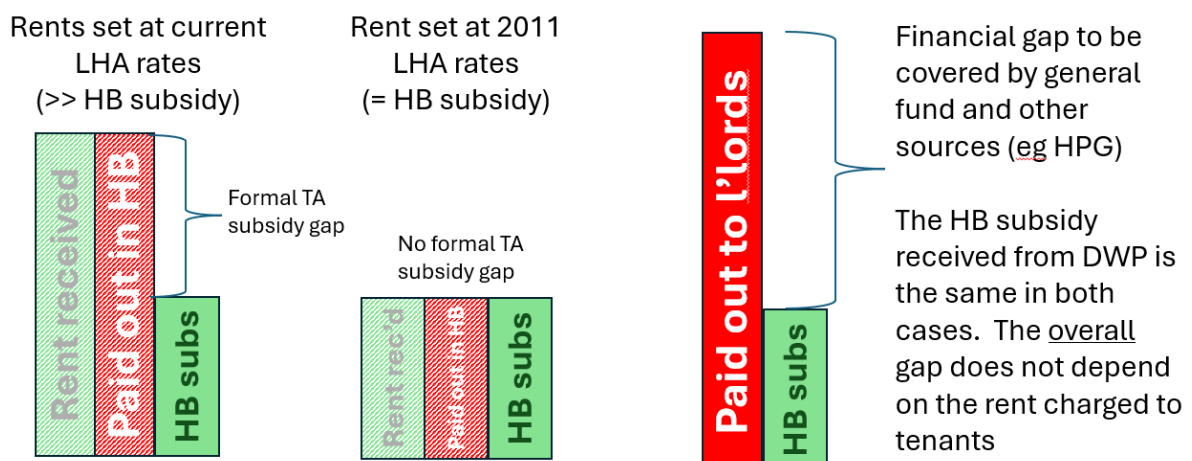


Figure 2: how TA is paid for: household makes a contribution to the rent



Local authorities are free to set the rents they charge to households in TA. Some authorities set rents at the level that DWP will reimburse. Some charge rents at the current LHA rate, and some may peg rents to average rents for social housing, sometimes in the expectation that the households in TA would be able to contribute more from their incomes. In all cases the rents are higher than the frozen TA HB subsidy rate. Rent setting decisions may affect the formal TA subsidy gap but have little impact on the overall gap between expenditure and income, as Figure 3 shows.

Figure 3: rent setting policies and the formal TA subsidy gap






Annex C: Glossary of acronyms and terms

Acronym/ term	Stands for	Comments
B&B	Bed and breakfast	Bed and breakfast – the property is privately managed; facilities (bathroom and kitchen) are shared with other households and/or there is no access to cooking facilities.
DHP	Discretionary Housing Payment	Payment by a local authority to support rent payments by households entitled to housing benefit or the housing costs element of Universal Credit. Can cover a range of costs including shortfalls due to the benefit cap or LHA rates, or rental deposits or rent in advance.
Direct offer		When the council finds a permanent home for an applicant. The council may discharge its homelessness duty to a household that refuses a suitable direct offer.
DWP	Department of Work and Pensions	Central government department responsible for the delivery of welfare benefits, including the TA HB subsidy housing to local authorities where they directly fund specific types of temporary accommodation.
General Fund		The council's main revenue account which handles day-to-day income and expenditure.
HA	Housing association	A private, usually non-profit social landlord.
HB	Housing benefit	Legacy benefit for housing costs, which has been replaced for new cases by Universal Credit. HB is a means tested social security benefit which helps meet housing costs for rented accommodation. HB is administered by LAs with the cost subsidised by DWP. Many households in TA are in receipt of HB. The amounts are based on the rent and household income and other circumstances. In the case of TA the amount paid is not limited by the LHA. See Annex B.
H-CLIC	Homelessness Case- Level Information Classification	Data system for monitoring details of households who apply to local authorities as homeless and are dealt with under the provisions of the Homelessness Reduction Act 2017. It replaces the previous form for collecting similar information, the P1E.
HRA	Housing Revenue Account	The ring-fenced account for the income (e.g. tenants' rent) and expenditure (e.g. property management and maintenance) related to a local authority's own social housing stock.
HRA	Homelessness Reduction Act (2017)	Introduced on 3rd April 2018, the HRA placed new legal duties on local authorities that give everyone who is homeless or at risk of homelessness access to guidance and a housing plan to assist in finding housing, irrespective of their priority need status, as long as they are eligible for assistance. Those in priority need are also assisted with temporary accommodation.
LA	Local authority	The local authority is responsible for accommodating households accepted as homeless and for carrying out activities that aim to prevent homelessness.
LHA	Local Housing Allowance	The maximum private rent eligible for the housing cost element of Universal Credit in broad rental market areas as calculated by DWP. Having been frozen for several years, in April 2024 LHA was re-aligned to the 30 th centile of local rents for the relevant number of rooms.

Main duty		A local authority has a 'main' homelessness duty towards applicant who is unintentionally homeless, eligible for assistance and in priority need. Per HRA 2017, households are only owed a main duty if they did not secure accommodation in the prevention or relief stage.
MHCLG	Ministry of Housing, Communities and Local Government	The government department in charge of housing and homelessness policy.
Prevention duty		Under HRA 2017, activities aimed at preventing a household threatened with homelessness within 56 days from becoming homeless. Includes activities to help applicants to remain in their current homes or find them alternative accommodation. Duty lasts for up to 56 days but may be extended.
PRS	Private rented sector	Privately owned and rented accommodation, often used for TA. May be leased by the local authority or paid for by the night.
Relief duty		Under HRA 2017, a relief duty is owed to households who are already homeless on approaching a LA and who require help to secure settled accommodation. The duty lasts 56 days and can only be extended by a local authority if the household is not owed main duty.
Rent rebate		Technical term for housing benefit paid in respect of accommodation owned by a local authority through the Housing Revenue Account.
RO	Revenue Outturn	A set of annual financial returns submitted by local authorities to central government reporting expenditure in each service area.
RO4	Revenue Outturn Form 4	Revenue Outturn return that covers housing services including temporary accommodation and prevention.
S114	Section 114 notice	A report issued by a local authority's chief finance officer indicating that the council expects its expenditure to exceed its income.
TA	Temporary Accommodation	Accommodation provided by local authorities where they have a duty to house eligible households who may have priority need either on an interim basis (pending assessments decisions, reviews or whilst seeking to relieve homelessness) or because they are owed the main duty. For those owed the main duty, accommodation must be secured until that duty ends, which is usually through an offer of settled accommodation.
TA subsidy gap		Formally, the difference between the amount that a local authority claims from DWP in respect of HB paid to households in TA and the amount they receive from central government through TA HB subsidy. The latter is limited to 90% of the 2011 LHA rate, which is now significantly less than authorities must pay in rents and charges. Informally the term may be used to describe the <u>full</u> gap between an authority's expenditure on TA and TA HB subsidy received, which is often much larger. See Figures 1-3 of Annex B.
UC	Universal Credit	The main state benefit for low-income working-age households in the UK. Introduced in 2013, it combined six benefits including housing benefit. However, many households in temporary accommodation receive payments under the previous housing benefit regime or have been transferred back to it.



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