

The housing benefit subsidy deficit: Strategies for funding temporary accommodation

26 November 2024  Victoria Searle

Many local housing authorities in England and Wales are facing significant shortfalls in their budgets for homelessness services as a result of rising homelessness, severe housing shortages, and spiralling costs.

In December 2023, a [Local Government Association survey](#) of council leaders in England revealed that one in five thought that it was very or fairly likely that their Chief Finance Officer would need to issue a section 114 notice before the end of this financial year. The cost of providing homelessness support was cited as a key financial pressure on English local authority budgets.

Last month, the [Welsh LGA warned](#) that Councils across Wales were grappling with extraordinary budget pressures, totalling an estimated £559 million in 2025/26. The WLGA identified housing and homelessness services as one of five budget priority areas that were critical for addressing the needs of communities across Wales.

Earlier this month, the Greater London Authority's [Housing in London 2024](#) report revealed that:

- New homelessness prevention or relief duties were accepted for 17,870 households in London in the first quarter of 2024. In the same period, 5,490 households were accepted as statutorily homeless.
- At the end of March 2024, there were 65,280 households (including 86,810 children) living in temporary accommodation arranged by London boroughs.
- 9,710 homeless households in London have stayed in temporary accommodation for one to two years; 17,840 homeless households have stayed for two to five years.
- 990 homeless households in London (160 with children) have spent more than two years in bed and breakfast accommodation.

The Autumn Budget provided some relief for local authorities through the provision of £1.3 billion of extra funding through the local government finance settlement for 2025/26, including £233 million of additional spending on homelessness. Other measures, including a £1 billion extension to the Household Support Fund and Discretionary Housing Payments, a £500 million boost to the Affordable Homes Programme, and Right to Buy reform will help to ease housing pressures in the medium to longer term.

However, the Chancellor elected not to use the Autumn Budget to uplift the 2011 Local Housing Allowance rates that govern the amount of housing benefit subsidy that local authorities can claim in respect of households residing in temporary accommodation.

Consequently, most local housing authorities we have spoken to expect their housing benefit subsidy deficit for temporary accommodation to continue to rise in 2025/26 and beyond.

Innovative ways of mitigating the housing benefit subsidy deficit

Over the last few months, we have supported many of our local housing authority clients to develop and deliver innovative new approaches to procuring, providing, managing and maintaining temporary accommodation in a financially sustainable way. These have included:

- refurbishing and repurposing existing Part 6 stock for Part 7 purposes;

- exploiting new permitted development rights to redevelop existing properties within a local authority's portfolio for temporary accommodation;
- re-negotiating existing lease arrangements for temporary accommodation units on a longer term basis at preferential rates;
- collaborating with private developers and social enterprises on new mixed-use projects that will deliver new affordable housing and homes for social rent;
- providing more exempt accommodation;
- acquiring new stock through dedicated housing delivery and management companies; and
- exploiting the growing demand for social impact investment opportunities to fund new temporary accommodation projects.

Through these sorts of projects, local housing authorities have been able to increase their supply of temporary accommodation (thereby reducing their use of nightly let and other short-term privately provided temporary accommodation), reduce their housing benefit subsidy gap, move more homeless households into more settled accommodation, and improve the quantity and quality of temporary accommodation for residents.

Legal considerations

While these sorts of strategies need careful financial appraisal to ensure that they provide value for money, they also raise a variety of complex legal issues that need to be carefully considered and resolved before decisions are taken.

For example, local housing authorities need to consider:

- The most appropriate powers to acquire, provide and dispose of accommodation as temporary accommodation. While most local housing authorities rely on ss.9 and 17 of the Housing Act 1985 by default, other more general powers can provide greater flexibility.
- Whether accommodation acquired and provided as temporary accommodation should be accounted for within the Housing Revenue Account, or whether General Funds can be used.
- The rules that govern the appropriation of property between the General Fund and the Housing Revenue Account (and vice versa).
- The Housing Benefit Subsidy Rules. The housing benefit subsidy that the DWP will pay in respect of temporary accommodation provided directly by a local housing authority or by a registered provider of social housing is usually capped at the 2011 LHA rates. There is scope to claim housing benefit subsidy at a higher rate in certain circumstances, but there is a need to carefully consider both the housing benefit rules and the housing benefit subsidy regime when forecasting expected returns on capital investment.
- Applicability of the Rent Standard, which may act to cap rents and rent increases for tenants of local authority registered providers as well as private registered providers of certain types of low cost rental accommodation.
- The legal and financial risks associated with procuring out of Borough accommodation for use as temporary accommodation, and the associated risk of suitability reviews, statutory appeals, and judicial review claims.
- Where a Council-owned housing company is used to procure or provide temporary accommodation, then local authorities will need to consider whether and how the public procurement regime and the UK subsidy control regime may apply to future dealings between the Council and its wholly owned company.
- The need to future-proof arrangements, and guard against future (unknown) changes in housing, homelessness and social security law or policy. Commercial transactions, including property acquisitions and leases, need to be designed in a way that secures a timely and cost-efficient exit strategy in the event of a significant change.

Please do reach out if you're considering alternative models for securing suitable accommodation for homeless households in your area; we have a wealth of experience in advising on novel temporary accommodation solutions and we would be delighted to share our experience with you.

Key contact

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