Executive summary

Since 2010-11 government funding for local authorities has fallen by almost 50%. This has severely impacted on local authorities’ ability to prevent and relieve all forms of homelessness. Between 2008-09 and 2017-18 local authority spending on homelessness services fell by 27%.

This loss of funding has impacted disproportionately on certain areas of homelessness-related expenditure, specifically provision for single homeless households. By single homeless households, The Salvation Army (TSA) means single people or couples without dependent children. By contrast, in using the term homeless households, TSA means single people or couples with dependent children.

This disproportionate loss of funding for single homeless households is best represented by a reduction in spending on housing-related support, previously financed through the former Supporting People programme.

Between 2010-11 and 2017-18, spending on the former Supporting People programme fell by 69% (from £1.44bn to £444m). Much of this previous spend is now being used to fund local authorities’ increasing reliance on temporary accommodation as a means to fulfil their legal responsibilities to homeless households who are assessed as being in ‘priority need’ of assistance. Between 2010-11 and 2017-18, spending on temporary accommodation rose by 59%.

The introduction of the Homelessness Reduction Act (HRA) has seen the number of households presenting to their local authorities as homeless increase. Due to a lack of new burdens funding, local authorities have been forced to increase their use of temporary accommodation to manage this further increase in demand.

Other than being able to satisfy their relevant legal obligations, local authority spending on temporary accommodation brings little lasting benefit. By contrast, the former Supporting People programme generated net savings of £3.4bn per year against an overall investment of £1.61bn.

In an effort to provide new financial resources to tackle homelessness, the Government has invested £1.2bn over the current spending review period. However, with a funding gap of over £5bn having opened up since 2008-09, this investment represents a mere fifth of what has been lost.

The National Audit Office (NAO) has raised concerns that the Government’s current approach to investment in homelessness cannot be deemed value for money, as there has been little oversight on how the money has been spent and the outcomes achieved as a result. The Public Accounts Committee raised a similar concern during a recent inquiry into homeless households.

The impact of the overall reduction in spending on homelessness-related activity by local authorities, as well as the redirection of remaining resources towards temporary accommodation, has been significant. Since 2010 incidences of rough sleeping have increased by 165%. At the same time, the number of available bed spaces has reduced by 30%. This means that the current system of accommodation-based support simply cannot assist many single homeless households.

Worryingly, there is reason to believe that upcoming reforms to the system of local government finance, including the outcome of Fair Funding Review, may exacerbate rather than relieve these issues.

1 NAO (2018), Financial sustainability of local authorities 2018, Key Facts
2 WPI Economics (2019), Local authority spending on homelessness: Understanding recent trends and their impact. This report is forthcoming and will be published in full on 24 April 2019.
3 NAO (2018), Financial sustainability of local authorities 2018, p. 30
4 LGA (2018), Homelessness Reduction Act Survey Report 2018, Executive Summary
5 Capgemini (2009), Research into the financial benefits of the Supporting People Programme, Executive Summary
6 WPI Economics (2019), Local authority spending on homelessness: Understanding recent trends and their impact. This report is forthcoming and will be published in full on 24 April 2019.
7 NAO (2017), Homelessness, Executive Summary
8 House of Commons Committee of Public Accounts (2017), Homeless households, p.9
10 Homeless Link (2018), Support for single homeless people in England: Annual review 2017
Recommendations

In order to reduce local authorities’ reliance on temporary accommodation to discharge their homelessness duties, the Government should use the Comprehensive Spending Review (CSR) to:

- invest in the delivery of a substantial number of new homes for social rent. Recent estimates suggest that the Government should aim for the delivery of at least 90,000 new homes over the next 15 years;\(^1\) and
- increase the value of Local Housing Allowance rates to at least the 30\(^{th}\) percentile of local rents. This move should be funded through the additional savings that the Government has made from the current freeze to working age benefits.

To improve local authorities’ spending power in relation to homelessness, the Government should use the CSR to:

- provide a new long-term programme of investment, which local authorities can use to define local approaches to homelessness in a clear and consistent manner. Based on forthcoming research by St Mungo’s and Homeless Link, this programme should be worth £1bn per year if the Government is to have any chance of reaching its manifesto pledge of ending rough sleeping by 2027;
- ensure that any additional funding reaches its intended target. This should be achieved through the inclusion of a funding ring-fence and/or a clear requirement for local authorities to provide in-depth reporting on how the money has been spent and how this has helped to achieve their own homelessness and rough sleeping targets, as well as the Government’s; and
- offer greater investment for the HRA based on a clearer assessment of current and future demand. The Ministry for Homes, Communities and Local Government (MHCLG) should base any request for additional funding on a thorough assessment of H-CLIC data.

To ensure that local authorities’ funding needs in relation to homelessness are assessed correctly, the Government should use the CSR to:

- prompt further consideration of how any additional funding will be distributed once the Fair Funding Review is concluded. Given the significant costs of homelessness per person, homelessness should be provided with its own funding formula, which fully recognises its unique cost drivers, including deprivation.

What lessons can be learned from past changes to local government funding in England, the current financial situation of councils, and how this has affected their ability to deliver services.

There can be little doubt that the local authorities’ present financial situation is perilous. Since 2010-11, government funding for local authorities has fallen by almost 50%. Once other areas of revenue generation, such as Business Rates and Council Tax, are taken into account, this equates to a reduction in local authorities’ spending power of 28.6%.\(^12\)

\(^{11}\) Glen Bramley (2018), Housing supply requirements across Great Britain: for low income households and homeless people. Foreword.
This loss of spending power has been especially stark in relation to local authorities’ efforts to tackle homelessness. Forthcoming research commissioned by St Mungo’s and Homeless Link reveals that local authority spending on all homelessness-related activity fell from £2.8bn in 2008/09 to just over £2bn in 2017/18, a decline of 27%. In total, over £5bn less has been spent on homelessness services compared to what would have been invested if funding had remained at 2008-09 levels.\textsuperscript{13}

The effect of this loss of spending is reflected in local authorities’ lack of confidence over their ability to meet the Government’s target of ending rough sleeping by 2027. According to the latest New Local Government Network Leadership Index, over 40% of respondents felt that their local authority was ‘unlikely’ or ‘very unlikely’ to meet this aim.\textsuperscript{14}

**An uneven impact:**

Whilst the impact of this loss of spending power has been widespread, certain areas of homelessness-related expenditure have suffered disproportionately. By way of an illustrative example, TSA would like to draw the Committee’s attention to the rise in demand for temporary accommodation and how this has affected other forms of provision, and in particular services for single homeless households.

According to the most recent quarterly statistics, published by the Ministry of Housing, Communities and Local Government (MHCLG) in December 2018, 82,310 households were living in temporary accommodation at the end of June 2018. This represents an increase of 71% since December 2010.\textsuperscript{15}

**Reasons for the increase in demand for temporary accommodation:**

There are a variety of factors, which have contributed to the increase in demand for temporary accommodation. One prominent factor is a reduction in the supply of genuinely affordable accommodation.

Responding to an investigation conducted by Inside Housing into the costs of temporary accommodation, Newham offered the following insight:

“Soaring rents, a skewed housing market and stagnant wages are fuelling the housing crisis… In Newham we have lost 1,178 social rent council homes over the past eight years and it is one of the reasons why the number of genuinely affordable homes we have has declined dramatically. Until we can change that, we have little choice but to house our residents in expensive temporary accommodation, which is not ideal”.\textsuperscript{16}

It is also becoming increasingly difficult for households to satisfy their demand for rented accommodation. For example, the majority of the increase in statutory homelessness that has occurred since 2010-11 is due to a rise in the number of households made homeless from the private rented sector.

In 2010-11 the end of an assured shorthold tenancy (AST) accounted for 11% of all incidences of statutory homelessness. In 2017-18 the end of an AST was the cause of 27% of all cases, down from a peak of 31% in 2015-16.\textsuperscript{17}

In analysing this trend from a local authority perspective, the authors of the Homelessness Monitor 2018, which is commissioned by Crisis, recorded that:

“Most local authority survey respondents attributed this trend to the growing displacement of low income tenants in pressured markets, reflecting their declining ability to compete with higher income groups due to progressively tightening Local Housing Allowance restrictions.”\textsuperscript{18}

**The impact of the Homelessness Reduction Act:**

Recent changes to the law may also have inadvertently increased local authorities’ reliance on temporary accommodation to discharge their legal duties to prevent and relieve homelessness.

\textsuperscript{12} NAO (2018), *Financial sustainability of local authorities 2018*, Key Facts

\textsuperscript{13} WPI Economics (2019), Local authority spending on homelessness: Understanding recent trends and their impacts. This report is forthcoming and will be published in full on 24 April 2019.

\textsuperscript{14} NLGN Leadership Index: April 2019, pp. 11-12

\textsuperscript{15} House of Commons Library (2019), *Households in temporary accommodation in England*, p. 3

\textsuperscript{16} The cost of homelessness: Council spend on temporary accommodation revealed: https://www.insidehousing.co.uk/insight/insight/the-cost-of-homelessness-council-spend-on-temporary-accommodation-revealed-57720

\textsuperscript{17} House of Commons Library (2019), *Statutory Homelessness in England*, p. 11

\textsuperscript{18} Suzanne Fitzpatrick, Hal Pawson, Glen Bramley, Steve Wilcox, Beth Watts & Jenny Wood (2018), *The homelessness monitor; England 2018*, Executive Summary
The HRA came into force in April 2018 and imposed a range of new legal duties on local authorities. The introduction of the HRA was accompanied by new burdens funding from central government. Prior to the introduction of the HRA, local authorities raised concerns that this new burdens funding was not commensurate with the resource implications accompanying their new legal duties.

A year on from the introduction of the HRA, findings from the NLGN’s April 2019 Leadership Index indicate that 66.5% of respondents “disagree or strongly disagree that their council has sufficient funding to fulfil their new statutory duty to prevent homelessness.” Amongst London Borough and Metropolitan Borough councils, this increased to 86.4%.19

The Leadership Index also indicates that “There was a clear consensus among many respondents that the introduction of the HRA has contributed to rising demand for services.” Similarly, during a recent survey by the Local Government Association (LGA), 83% of respondents indicated that they had witnessed an increase in homelessness presentations since the HRA came into force. Of these respondents, 78% felt that this increase in presentations could be attributed directly to the introduction of the HRA.20

Crucially, the LGA’s survey indicated that 61% of respondents had been forced to increase their use of temporary accommodation in an effort to manage the increase in homelessness presentations. Just 8% of respondents indicated that their use of temporary accommodation had decreased since the HRA’s introduction.

Local authorities’ differing legal responsibilities to homeless households, as compared to single homeless households:

Due to the way the relevant legislation is constructed, local authorities are typically required to provide a more robust response to homeless households than to single homeless households. This is primarily due to the presence of dependent children. Under Part 7 of the Housing Act 1996, households with dependent children are automatically considered to be in ‘priority need’ of assistance.

The presence of ‘priority need’ is a trigger for the use of temporary accommodation. For example, if a household is in ‘priority need’, but further time is required to make a final decision on their homelessness application, they can be placed in temporary accommodation in the interim.

If a household is deemed to be in ‘priority need’ and unintentionally homeless, they will be owed the ‘main homelessness duty’. This includes a legal obligation for the local authority to source suitable accommodation to prevent or relieve their homelessness. If a household owed the ‘main homelessness duty’ cannot immediately be placed in suitable accommodation, the local authority can place them in temporary accommodation until a more sustainable solution can be found.

In both of the above examples, local authorities are effectively required to provide temporary accommodation to avoid being in breach of their legal obligations towards households that are in ‘priority need’, as well as those households that are owed the ‘main homelessness duty’.

By contrast, although local authorities will owe certain legal duties to single homeless households, these duties are lessened by the fact that they are less likely to be assessed as being in ‘priority need’ because they do not have dependent children. As a consequence, local authorities can usually discharge their legal duties towards single homeless households through the provision of advice and assistance, including the provision of a homelessness action plan for all eligible households, as mandated by the HRA.

Changes in spending:

The NAO has previously observed that the only real lever that central government has provided to local government to help mitigate their overall loss of funding is greater flexibility to decide how their remaining resources are spent.21 In practice, what this has meant is that funding has been redistributed from ‘non-essential’ areas of spending to an irreducible core of statutory activities.

As discussed in the previous section, the provision of temporary accommodation to homeless households can constitute a statutory activity. As result, its provision is non-negotiable. This has created enormous costs to local authorities. As part of a recent investigation into the costs of temporary accommodation,

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19 NLGN (April 2019), Leadership Index
20 LGA (2018), Homelessness Reduction Act Survey Report 2018, Executive Summary
21 NAO (2014), Local government funding: Assurance to Parliament, p. 18
Inside Housing found that local authorities had spent at least £937m on temporary accommodation in 2017-18 alone.\(^{22}\) To fund this increasing, non-negotiable demand for expensive temporary accommodation, local authorities have substantially reduced their spending on an area of provision known previously as the Supporting People programme.

Between 2003 and 2009, the Supporting People programme was a ring-fenced grant that local authorities could use to provide housing-related support to vulnerable people, including single homeless households, to live as independently as possible. This often translated into the provision of supported housing for people who were not in ‘priority need’ of assistance under Part 7 of the Housing Act 1996.

However, in 2009-10, the funding ring-fence was removed from the Supporting People programme, and in 2011-12 the Supporting People programme was incorporated into local authorities’ wider Revenue Support Grant. The removal of the ring-fence was especially significant because it meant that there were no longer grounds for local authorities to prioritise any degree of spending on households who they had no legal duty to house in order to prevent or relieve their homelessness.

The full extent of the redirection in spending from non-statutory homelessness to statutory homelessness which occurred as a result is revealed by the NAO’s most recent report into the financial sustainability of local authorities. Since 2010-11 local authorities’ yearly spend on the former Supporting People programme has fallen by 69% (from £1.44bn to £444m). Over the same period, local authorities’ spend on temporary accommodation has risen by 57%.

**A zero-sum game:**

Other than being able to satisfy their relevant legal obligations, local authorities receive little lasting benefit from spending on temporary accommodation. A range of evidence exists which demonstrates the difficulties that households placed in temporary accommodation face, including challenges to their physical and mental health and wellbeing.\(^{24}\)

By contrast, spending on the former Supporting People programme has been proven to provide a range of benefits, both to households and the public purse. A study of the programme commissioned in 2009 by the then Department for Communities and Local Government found that it generated net savings of £3.4bn per year against an overall investment of £1.61bn.\(^{25}\)

This shift in spending – redirecting money from an area of spending with demonstrable benefits to fund another form of provision, which offers very few benefits to either the beneficiaries, or local authorities beyond the fulfilment of their legal obligations – offers a striking example of how local authorities’ current financial position has forced them into a pattern of spending that is in nobody’s real interest.

**The practical implications of shifting spending patterns:**

One of the more visible impacts of the loss of funding for housing-related support is its contribution to a rise in rough sleeping. In 2018, the total number of people counted or estimated to be rough sleeping on single night in England was 4,677. This represents an increase of 2909 people (or 165%) from the total recorded in 2010.\(^{26}\)

In attempting to quantify overall levels of homelessness in Great Britain, Crisis has, in part, based their estimates on a broader classification known as ‘core’ homelessness. Crisis’ definition of ‘core’ homelessness includes people who are rough sleeping, sleeping in tents, cars, public transport, and beds in sheds and squatting, and ‘sofa surfing’. Between 2011 and 2016, Crisis estimates that the number of households within the ‘core’ homelessness category rose from 103,000 to 143,000, an increase of 28% (or 40,000 people).\(^{27}\)

**A reduced ability to relieve homelessness:**

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\(^{22}\) The cost of homelessness: Council spend on temporary accommodation revealed: https://www.insidehousing.co.uk/insight/insight/the-cost-of-homelessness-council-spend-on-temporary-accommodation-revealed-57720

\(^{23}\) NAO (2018), Financial sustainability of local authorities 2018, p. 30

\(^{24}\) Shelter (2014), Sick and Tired: The impact of temporary accommodation on the health of homeless families

\(^{25}\) Capgemini (2009), Research into the financial benefits of the Supporting People Programme, Executive Summary

\(^{26}\) MHCLG (2019), Rough Sleeping Statistics Autumn 2018, England, Executive Summary

\(^{27}\) Crisis (2017), Homelessness projections: Core homelessness in Great Britain, p.3
At the same time, the number of available bed spaces in accommodation-based services – often referred to as supported housing – available to single homeless households, have reduced significantly. Data from Homeless Link reveals a 30% reduction in bed spaces in supported housing services from an estimated 50,000 in 2008 to 35,000 in 2017.²⁸

To understand the connection between this loss of bed spaces and the wider financial pressures faced by local authorities, it is important to understand the current funding profile of supported housing services. As of 2017, the former Supporting People programme remained the primary source of funding for the vast majority of accommodation-based services. Despite recent efforts to diversify revenue streams, investment in supported housing from other statutory sources, such as health and criminal justice, remains low with only 2-4% of supported housing services receiving funding of this kind.²⁹

As a consequence, supported housing services are extremely susceptible to wider trends, which force local authorities to divert spending away from housing-related support towards other areas of activity, such as the need for temporary accommodation. In 2017 alone, 39% of accommodation-based services reported a decrease in funding.³⁰

At an individual household level this trend is leaving people, often with very high levels of need, increasingly unsupported. A lack of capacity is now the most commonly identified primary reason for refusing access to an accommodation-based service, with 35% indicating that they had turned away a referral for this reason during 2017. In response to this finding, Homeless Link has concluded that “the reduction in bed spaces, and the rate of capacity-based refusals among responding providers, indicates that the need of some single homeless people may not be met by the existing support system.”³¹

Information from London’s CHAIN database offers a partial insight into the numbers of people whose needs the existing support system is struggling to meet. The CHAIN database uses a model, which categorises incidences of rough sleeping into three distinct groups:

- Flow – People who have never been seen rough sleeping before;
- Stock – People who have been seen rough sleeping for two consecutive years; and
- Returner – People who have been seen rough sleeping more than once, but not in consecutive years.

Between 2014-15 and 2017-18, the number of stock cases recorded by CHAIN increased from 1595 to 1909 (or by 16%). The number of stock cases reached a peak in 2016-17 at 1978.³² This rise in the number of stock cases is especially concerning as there is strong evidence to suggest that the longer someone remains on the streets, the more severe their needs become.³³

A reduced ability to prevent homelessness:

Constraints on local authority financing have also impacted on their ability to prevent homelessness. There has, for example, been a significant reduction in the number of floating support services. Floating support services are designed to provide assistance to people who might otherwise be at risk of losing an independent tenancy.

Recent research by St Mungo’s reveals that the number of floating support services has declined by 31% between 2013-14 and 2017-18 in the areas with the highest levels of rough sleeping in England.³⁴ Again CHAIN data provides a partial insight into the effect this is having on individual households. Between 2014-15 and 2017-18, the number of returner (i.e. people who have been seen rough sleeping more than once, but not in consecutive years) cases recorded by CHAIN increased from 879 to 1119 (or 21%).³⁵ This suggests that within London an increasing number of people are struggling to maintain their accommodation following a period of stable housing.

The efficiency, fitness for purpose and sustainability of the current system for funding local government (central government funding, council tax, business rates retention and other

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²⁸ Homeless Link (2018), Support for single homeless people in England: Annual review 2017
³⁰ Homeless Link (2018), Support for single homeless people in England: Annual review 2017, p. 3
³¹ Ibid, p. 31
³² CHAIN Annual Report: Greater London April 2017 – March 2018, p. 4
³³ Lankelly Chase Foundation (2015), Hard Edges: Mapping Severe and Multiple Disadvantage in England
³⁴ St Mungo’s (2018) Home for Good: the role of floating support in ending rough sleeping
³⁵ Ibid, p. 4
income); how it could be improved, including options for widening the available sources of funding; and what lessons can be learned from other jurisdictions.

Just as there can be little doubt about the present state of local authorities’ financial situation, it is also clear that the current system for funding local government is no longer fit for purpose. As part of a recent survey by the Local Government Information Unit and the Municipal Journal, 80% of respondents said that they were not confident in the sustainability of local government finance; none said they were ‘very confident’.

The use of short-term funding pots to tackle homelessness:

As St Mungo’s and Homeless Link’s forthcoming research shows, over £5bn less has been spent by local authorities on homelessness-related activity since 2008-09, with an average loss of £590m per year. The most obvious impact of this reduction in spending has been a reduced capacity to prevent and relieve homelessness. Yet, it has also provoked subtler, systemic shifts in the ways in which local authorities are able to commission services.

Across the most recent spending period, the government has invested around £1.2bn in tackling homelessness. Whilst this investment is undoubtedly welcome, it represents a little under a fifth of what has been removed since 2008-09.

A significant amount of this new investment has been made available through a series of short-term funding pots, including the Rough Sleeping Grant, Homelessness Prevention Trailblazers, and the Rough Sleeping Initiative. Rather than being allocated solely on the basis of need, a number of these funding pots have required local authorities to bid for allocations. The intensive work of producing bids of this kind against tight timeframes has meant that already overstretched housing teams have been required to divert further resources away from the planning and commissioning of services.

At the same time, the lack of spending in areas such as the former Supporting People programme has caused local authorities to take a more generalist approach to their provision. TSA has witnessed a change in the way that commissioned services are classified. The vast majority of services that TSA now tenders for are classified as ‘housing-related’ support services. Whilst technically appropriate, this classification somewhat obscures the specialist nature of the provision that is required to house and support people with complex levels of need.

Using this generalised classification allows services to be tendered for at a lower rate. If a service is required to offer housing-related support only, this can, for example, preclude the inclusion of the higher relative costs of a specialist drug worker within the contract. This is significant because whilst all of the households living at TSA supported housing services will require housing-related support, many, if not the majority, will also require specialist support to help overcome issues with addiction.

The fact that the funding cannot often be guaranteed from one year to the next also raises wider questions of sustainability. This can make it difficult to integrate any provision provided through these funding pots into a wider whole. The Rough Sleeping Initiative appears to be producing some positive results amongst the 83 local authorities with the highest levels of rough sleeping. Yet, if the wider support funding needed to help people sustain their accommodation is not available through well-resourced supported housing and floating support services, this progress may well prove truncated.

A lack of protection for new sources of funding:

Given the overall funding pressures faced by local authorities, often leading to the diversion of funding away from ‘non-essential’ areas of spending towards irreducible core activities, new sources of funding for homelessness remain under protected.

From 01 April 2017, local authorities have been able to draw on the Flexible Homelessness Support Grant. This grant replaced the temporary accommodation management fee and is worth £617m over three years. In theory, local authorities are now able to spend this funding across a diverse range of areas, and not just on temporary accommodation. However, due to the current levels of demand, there is anecdotal evidence to suggest that, in certain cases, the funding is simply reverting back to temporary accommodation.

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Business rate retention:

There is cause for concern that the trends highlighted above will be exacerbated by the progress of ongoing reforms to the way in which local government is funded.

In terms of current reform, a well-established direction of travel has emerged in recent years. This direction of travel involves the replacement of central government grants with measures designed to improve local authorities’ ability to self-finance. Perhaps the most prominent of these self-financing measures is for local authorities’ to retain up to 100% of the revenue generated through local business rates.

Taken in isolation, this measure enjoys broad support amongst local authorities. There are, however, a number of important reasons to be sceptical of its ability to offset the loss of central government grant funding, both overall and in relation to homelessness specifically.

First, there is the issue of timings. Local authorities are facing severe financial difficulties now. Yet, the majority of local authorities will not see any real uptake in their levels of business rates retention until 2020. It will also take time for the full effects of this shift in funding to be felt. Rather than having an immediate impact, it is therefore likely that any positive effects will be felt more keenly in the medium to long term.

Second, given the current levels of demand faced by local authorities, there is a credible argument to suggest that the new business rate retention scheme should supplement funding from central government, rather than replace it altogether. This argument is further compounded by the fact that those local authorities who are most reliant on central government grant funding may struggle to fully replace this lost income through the new business rates retention scheme.

Finally, the amount of revenue local authorities derive from business rates is determined by the level of business activity in their local areas. But there is no correlation between levels of local business activity and demand for homelessness services. By contrast, grant funding from central government is determined, at least to some extent, by actual levels of need for particular services. This raises the prospect that local authorities where demand for homelessness services is high will lose out, as compared to local authorities with greater capacity for business rates growth, but lower levels of demand for homelessness services.

How funding needs of local government are assessed. The current and forecast funding needs of local government and how these needs can be better understood at both a national and local level.

The Fair Funding Review:

The question of how best to ensure that local authorities with high levels of demand for homelessness services receive appropriate funding is essential to the ongoing Fair Funding Review. The aim of the Fair Funding Review is to introduce a new system for allocating funding between local authorities. A significant part of this process is to review and update methods for assessing local authorities’ differing abilities to raise revenues through things like business rates, as well as their differing spending needs.

In relation to local authorities' spending needs around homelessness, the government’s current proposal is that these needs will be assessed and calculated in accordance with a new foundation formula.

Previously, the Government had indicated that it was planning to include deprivation as a cost driver within the foundation formula so as to reflect the fact that “deprived individuals, and in particular income deprived individuals, are more likely to access certain services than more prosperous individuals, leading to higher costs”. However, this position has subsequently been reversed, with the Government now suggesting that population and area-cost adjustment will be the only cost drivers included in the foundation formula.

This decision is significant for a variety of reasons. At a macro level, the Institute for Fiscal Studies has observed that “compared to both the current formula and an updated [foundation] formula that included deprivation, a population only [foundation] formula would mean:

- “More deprived councils seeing lower assessed needs, and losing funding;
- Less deprived councils seeing higher assessed needs, and gaining funding.”

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38 MHCLG (2017), Review of local authorities relative needs and resources: Technical consultation
39 IFS (2019), Response to the Ministry for Homes, Communities and Local Government’s Consultation, p. 2
In part, this is because a population only foundation formula will focus almost exclusively on variation in local authorities’ total spending needs. However, because local authorities’ populations vary so greatly, this is likely to obscure factors driving spending needs per person.

At a more localised level, this distinction is very relevant to any assessment of local authorities’ spending needs around homelessness. This is because homelessness, whilst costly at an individual level, will only impact on a relatively small percentage of a local authorities’ overall population.

As a consequence, the greater a local authorities’ population, the less responsive the foundation formula becomes to costs driving per person spending. As a result, local authorities with large populations that also have high levels of homelessness could lose out because although they have higher levels of homelessness, the size of their overall population will mean that any spending on homelessness will account for only a relatively small proportion of their total spend across the population as a whole.

In the past, the use of deprivation as a cost driver would have acted as a counter balance to calculations of this kind. Yet, if deprivation remains excluded from the foundation formula, there will be little to prevent its very real impact on local authority spending per person becoming obscured by arbitrary variations in population from local authority to local authority.

In the case of homelessness, this would remove central government’s ability to account for some significant per person costs incurred by local authorities. A recent study by the LankellyChase Foundation estimates that the costs of rough sleeping to the public purse range from £14,300 to £21,000 per person, per year, depending on the severity of the person’s level of need.

The approach the Government should take to local government funding as part of the 2019 Spending Review, what the key features of that settlement should be, and what the potential merits are of new or alternative approaches to the provision of funding within the review

TSA has the following recommendations on how the Government should approach local government funding for homelessness-related activity as part of the 2019 CSR.

In order to reduce local authorities’ reliance on temporary accommodation to discharge their homelessness duties, the Government should use the CSR to:

- Devise and introduce a plan capable of delivering a substantial number of new homes for social rent over a set period. A number of recent plans have been produced as to how this could be achieved and the numbers required. At the very least, TSA believes that the Government should aim for the delivery of 90,000 new homes over the next 15 years. This effort should build on the recent announcement by the Prime Minister at the National Housing Federation’s conference that local authorities would no longer be subjected to restrictions on the amount they are able to borrow against the value of their Housing Revenue Accounts.

- Increase the value of LHA rates to at least the 30th percentile of local rents. This will improve the ability of lower income households to obtain and maintain tenancies in various areas of the housing market, including the private rented sector. To achieve this, the government must end the overall freeze on the uprating of working age benefits. There is little fiscal justification for maintaining the freeze beyond the current spending review period. At the 2016 Budget, the Treasury predicted that the four year freeze would produce an annual saving of £3.5bn by 2019-20. Recent estimates by the Resolution Foundation suggest that the fourth year of the freeze has produced a saving of £1.5bn in 2019/20. When added to the £2.9bn of savings resulting from years two and three of the freeze, the total in year saving in 2019-20 reaches £4.4bn. This additional saving should be used as the basis for increasing the value of LHA rates at the upcoming CSR.

To improve local authorities spending power in relation to homelessness, the Government should use the CSR to:

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40 HM Treasury, Budget 2016, red book table 2.2 line as
41 Resolution Foundation (2019), The Living Standards Outlook 2019, p. 20
• Provide local authorities with a solid platform from which to achieve the government’s own target of eradicating rough sleeping and all forms of homelessness by 2027. In order to achieve this, the Government must provide local authorities with a means of relieving current levels of homelessness. In line with estimates made by St Mungo’s and Homeless Link’s forthcoming research, this will involve investing an extra £1bn on relieving and preventing homelessness and rough sleeping.
• Ensure that any additional funding for homelessness reaches its intended target. The simplest way to achieve this would be to introduce a funding ring-fence. However, there are other ways of achieving the same effect, which might also be investigated. For example, any additional increase in funding could be accompanied by a new requirement for local authorities to report against this area of spend and how it has helped to achieve their own homelessness and rough sleeping targets, as well as the Government’s own target of eliminating rough sleeping by 2027.
• Make further funding available to ensure that the HRA is properly resourced. The HRA is part of an important long-term strategy to reduce costs by focusing on prevention. Yet, at present, the Act is inadvertently driving spend on expensive forms of provision, such as temporary accommodation, through increased demand for services.

To ensure that local authorities’ funding needs in relation to homelessness are assessed correctly, the Government should use the CSR to:

• Prompt further consideration of how any additional funding will be distributed once the Fair Funding Review is resolved. Demand for homelessness services cannot be determined with sole reference to the size of a local authority’s population. As such, TSA recommends that MHLG should consider providing homelessness with its own funding formula. This would allow for needs to be better calculated against the relevant cost drivers, most notably deprivation, as well as other important indicators such as the relative costs of living.

April 2019