NLGN
NEW LOCAL GOVERNMENT NETWORK

Build to Let

Rethinking the use of housing benefit to help families out of temporary accommodation

Tom Symons and **Laura Rodriguez**

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Published by NLGN
Prepared by NLGN
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Acknowledgements

The authors would like to extend their thanks to Owen Goodfield for his work at the beginning of this research. We would also like to thank Anthony Brand for his time and intellectual insight in the drafting stage of this report.

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December 2010

Summary

The government's cap on housing benefit and introduction of the Universal Credit is predicted to make accommodation unaffordable for 133,000 households in London.[1] A proportion of that 133,000 are currently in expensive temporary accommodation because there is insufficient social housing available. We accept the need to reduce the amount spent on housing benefit, but we believe there is a more cost-effective alternative to a cap: build new homes for them.

The opportunity to increase housing supply at the same time as reducing government expenditure may sound too good to be true, but in certain parts of London, it can be achieved. The high cost of housing families in temporary accommodation in some boroughs means that it would actually be cheaper to build those families a new house. NLGN analysis suggests that in some boroughs of London over £10,000 could be saved per new 2-bedroom home each year. In total our analysis suggests this concept may save money and increase housing supply in 10 London boroughs. Were all the families in temporary accommodation in these boroughs to have new housing built for them, there could be close to 10,000 new units generating savings of £56m per year.

With a predicted shortfall of 750,000 homes by 2025, there has never been a more vital time to explore every approach to building new homes. But building new homes for families in expensive temporary accommodation would be best achieved with support from central government. As the majority of the savings will accrue to the Department for Work and Pensions, they are needed to help bridge the gap between social rent and the repayment costs of the new housing. This would not alter the amount saved by the government and would make it possible for councils to provide new housing at social rent levels. We therefore urge the Department for Communities and Local Government, and the Department for Work and Pensions, to work with local government to explore the possibility of building new housing for those in expensive temporary accommodation. By doing so,

1 London Councils, *Does the Cap Fit?* (2011)

two core objectives of this government would be met: increasing the supply of affordable or social housing, and reducing the amount spent on housing benefits.

1 *The problem: the high costs of temporary accommodation*

Increasing the supply of affordable housing, particularly in London and the South East, is an urgent priority. The demand for new housing continues to grow, despite a slight recovery in a housing market which had flat-lined following the credit crunch and recession in 2008. It is estimated that current socio-demographic and building trends will result in a national shortfall of 750,000 homes by 2025 and the Greater South east will be a region particularly in need.[2]

In response, the government launched *Laying the Foundations: A Housing Strategy for England* in November 2011 with the aim of unblocking the housing market, delivering more affordable housing and increasing the chances of home ownership. The strategy is a clear reflection of the importance the government places on building new, high-quality homes. The need to do this stems in part from a failure over the past 30 years to build enough new housing to meet demand.

The government's strategy may ease the problem, but it is highly unlikely to solve it. From 2008-11 the budget for affordable housing was £8.4 billion. Between 2011-15 this will be cut to £4.5 billion. These budget restrictions include the closure of the previous government's Local Authority New Build programme and the Kickstart scheme. In their place, the government has instituted the Affordable Rent Programme, which enables housing associations to charge 80% of market rent on new affordable housing. The government estimates this will lead to 150,000 new homes. This is a welcome boost to housing numbers that will go some way towards closing the gap between demand and supply of social and affordable housing.

The lack of social housing in London

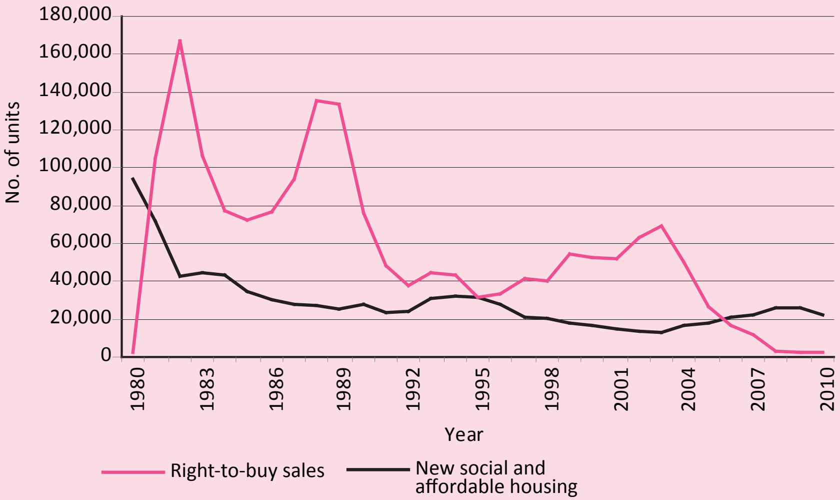
London suffers from an acute lack of social housing. The right-to-buy (RTB)

2 Hull, Andy; Cooke, Graeme; Dolphin, Tony. (IPPR, 2011). *Build now or pay later? Funding new housing supply*

scheme, coupled with a centralisation of housing finance,[3] has led to a dramatic decrease in the number of council houses. While the majority of RTB sales took place in the 1980s, the cumulative impact is still being felt by councils who have not been able to replace the stock. Though housing associations have increased their participation in the provision of new housing, they have been unable to make up for the shortfall.

Since 1980, for every new unit of social or affordable housing built by councils or housing associations, 1.95 units have left the stock of social housing through the right-to-buy.[4][5] Since 1980, 290,820 council homes in London have been sold off through the right-to-buy. This is 16.4% of total national RTB sales in England.

Figure 1 Right-to-buy sales and new affordable housing delivery 1980-2010



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3 The Introduction of the 1989 Local Government and Housing Act created the Housing Revenue Account Subsidy System. This effectively centralised rental income from council owned housing – through redistribution of rental income between councils - and prevented local authorities from supporting borrowing for new social housing with future rental income

4 DCLG Live tables on house building table 244 and DCLG Live tables on social housing sales table 672 (1st December 2011)

5 This figure does not include units of housing purchased through the right-to-buy but which had previously been transferred to a housing association as part of a Large Scale Voluntary Transfer

This is not a critique of the right-to-buy as a policy, but of government housing policy in general. By not replacing homes sold off under right-to-buy, successive ministers have created a situation in which there are 1.75m households on social housing waiting lists in England.

The rise of families in temporary accommodation

As the demand for social housing is greater than the supply, local authorities allocate housing in accordance with need. This determines how applicants on the waiting list are prioritised for housing as it becomes available. However, in some instances local authorities have a statutory duty to provide accommodation, even where there is no available social housing stock. This duty is owed to households who are in 'priority need'.

Local Authority Statutory Homelessness Duty

A "main homelessness duty" is owed where the authority is satisfied that the applicant is eligible for assistance, unintentionally homeless and falls within a specified priority need group. Such statutorily homeless households are referred to as "acceptances". The "priority need groups" include households with dependent children or a pregnant woman and people who are vulnerable in some way e.g. because of mental illness or physical disability. Where a main duty is owed, the authority must ensure that suitable accommodation is available for the applicant and his or her household.

[6]

The shortage of social housing is particularly acute in London. According to the London Housing Strategy there are over 350,000 households on the waiting list in London, compared with 195,000 a decade ago. Over a half of those are classified as having some degree of priority need either due to homelessness, overcrowding or poor housing conditions.[7] Moreover, as the

6 DLCG Notes and Definitions for Homelessness (1st December 2011 - http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/homelessnessstatistics/notesdefinitions/)

7 The Mayor of London. (GLA, October 2010). Housing in London. The evidence base for the London housing strategy.

number of homeless households in London has grown, the number of new lettings to social housing has decreased, from 64,000 a year in 1998/9 to 40,000 in 2008/09.[8]

Where a local authority has a duty to house someone who is in priority need, but where there is no council or social housing available, they must be housed in temporary accommodation. This usually means housing is provided in bed and breakfast accommodation, hostels or the private rented sector.

Housing homeless households in temporary accommodation is typically a lot more expensive that housing them in permanent council or social housing. The costs of this are largely met by the public purse through housing benefits payments. It is estimated that nationally the average costs of housing each household in temporary accommodation is £11,000 per year, though this is likely to be substantially more in London.[9]

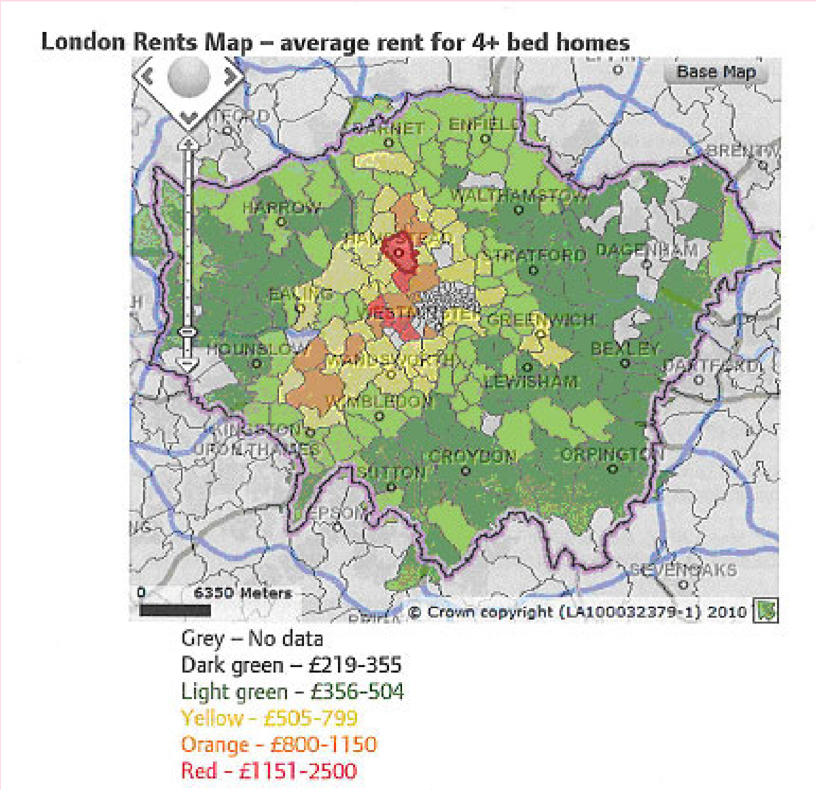
In recent years this has been recognised as a huge strain on public finances. Rents in the private rented sector in London are some of the highest in the world. For instance the median weekly rent on a 4-bedroom house in the London Borough of Kensington and Chelsea is £2000.[10] In some instances this is the only available option for households who require temporary accommodation, meaning the costs must be met by Housing Benefit. However, this is not a problem restricted to small pockets of central London boroughs. As Fig 2 shows, rents are high across the majority of central London and in some parts of outer London boroughs.

8 The Mayor of London. (GLA, October 2010). Housing in London. The evidence base for the London housing strategy.

9 The Audit Commission *Protecting the Public Purse* (2009)

10 GLA London Rents Map - http://www.london.gov.uk/rents/

Figure 2 London rents map: Average rents for 4+ bed homes



A study in London found that many of the people living in temporary accommodation suffer from stress and fatigue, often exacerbated by the instability of this type of accommodation.[11] The transient nature of the accommodation makes it difficult for families to form strong links with communities or for children to settle into their schools.

11 Neale, Emma; Thorp, Samantha *Evidence paper No. 9. The effects of high rents in temporary accommodation* (Community links, September 2006).

Proposed Solutions

In response to the high costs of living in the private rented sector the emergency budget of 2010 announced a cap on the amount that can be claimed in one week on housing benefit. The budget caps housing benefit at £250 per week for a one bedroom property, £290 per week for a two bedroom property, £340 per week for a three bedroom property and £400 per week for four bedrooms or more.[12] In addition, the government plans to introduce the Universal Credit in April 2013. This will integrate a number of benefits, including Housing Benefit and Job Seeker's Allowance, into a single payment. It is currently expected that the cap will be set at £350 for single person households and £500 for all others, based on UK median earnings.[13] The government estimates that this will save £1.27bn by 2015.[14]

Analysis has shown that as a result of this, 133,000 households could find their accommodation unaffordable.[15] This could have significant implications for families in temporary accommodation who rely on housing benefit to pay their rent. It is possible that as a result, many will have to leave London and find alternative accommodation at a lower cost. Councils in London are developing strategies to manage the disruption this may cause. However, at present it seems that more action is required to ensure that the social and economic costs of this policy are minimised.

One option is provided by the introduction of the Localism Bill, which gives councils the opportunity to discharge their duty of homelessness by finding suitable leased accommodation in the private sector. While there are benefits in terms of the increased stability of the housing, this may end up pushing up the costs found in the private rented sector in London. It may also be unfeasible once the cap on housing benefit is introduced.

Similarly, a poverty trap may develop. A family living in a private home rented using housing benefit might have little incentive to find work, because employment would reduce the level of benefits received. Their wages

12 HM Treasury Emergency Budget 2010
13 London Councils, Does the Cap Fit? (2011)
14 HM Treasury Comprehensive Spending Review 2010
15 Ibid

would be soaked up by housing costs and in some cases the loss of benefit might make the rent unaffordable. Persuading people to leave London or pushing them into over-crowded and unsuitable accommodation cannot be a complete or desirable solution to these problems. The capital in particular needs a solution that will reduce government expenditure without a corresponding exodus of families as a result of housing benefit caps.

We accept the need to reduce the strain of housing benefit on the public purse, but argue that there are alternatives which should be explored at this crucial juncture. We believe that there are ways which could increase the supply of housing, enabling families in temporary accommodation access to permanent accommodation in the same borough and also making a saving for the public purse. This option is analysed over the following chapters.

2 *NLGN's solution: build new homes to replace expensive temporary accommodation*

NLGN's research suggests that for a large number of families in temporary accommodation in London, the costs of building a new home are likely to be lower than the costs of housing them in the private rented sector or bed and breakfast accommodation. Councils pay for private rents at market level, which is far in excess of standard social rent levels.

It would therefore be possible to make a net saving for the public purse at the same time as building new units of housing and providing permanent accommodation to households in temporary accommodation. Our proposal involves councils building new housing themselves, and using a combination of housing benefit set at social rent and block grant from the Department for Work and Pensions to repay the development costs. This would contribute towards two of the government's core objectives for housing policy:

- To increase the number of new units of social and/or affordable housing.
- To reduce the strain on the government's Annually Managed Expenditure budget from paying high levels of housing benefits to households in the private rented sector in London.

NLGN's solution also fits within the government's ambitions for an increased role for local authorities in providing new social housing. Local authorities have been strongly encouraged to contribute to the housing supply to meet local needs and to make use of the land owned by them.[16] The reform of council housing finance, as part of the Localism Bill, will also enable councils to borrow against future rental streams for the first time in over 20 years. This will enable local authorities to build new social housing.

Our proposal builds on previous attempts to reduce the amount of households in temporary accommodation. Two of these are listed below.

16 DCLG; HCA. (n.d). *Affordable homes programme framework*. http://www.homesandcommunities.co.uk/sites/default/files/our-work/affordable-homes-framework.pdf

Newham Local Space

Local Space is a housing association established in 2006 which has been providing affordable homes by purchasing and repairing properties using a scheme called T2P (temporary to permanent). Local Space buys the properties on the open market and then they are let to tenants nominated by Newham council. Once the market rental income has paid down enough of the debt used to buy the property, it is let on an assured tenancy at a sub-market rent.

450 non-secure Council properties worth £50m were transferred over to Local Space to be used as equity. This enabled Local Space to raise approximately £200m to purchase properties on the open market with an additional £25m subsidy from the Housing Corporation. 1450 properties have been acquired within the target two year period. Newham has been successful in delivering over 1000 homes in less than 2 years through this scheme.

Settled Homes Initiative

The Settled Homes Initiative was launched in 2006. The pilot was designed to build on the work of 'temporary to permanent' housing schemes, such as Newham's. A London targeted funding pot of £30m in capital grant was set aside to help families move from temporary accommodation into long-term settled homes. The scheme worked by using housing benefit to buy homes for families who would otherwise be in insecure and expensive private sector accommodation. The Settled Homes Initiative enabled schemes in Bromley, Hackney, Westminster, Brent, Ealing and West London to purchase around 900 homes and convert them over time into quality settled social housing. This initiative has now ended.

[17]

17 House of Commons, (2011), *Homelessness households in temporary accommodation*

The Settled Homes Initiative and schemes such as Newham's work towards the same goal as our proposal, and these approaches undoubtedly still have an important role to play. However, our proposal differs fundamentally in the sense that we seek to increase the total supply of housing at the same time as reducing public expenditure. The rationale for our proposal is that we believe there are key benefits gained from building homes rather than simply buying up stock from the private rented sector. Our suggestion helps to increase housing supply, create downward pressure on private sector rents and provide an immediate economic stimulus to the economy.

3 *Methodology: testing the proposal*

Our analysis involved a comparison of the costs associated with building a new property and the costs of temporary accommodation. The data was obtained from CLG, DWP and CIPFA. The proposal involves local authorities borrowing to fund the upfront construction costs. In addition to the costs incurred by debt repayment, management and maintenance costs are included.

Stage 1: Quantifying the current costs of temporary accommodation in London

Demand was calculated as the total number of households living in temporary accommodation in the private sector or for whom no accommodation has yet been secured. This provided data relating to the number of households living in temporary accommodation and the costs associated with this. The number of households in temporary accommodation was obtained from data held by Communities and Local Government.

Unit costs of accommodating these households are hard to obtain. Our analysis used estimates based on the median rent in the private rented sector. The approach was chosen as it is not possible to obtain disaggregated data on unit costs of what is currently being paid by individual councils in each type of temporary accommodation (e.g. bed and breakfast, private landlord, etc).

In addition, total costs incurred by councils are gathered and reported by CIPFA. These are also used for comparative purposes, although it should be taken into account that CIPFA's data uses annualised expenditure figures and quarterly total household data.

Stage 2: The costs of building new housing

In our analysis, building costs comprise construction costs and land acquisition. This enabled us to calculate the borrowing requirement for each property, and the weekly repayments needed to repay this. Our analysis based repayment costs on borrowing on a 25 year basis from the Public

Works Loan Board. The management and maintenance costs of housing were then added to the repayment costs to provide an indication of the total costs associated with building new housing.

To test our proposal we compare current expenditure on temporary accommodation with development costs. If the development costs are lower than the amount currently being spent, then it would be more effective to develop new housing supply.

A more detailed methodology can be found in Appendix 2.

4 *Findings: building new homes could be cheaper than temporary accommodation*

With the data available we modelled our proposal for London local authorities. The results show that our proposal would be viable for at least 10 London boroughs. If applied to all households in temporary accommodation in these boroughs, it could mean that an additional 9500 new homes could be built at the same time as making a net saving for the public purse of £56m per year.

1. The costs of temporary accommodation

Figures from DCLG indicate there are 35,616 households living in temporary accommodation in London, of which 33,524 are living in temporary accommodation in the private sector. Our analysis has therefore concentrated on this cohort of 33,524 households.

Table 1 The number of households in temporary accommodation:

	Total Homelessness in Temporary Accommodation	Total TA in the private sector	Bed & breakfast	Hostels	Private sector leased	Other types (including private landlord)	Homelessness duty owed but no accommodation has been secured
London Total	35616	33524	1480	2183	22855	5777	1229

Source: DCLG. Live tables on homelessness. TABLE 784a. Data up to 30th June 2011

Our analysis suggests that the total annual expenditure on private sector temporary accommodation is between £437m and £494m. However, it should be noted that CIPFA's data set is incomplete and missing data from 9 councils. This means that the estimate of £437m based on their figures is likely to be highly conservative.

Table 2 The costs of temporary accommodation

	Total estimated expenditure (PSR)		Total reported expenditure in TA (CIPFA)	
	Weekly	Yearly	Weekly (adjusted 2010-11)	Yearly (adjusted 2010-11)
London	£9,502,051	£494,106,652	£8,409,706.17	£437,000,000

2. The costs of building new homes

According to figures from DCLG, the average cost of a 2 bedroom house in London is £206,517.[18] Using this as a reference and Public Works Loan Board's (PWLB) new loans' fixed interest rate determined by the Debt Management Office,[19] the borrowing cost of this investment is calculated.[20] This calculation assumes a fixed rate and a repayment period of 25 years which is equivalent to a capitalization rate[21] of 4%. In addition, it is assumed that this debt is repaid over this period on equal value instalments.

The average weekly cost estimated of a new single housing unit would be £291.12. This includes the debt service, management and annual maintenance fee.[22]

Table 3 Costs of a new social housing unit

Development costs	total loan cost	½ yearly cost	Weekly debt service	Weekly management and maintenance costs	Weekly cost of development
£206,517	£315,953	£6,319	£84	£48	£291.12

18 Forecasts made by DCLG based on total scheme costs over the course of the 2008-11 National Affordable Housing Programme to take into account an assumption on construction cost inflation. Includes land acquisition, works and costs.

19 http://www.dmo.gov.uk/index.aspx?page=PWLB/PWLB_Interest_Rates

20 On the day of calculation (November 15th, 2011) the rate for a 25 year loan was 3.63

21 The capitalization value is a measure of the time that an investment would repay itself. A 4% rate means that 4% of the costs will be repaid by the year's net proceedings and thus the investment would be repaid over 25 years.

22 McGuinness, Paul. *Funding Development and Renewal: Housing delivery and estate renewal under the affordable rent model.* (2011, Future of London, GVA).

3. Comparison of these two costs

Comparing the unit cost of new development with the median private sector rent, the average saving per unit of housing in the 10 boroughs would be an average of £87 per week (see Appendix for detailed calculations). This corresponds to total savings of over £56m per year across the 10 London boroughs our analysis suggested the proposal would work in. Calculating the savings using actual expenditure data from CIPFA, there would be fewer boroughs where the proposal could be implemented but the savings generated in those areas would be almost double (£126.8m), as their 'current expenditure' is greater than our estimates made with median private rents.

Borough		Savings using PSR estimated costs		Savings using reported TA expenditure (CIPFA)
Barking and Dagenham		-£3,864,718		-£1,390,984
Barnet		-£2,159,983		-£9,806,268
Bexley		-£1,191,923		..
Brent		-£7,752,240		-£22,049,138
Bromley		-£2,826,771		-£8,992,055
Camden	**	£4,013,130	**	£15,333,340
City of London		..	**	£327,563
Croydon		-£4,382,909		..
Ealing		-£1,984,328		..
Enfield		-£6,146,266		-£497,754
Greenwich		-£755,388		-£662,380
Hackney	**	£1,557,117		-£8,130,187
Hammersmith and Fulham	**	£1,852,914		-£2,606,059
Haringey		-£509,721	**	£5,000,465
Harrow		-£1,293,560		-£6,006,418
Havering		-£2,939,379		-£1,183,421
Hillingdon		-£3,322,945	**	£22,269,106
Hounslow		-£2,059,525		..
Islington	**	£3,538,224		..
Kensington and Chelsea	**	£18,702,041		-£6,149,546

Kingston Upon Thames		-£1,256,706		..
Lambeth		-£242,284		..
Lewisham		-£3,015,225		..
Merton		-£145,748		-£120,066
Newham		-£9,098,179	**	£31,226,300
Redbridge		-£9,736,622	**	£446,300
Richmond Upon Thames	**	£35,783		-£464,151
Southwark	**	£368,914		-£2,768,843
Sutton		-£746,888		-£1,209,709
Tower Hamlets	**	£2,882,174		..
Waltham Forest		-£4,159,775	**	£6,093,015
Wandsworth	**	£429,492		-£1,403,778
Westminster	**	£22,958,611	**	£46,067,038
Total		£56,338,400		£126,763,125

*** indicates the proposal's viability in that borough*

5 *Consideration of assumptions made*

Development costs

The costs of development can vary greatly depending on size, quality and location. The estimated development costs correspond to a London average and thus they could be higher or lower depending on the specific borough. This data could be easily obtained by each authority when making its own appraisal of a housing project in a specific location.

Land costs and availability could also limit the applicability of our proposal. The development costs used in our analysis did include land acquisition, but as it was only possible to obtain a London average for land acquisition it must be noted that in boroughs of high market rents, land acquisition is also likely to be high. However, we are satisfied that the assumptions made in our analysis are fair as data from DCLG suggests that across London boroughs there is land available that is in council ownership and is suitable for housing development (see Appendix 3).

Local Authorities should make effective use of previously developed land and the national target is that at least 60% of new housing should be provided in this type of land.[23] Data from the 2009 National Land Use Database[24] suggest that in London there is capacity for 365,731 housing units in total and 26,720 on land owned by local authorities. A total of 116,000 units could be built on publicly owned land in London that is currently unused and suitable for housing development.

Type of Property

Due to data availability on the distribution of demand and on current and development costs, we assume that all households would be housed in an average two bedroom property. Ideally, a more accurate estimate would

23 DCLG. (2011). *Planning policy statement 3. Housing*.
24 HCA.(National Land Use Database, March 2011*). Table 3 Previously-developed land by planning status, suitability for housing and dwellings by Government Office Region: England 2009*

disaggregate costs and demand by household characteristics, as housing needs and cost vary with the size of the property. However, information disaggregated by type of property is difficult to obtain and further work could be needed to make a more precise estimate of the costs and the demand using data available to individual authorities but for which it was not possible to obtain for this report. It is possible that for larger households of over four bedrooms, the savings could be even greater. This is because for larger properties there is less availability, increasing the chances of a family being housed in an expensive, high-end property.

Additional benefits not quantified in this analysis

Implementing the proposal would bring additional benefits not included in our current modelling. The most obvious is the increase in total housing supply which would help to reduce the pressure on rent prices. Other positive side effects include the direct economic stimulus effect from a boost in the construction sector. This would also have positive consequences in terms of local employment which could then boost consumer expenditure. In addition, if the PWLB was used for borrowing the Government would make even greater savings as a result of the 1% margin added to the costs of borrowing for local authorities in the Comprehensive Spending Review 2010.

A rough estimate is that for each 2-bed property built, the Treasury would make £3,475 each year from the 1% premium placed on local authority borrowing from the PWLB. Across the 9,500 properties we estimate our proposal could deliver, this would amount to £33m of income each year for the Treasury. These savings have not been factored in to our analysis as local authorities may choose an alternative source for the borrowing, such as the bond markets.

Yearly debt repayment	% of yearly debt repayment which is net AME income[25]	Per property annual AME income	Total annual AME income for 9500 properties built using borrowing from PWLB
£12,638	27.50%	£3,475	£33,016,775

25

25 Based on the 3.63% interest rate at the PWLB and the 1% of this that is a premium charged to councils on borrowing from the PWLB

Our analysis is intended to be illustrative of the viability of NLGN’s proposal. However, the availability of data limits a more accurate estimation of the actual costs and savings generated by the proposal. Ultimately, all of these considerations mean that the applicability of the project is not restricted to the 10 boroughs which were identified as viable for our proposal. Each authority could, using its local information and more disaggregated data, make an assessment of the cost-effectiveness and viability of the project in their local areas.

6 *Implementation*

While further analysis is necessary to understand how this proposal would play out in each borough, our analysis clearly indicates that our proposal is viable and would yield benefits for the taxpayer. There are some additional considerations which should be considered if implementing this policy.

Technical

The reform of housing finance will give local authorities the ability to borrow against future rental income. There should be no obstacles in terms of councils' ability to borrow to build new housing, assuming the appropriate revenue streams are present to support repayments. Reform of the Housing Revenue Account Subsidy System is due to be in place from April 2012.

Local authority capacity

Local authority capacity has been questioned by some commentators.[26] House-building by local authorities has not been widespread in the past two decades. However, a number of authorities have successfully embarked on small-scale house building schemes in the past five years. It is likely that while there may not be capacity present across all of London's authorities, recent work should mean there is enough to provide peer-learning to those that require it.

Avoiding poverty traps

Were the total repayment costs of new development - £291 a week – to be translated directly in to rental charge there is a risk that a poverty trap could result. Households may find that were they to take on work, and subsequently have their benefits reduced, this level of rent becomes unaffordable. Therefore, we propose that the rental income should be

26 Pretty, David; Hacket, Paul. (September, 2009). Discussion paper for the Smith Institute, the Town and Country Planning Association and PricewaterhouseCoopers *Ming the gap. Housing supply in a cold climate. P.23*

the equivalent social rent, with any remainder made up by transfers from the DWP. These would still equate to a net saving for the DWP and the government. This would operate in the same way as the Working Futures scheme introduced by the DWP in 2005. This charged tenants in privately leased temporary accommodation a social rent with the remainder paid for in block grant by the DWP. The scheme was found to have been a success, helping to address the disproportionately high numbers of workless households in temporary accommodation.[27]

The reform of housing benefits – do new Local Housing Allowances limit applicability?

Our analysis suggests a weekly cost of our proposal for a 2-bed property of £291, only very marginally above the new Local Housing Allowance (LHA) for a 2-bed of £290. However, it is possible that if our proposal was applied to larger houses the repayment costs may breach new LHA limits. While the repayment costs may be higher than the LHA rates, this does not mean that the proposal should be discounted. Our proposal has a range of additional benefits, and crucially does not involve uprooting families and moving them to the outskirts of London or beyond (a process that comes with its own social and financial costs). We would argue that where a permanent housing option that is considerably cheaper than the temporary option, but which still breaches LHA limits, there should be room for discretion.

If the rent level was set at social rent, however, this problem would be completely avoided. We therefore recommend that in order to avoid a poverty trap, and to prevent LHA limits stopping families being housed in permanent accommodation in the same borough while also saving money, that the DWP commits to pay the difference between the social rent level and the repayment costs. This would mean that the DWP does not save as much as they are currently set to through the introduction of caps on the LHA. However, the government should take a wider view if our proposal would still result in significant savings. It is at this point that the additional benefits - economic stimulus and the savings from not having to relocate families – should be taken into account.

27 Centre for Economic & Social Inclusion *Working Futures Evaluation* (2007)

Conclusion

The premise of our proposal is simple. We believe that by building new homes for households in expensive temporary accommodation there could be savings for the public purse, an increase in housing supply and benefits for the family receiving permanent and more suitable accommodation. Our analysis has suggested that this proposal could work in 10 London boroughs, delivering savings of over £50m at the same time as increasing housing supply.

We urge the government to commence work in early 2012 with local authorities to understand the full applicability of the proposals and the total savings it would generate. It must also be recognised that in order to do this without creating poverty traps, or limiting applicability as a result of housing benefit reform, there would need to be a commitment to the concept from DWP.

At stake is a better solution to the high costs of housing benefit in central London than would be achieved through the introduction of housing benefit caps. This is a chance for central government departments to work together, and with local government, to deliver this.

Appendix 1 *Select References*

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Appendix 2 *Methodology: The model for London Boroughs*

A comparison of costs was carried out using data for London boroughs. This also indicated potential the budgetary impact of applying this proposal.

Demand and current expenditure

The demand for the housing project outlined here is assumed to be a proportion of the total households receiving housing support in London boroughs. Of the total demand, only households classified as homeless and who are currently housed in temporary accommodation in the private sector or those owed a homeless duty but for whom no accommodation has yet been secured are taken into account. This includes households given accommodation in bed and breakfast, hostels, private sector leased, and other types but excludes those accommodated in the councils' own stock. Overall, the total demand in London is 33,524 households. The distribution of households in each type can be seen in the table below:

Table 5 Households in temporary accommodation

Borough	Total Home-lessness in TA	Total TA in the private sector	Bed & break-fast	Hostels	Private sector leased	Other types (including private landlord)	Homeless-ness duty owed but no accom-modation has been secured
Barking and Dagenham	753	735	68	21	646	0	0
Barnet	2144	1119	2	5	855	203	54
Bexley	212	212	10	1	123	78	0
Brent	3027	3035	124	50	2634	219	8
Bromley	506	654	53	2	183	112	304
Camden	651	666	13	83	213	288	69
City of London	6	9	1	0	0	5	3

Croydon	1476	925	183	10	388	344	0
Ealing	998	1028	18	78	885	1	46
Enfield	2035	1966	0	0	1798	168	0
Greenwich	179	163	15	2	78	51	17
Hackney	1350	1254	39	481	639	95	0
Hammersmith and Fulham	881	729	44	5	658	9	13
Haringey	3192	3141	12	140	2129	859	1
Harrow	413	407	40	28	334	5	0
Havering	559	559	0	101	458	0	0
Hillingdon	838	818	22	0	740	47	9
Hounslow	652	648	73	59	479	36	1
Islington	921	921	11	76	431	403	0
Kensington and Chelsea	1245	1245	142	85	1018	0	0
Kingston Upon Thames	515	492	8	73	355	48	8
Lambeth	1228	1493	22	209	825	169	268
Lewisham	989	804	40	256	473	35	0
Merton	67	65	0	17	0	48	0
Newham	2512	2426	27	0	806	1585	8
Redbridge	2101	2101	74	0	1647	380	0
Richmond Upon Thames	229	239	24	48	113	38	16
Southwark	738	799	22	188	281	21	287
Sutton	209	151	29	0	93	29	0
Tower Hamlets	1779	1636	60	0	1576	0	0
Waltham Forest	1090	1024	26	29	600	354	15
Wandsworth	418	286	84	136	44	3	19
Westminster	1703	1774	194	0	1353	144	83
Total	35616	33524	1480	2183	22855	5777	1229

Source: DCLG. Live tables on homelessness. TABLE 784a. Data up to 30th June 2011

A precise estimate of the unitary cost of this is hard to obtain. One possible source is the data compiled by CIPFA.[28] [29] According to this data, in 2009-10 London councils spent a total of £413m on paying for temporary accommodation in the private sector[30]. To make this data comparable with the rest of the data used here, which are values for June 2011, these numbers are adjusted by inflation. An assumption was made that rent prices increase according to the Rent Influence Regime Guideline limit of RPI[31] +0.05 points. With this adjustment, in 2010-11 the average weekly provision cost for a council would be approximately £350,000.

An alternative indicator of the temporary provision costs in the private sector is to use data on market rents. This is gathered in the London rents map[32] by the Greater London Authority using data from the Valuation Office Agency. The information taken here corresponds to the 12 month[33] median value of rents in each borough. The average rent paid in London was £273 per week and the total estimated expenditure of an average borough council would be £9,502,051. This estimate is much lower than the reported expenditure in CIFPA statistics. One potential explanation for this is that CIFPA statistics include the costs of accommodation in more expensive options such as hotels, which are not captured in the private sector rents. Thus, using these PSR as the unit cost of temporary accommodation provision would lead to a sub-estimation of the costs currently incurred by councils and thus, the potential of generating saving would be larger that what these numbers suggest.

28 CIPFA. (May 2011). *Homelessness statistics 2009-10 actuals*

29 Although CIPFA data was used the calculations are that of NLGN

30 Includes bed and breakfast, shared facilities, self contained accommodation, hostel, women's refuges and leased with the private sector.

31 RPI is taken from the Office of Budget Responsibility forecasts stated in the March 2011 Economic and Fiscal Outlook supplementary table.

32 http://www.london.gov.uk/rents/

33 Since the information was collected in November 2011 it corresponds to the average of September 2010-2011 according to the GLA methodological note.

Table 6 Current expenditure on temporary accommodation

Borough	Private sector rents	Total estimated expenditure (PSR)		Total reported expenditure in TA (CIPFA)		
	Median PSR for a 2bdr (weekly)	Weekly	Yearly	*Yearly (2009-10)*	Yearly (adjusted 2010-11)	Weekly (adjusted 2010-11)
Barking and Dagenham	190	139,650	7,261,800	9,201,828	9,735,534	187,222
Barnet	254	284,226	14,779,752	6,742,408	7,133,468	137,182
Bexley	183	38,796	2,017,392	..	..	..
Brent	242	734,470	38,192,440	22,585,578	23,895,542	459,530
Bromley	208	136,032	7,073,664	858,582	908,380	17,469
Camden	407	271,062	14,095,224	24,022,150	25,415,434	488,758
City of London	..	..	..	438,381	463,807	8,919
Croydon	200	185,000	9,620,000	..	..	..
Ealing	254	261,112	13,577,824	..	..	..
Enfield	231	454,146	23,615,592	27,659,834	29,264,104	562,771
Greenwich	202	32,926	1,712,152	1,706,200	1,805,160	34,715
Hackney	315	395,010	20,540,520	10,258,238	10,853,216	208,716
Hammersmith and Fulham	340	247,860	12,888,720	7,967,625	8,429,747	162,111
Haringey	288	904,608	47,039,616	49,669,000	52,549,802	1,010,573
Harrow	230	93,610	4,867,720	146,372	154,862	2,978
Havering	190	106,210	5,522,920	6,879,846	7,278,877	139,978
Hillingdon	213	174,234	9,060,168	32,752,570	34,652,219	666,389
Hounslow	230	149,040	7,750,080	..	..	..
Islington	365	336,165	17,480,580	..	..	..
Kensington and Chelsea	580	722,100	37,549,200	12,001,524	12,697,612	244,185
Kingston Upon Thames	242	119,064	6,191,328	..	..	..
Lambeth	288	429,984	22,359,168	..	..	..
Lewisham	213	176,076	9,155,952	..	..	..
Merton	246	16,120	838,240	816,562	863,923	16,614

Newham	219	531,294	27,627,288	64,226,623	67,951,767	1,306,765
Redbridge	202	424,402	22,068,904	30,483,767	32,251,826	620,227
Richmond Upon Thames	294	70,266	3,653,832	2,981,000	3,153,898	60,652
Southwark	300	239,700	12,464,400	8,815,352	9,326,643	179,359
Sutton	196	29,596	1,538,992	1,017,175	1,076,171	20,696
Tower Hamlets	325	531,700	27,648,400	..	..	..
Waltham Forest	213	218,112	11,341,824	20,410,788	21,594,614	415,281
Wandsworth	320	91,520	4,759,040	2,765,378	2,925,770	56,265
Westminster	540	957,960	49,813,920	68,924,713	72,922,346	1,402,353
Total		9,502,051	494,106,652	413,331,494	437,000,000	8,409,706.17

Cost of the project

According to figures from DCLG, the average scheme cost of a 2 bedroom house in London is £206,517.[34] Using this as a reference and Public Works Loan Board's (PWLB) new loans' fixed interest rate determined by the Debt Management Office,[35] the borrowing cost of this investment was calculated.[36] This calculation assumes a fixed rate and a repayment period of 25 years which is equivalent to a capitalisation rate[37] of 4%. In addition, it is assumed that this debt is repaid over this period in equal value installments.

The weekly cost estimated of a single housing unit would be £291.12. This includes the debt service, management and annual maintenance fee.[38]

34 Forecasts made by DCLG based on total scheme costs over the course of the 2008-11 National Affordable Housing Programme to take into account an assumption on construction cost inflation. Includes land acquisition, works and costs.

35 http://www.dmo.gov.uk/index.aspx?page=PWLB/PWLB_Interest_Rates

36 On the day of calculation (November 15th, 2011) the rate for a 25 year loan was 3.63

37 The capitalization value is a measure of the time that an investment would repay itself. A 4% rate means that 4% of the costs will be repaid by the year's net proceedings and thus the investment would be repaid over 25 years.

38 McGuinness, Paul. *Funding Development and Renewal: Housing delivery and estate renewal under the affordable rent model.* (2011, Future of London, GVA).

Table 7 Cost of new social housing

Development costs	total loan cost	1/2 yearly cost	Weekly debt service	Weekly management and maintenance costs	Weekly cost of development
206,517	315,953	6,319	84	48	291.12

Total savings and viability of the project

Aggregate costs for each borough are simply current numbers of households in temporary accommodation in the private sector by unitary costs. The table below shows the aggregate annual savings that could be generated in each borough where the proposal is viable.

Table 8 Total savings = Current costs- development costs

Borough		Savings using PSR estimated costs		Savings using reported TA expenditure
Barking and Dagenham		-3,864,718		-1,390,984
Barnet		-2,159,983		-9,806,268
Bexley		-1,191,923		..
Brent		-7,752,240		-22,049,138
Bromley		-2,826,771		-8,992,055
Camden	**	4,013,130	**	15,333,340
City of London		..	**	327,563
Croydon		-4,382,909		..
Ealing		-1,984,328		..
Enfield		-6,146,266		-497,754
Greenwich		-755,388		-662,380
Hackney	**	1,557,117		-8,130,187
Hammersmith and Fulham	**	1,852,914		-2,606,059
Haringey		-509,721	**	5,000,465
Harrow		-1,293,560		-6,006,418
Havering		-2,939,379		-1,183,421

Hillingdon		-3,322,945	**	22,269,106
Hounslow		-2,059,525		..
Islington	**	3,538,224		..
Kensington and Chelsea	**	18,702,041		-6,149,546
Kingston upon Thames		-1,256,706		..
Lambeth		-242,284		..
Lewisham		-3,015,225		..
Merton		-145,748		-120,066
Newham		-9,098,179	**	31,226,300
Redbridge		-9,736,622	**	446,300
Richmond Upon Thames	**	35,783		-464,151
Southwark	**	368,914		-2,768,843
Sutton		-746,888		-1,209,709
Tower Hamlets	**	2,882,174		..
Waltham Forest		-4,159,775	**	6,093,015
Wandsworth	**	429,492		-1,403,778
Westminster	**	22,958,611	**	46,067,038
Total		56,338,400		126,763,125

*** indicates that the project would be viable in the borough*

Appendix 3 *Land availability in London Boroughs*

Table 9 Estimated housing capacity[39]

	Owner				
	Don't know	Local Authority	Other Public	Private	Total
Barking and Dagenham	22,674	818	14,538	3,973	42,003
Barnet	3,704	904	8,519	8,809	21,936
Bexley	73	921		2,526	3,520
Brent	3,068	1,214	471	4,468	9,221
Bromley	2,799	406	2,932	33	6,170
Camden	697	96	2,002	2,072	4,867
City Of London				474	474
Croydon	2,456	166	1,159	6,866	10,647
Ealing	2,917	688	1,039	5,415	10,059
Enfield	3,730	50	120	1,295	5,195
Greenwich	2,063	4,209	48,664	12,874	67,810
Hackney	4,685		386	176	5,247
Hammersmith and Fulham		345	2,111	5,835	8,291
Haringey	6,500	859	2,390	1,573	11,322
Harrow		740	130	713	1,583
Havering	2,292	5,139	3,866	505	11,802
Hillingdon	16		14	2,363	2,393
Hounslow	974		78	4,113	5,165
Islington	1,830		3	522	2,355
Kensington and Chelsea		33	1,338	2,492	3,863
Kingston Upon Thames	199	703	820	2,318	4,040

39 HCA.(National Land Use Database, March 2011*). Table 3 Previously-developed land by planning status, suitability for housing and dwellings by Government Office Region: England 2009*

Lambeth	8,788	752	1,208	3,559	14,307
Lewisham	626	115	161	8,803	9,705
Merton	199	381	94	648	1,322
Newham	6,950	1,641	14,420	9,511	32,522
Redbridge	1,089	608	353	3,427	5,477
Richmond Upon Thames	742	72	2,703	515	4,032
Southwark	9,795	3,304	93	625	13,817
Sutton	1,120	22	328	704	2,174
Tower Hamlets	5,713	1,725	826	17,895	26,159
Waltham Forest	573	180	1,582	631	2,966
Wandsworth	919	138	3,342	5,188	9,587
Westminster	276	490	1,229	3,705	5,700
Grand Total	*97,466*	*26,720*	*116,919*	*124,627*	*365,731*

NEW LOCAL GOVERNMENT NETWORK

The government's cap on housing benefit and introduction of the Universal Credit is predicted to make accommodation unaffordable for 133,000 households in London. A proportion of that 133,000 are currently in expensive temporary accommodation because there is insufficient social housing available. We accept the need to reduce the amount spent on housing benefit, but we believe there is a more cost-effective alternative to a cap: build new homes for them.