Title: The Homeless Overspend

Report of: John East, Strategic Director for Growth and Homes

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Wards Affected: All | Key Decision: No
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Accountable Strategic Director: John East, Strategic Director for Growth and Homes

Summary:
This report serves to quantify the likely overspend to the Homelessness budget, briefly explains the factors that have influenced this and illustrates the actions and proposals both in this year and next to minimize unbudgeted for expenditure.

Recommendation(s):
PAASC are asked to note this report and the proposals to minimize expenditure. It is recommended that a further report be presented early in the new Financial Year to gauge the results of the planned mitigations.

Reason(s):
The Housing Advice Service delivers the council’s statutory homeless duties. It does so in a climate of diminishing supply and increasing costs. However, it can and must respond to these challenges by successful attention to finite and inevitably diminishing resources, principally by preventing homelessness or offering appropriate alternatives to the making of a homeless application.

1. Introduction

1.1 Under the provisions of Part 7 of the Housing Act 1996 (as amended), the council has a statutory duty to assess and, as appropriate, assist persons presenting as homeless. The council’s primary task when assisting a person in such circumstances is to prevent their homelessness but, if prevention is neither possible nor appropriate, the council is required to then explore alternatives to the making of a homeless application.
1.2 If prevention efforts or the pursuit of alternatives fail, persons who are:-

i) Eligible (an immigration status issue)

ii) Homeless or threatened with homelessness within 28 days

iii) In priority Need – including families with children or persons deemed vulnerable because of their physical or mental ill health

iv) Not homeless intentionally

are entitled to a full housing duty. That duty is to be provided with “temporary accommodation” until the council can secure an offer of permanent accommodation, “permanent” being defined as a social housing tenancy or a minimum 12-month private sector tenancy.

2. The Rise in Homelessness

2.1 The Government’s Welfare Reforms Programme: There have been a raft of reforms to the welfare system that can best be summarised by stating that their consequences have been to limit the income of those who can least afforded it – those employed on low wages and those who, for whatever reason, are not working.

2.2 Within the borough, there is a large sector of the population who live, or lived, in private sector tenancies. Initial reductions in many of these households’ income will have had the potential to limit making rental payments. As more and more welfare cuts have been, and continue to be, introduced, so the ability to sustain rental payments declines, to the extent that many landlords responded by evicting their tenants.

2.3 House Price Rises: The progressive inability of many tenants to maintain their respective rental obligations has been compounded by inflationary and demand led house price increases that have seen local private rents increase by over 25% in the last two years.

2.4 A climate of rising rents and the reducing inability of tenants to make those rental payments is why the loss of an assured shorthold tenancy (i.e. eviction by private landlord) has been the largest factor driving the increase in homeless applications.

2.5 It is important to note that this form of homelessness is all but impossible to prevent in the short-term; tackling it requires long-term strategic measures that go to increasing individuals’ capacity to pay higher rents by being able to move into more financially rewarding employment and by the council being in a position to offer an affordable rental product.

2.6 Family & Friend Ejections: The second largest cause in the rise in homeless acceptances has been parental/household ejection, with overcrowding and non-violent relationship breakdown the most significant underlying causes. This is partly driven by pressures on household finances but is also potentially indicative of a “culture of
expectation” - that the council will supply housing when it is considered the applicant is old enough to be given a property.

2.7 It is suggested that some parents have unrealistic expectations with regard to the council’s ability to provide social housing for their children. In other cases of household ejection, the reasoning is more transparent, such as breakdowns of relationship caused by mental stress giving rise to domestic violence, but many of these issues may have their roots in the pressures on household finances outlined above.

2.8 Significantly from a budgetary perspective, there are a number of intervention strategies available that could be employed to prevent or postpone this type of homelessness, including offering alternatives to the making of a homeless application. Regrettably, analysis suggests that, in the past, the Housing Advice Service failed to explore such interventions as fully as could be expected, which added significantly to the rise in homeless applications.

3. The Rising Cost of Homelessness

3.1. For many years, the council was successful in being able to deliver its full statutory responsibilities with the resources made available. However, in recent years, a number of adversely influencing factors have progressively jeopardised this.

3.2. The T.A. Subsidy Cap. The council, like all London boroughs, has needed to rely on sourcing accommodation from private landlords to satisfy its temporary accommodation portfolio needs. The fee paid per property to each landlord was matched, £ for £, by the rent charged to the occupying homeless family, that family then claiming housing benefit to help pay the rent charged. Such accommodation then was generally at nil cost to the council

3.3. In 2011, the Government placed a cap on the amount of subsidy the council could recover to reimburse the paid out housing benefit. This cap was set at the 2011 Local Housing Allowance level, less 10%, plus £40. Initially, that had no impact on the nil cost scenario.

3.4. However, inflation generally and the significant rise in house prices in particular resulted in landlords raising their fees. It was not appropriate for the council to keep pace with these rises by raising rents to the occupying families for this would have merely have increased the housing benefit expenditure to an extent that not all of that expenditure would have attracted subsidy. It would also have increased the level of bad debt.

3.5. Progressively then, with fees to landlords rising but rents charged to the occupiers remaining stable, the nil cost relationship came to an
end. In real terms, that has translated to an average differential of approximately £4.30 per night (based on October 2016 data) for each private rented sector property. Arguably a modest sum for the council to spend supporting a homeless household £1,570 P/A), the difficulty this occasioned was two-fold:-

- Such expenditure was not anticipated and therefore not budgeted for
- What was also not anticipated was the significant rise in homeless applications and acceptances and, with this, the similarly significant rise in “at a cost” accommodation.

3.6. Whilst then the move from nil net cost to the sum advised would itself have occasioned some budgetary issues, it was the sheer growth in the number of such properties (as shown below) that took the service’s costs way beyond budget expectations, thus:-

![T/A Numbers Graph](image)

4. **Operational and Financial Recovery - 2016/17**

4.1 Members will be aware that the Housing Advice Service is predicted to occasion a £3.1M overspend. In that context, it might be difficult to conceive that a number of interventions have been successfully applied already. Suffice to say though that, without these, this unacceptably large overspend would likely have been even larger

4.2 There are three main dynamics that lead to the size of the homeless portfolio and, from that, the cost of that portfolio:-

1. The number of households being accepted onto the homeless register
2. The cost of accommodating those households

3. The number of households leaving the homeless register

4.3 Homeless Acceptances: The number of homeless acceptances is driven by:-

1. The number of people making a homeless application

2. The number of those applications that prove successful

and reducing acceptances during 2016/17 has been pivotal in halting the rise in the size, and cost, of the temporary accommodation portfolio.

4.4 This has been achieved by a number of different measures, some quite stark in their obvious benefits. They include:-

- Equipping front line officers with the skills necessary to challenge homelessness claims, particularly from those citing ejection by parents or friends

- Relying on a new triage process to quickly deliver housing advice and assistance promptly to prevent an escalation of circumstances that might otherwise lead to homelessness

- Again through skill enhancement, introducing legislative rigour to the homeless acceptance process

- Employing similar rigour when considering appeals against negative decisions

- Targeting use of Discretionary Housing Payments to help sustain private sector tenancies whilst alternative housing options are explored

- Engaging capped and to be capped households via the Welfare Reform Team to explore how they can maintain and increase income to manage rising rental costs, thus avoiding the potential for homelessness

4.5 These measures have contributed successfully to the reduction in homeless application, as the chart below shows. Of course, it does not necessarily follow that, if applications reduce, then acceptances will necessarily mirror that trend but, if they do not, that would prompt questions as to why. However, officers are able report that the trend in acceptances more than reflects the reduction, thus:-
4.6 Importantly then, for this goes to limiting the unbudgeted for cost of temporary accommodation, the trend in the number of placements into temporary accommodations mirrors this downward reduction:

4.7 The cost of accommodating homeless households: In the immediate term, that tenure that forms nearly 2/3rds of the accommodation portfolio, namely private rented sector properties, are not set to decline in numbers. Accordingly, if the fees landlords charge remains the same, there can be no prospect of any reduction in expenditure.
4.8 Indeed, it should be reported that there is the very real potential that landlords will require increases in fees, not least because of a preparedness of other boroughs to pay such higher rates, principally because they would still be lower than their own respective local costs. This will be dealt with in the paragraphs below.

4.9 What has been done to date, or is planned over the coming months in order to deliver some reductions to the overspend, is specific attention to other property types in the accommodation portfolio, thus:-

- Increasing rents/service charges in hostels to restore the budgeted surplus from its current £0.946m to the expected £1.177m, increases that, depending on the individual tenant’s income, might attract additional housing benefit.

- Significantly reducing the use of the most costly accommodation, namely B&B hotels, placements being kept to single figures

- By March 2017, targeting the “Top 100” most expensive T/A properties whose average net cost is approximately £11 per night, moving these households to cheaper accommodation

4.10 The number of households leaving the homeless register: As the above charts have shown, the number of households for whom a homeless duty has been accepted has reduced significantly over the previous year’s level. From this, it could be expected that the portfolio of temporary accommodation would reduce in size.

However, it has not:-

<table>
<thead>
<tr>
<th>Total Number of Households in T.A.</th>
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</thead>
<tbody>
<tr>
<td>Jan-16</td>
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<tr>
<td>1400</td>
</tr>
</tbody>
</table>

4.11 That said, the portfolio’s size has remained at around 1,800 for the last six months. So, with acceptances reducing, the static size of the portfolio must be attributable to the reducing supply of move on
accommodation. It is the realisation of this that informs much of the actions planned for 2017/18 and beyond.

5. **Operational and Financial Recovery – 2017/18 and beyond**

5.1. The focus for 2017/18 and beyond follows the same three themes of:

- Reducing homeless acceptances
- Reducing the unit and total cost of temporary accommodation
- Increasing the supply of move on accommodation

5.2. Reducing homeless acceptances: In January 2017 there is to be an extensive programme of training for front line officers that will build on that already delivered. The training outcomes include improving officers’ prevention skills and equipping them with the knowledge and resources to help homeless and potentially homeless households to avoid their housing predicament.

5.3. This training will be complemented with standard documentation resources designed to offer consistent and accurate advice to private landlords who are endeavouring to evict their tenants, ejecting parents and other hosts, the private tenants and the displaced son or daughter.

5.4. The activities of the service will also benefit from rigorous data capture and reporting, allowing successes to be recognised and for areas requiring attention to be quickly appreciated for such.

5.5. As advised in earlier paragraphs, employing opportunities that avoid the need for the making of a homeless application are vital in attending to the rise in homelessness. The proposed Placement Policy will be operational from April 2017 and it will equip officers with a new set of housing options for those threatened with homelessness. Thus, whilst such properties have been seen as ideal opportunities for accepted homeless households, they are equally as good as being available to prevent homelessness.

5.6. In 2016/17 to date, there has been an average of 57 homeless acceptances per month. The measures in 5.2 – 5.5 above are expected to achieve a reduction in this average. Quantifying the same is difficult but the Service would expect to see this average reduce to 42. That would see, year on year, 180 less households moving into temporary accommodation, bringing about savings to around £283k (based on a cost of £1570 p/a).

5.7. As 2017/18 progresses, delivering many key services as described in the Community Solutions Programme – employment, skills, training, money and debt advice, housing advice, etc. is expected to bring about a fundamental shift in what services are required. In homelessness
terms, there is every likelihood of a significant lowering in homeless approaches but this report intends to be cautious about attempting to predict the extent of this programme’s success. There are savings within the MTFS for the impact of Community Solutions but they are small (c £0.077m per year).

5.8. Reducing the unit and total cost of temporary accommodation: In a climate of rising house prices and increasing costs generally, it would be inappropriate to predict that unit costs will not rise. Indeed, a number of private landlord suppliers have already petitioned officers for increases of between £5 and £10 per week. The latter uplift would increase net spend on accommodation by over £600,000.

5.9. It is clear then that the key to addressing the budgetary overspend, particularly if unit costs do rise, is to significantly reduce the portfolio size of that accommodation that comes at a cost. The principal way this will be done will be considered below in the “Move on Accommodation” section but one key measure is the plan to increase hostel capacity, this type of accommodation securing a modest surplus.

5.10. Some 8 units at Boundary Road Hostel are expected to be available from October 2017, these then contributing some £100k p/a (£50k for 2017/18 at £34.43 a night including rent and service charge) of income whilst at the same time reducing the numbers of units costing £4.30 (or more) per night, this then realising reductions in expenditure of around £12k. Scope has also been identified for the expansion of the remaining three hostels to create an additional 14 rooms, however there is currently no budget set aside within the capital programme for any proposed conversion works and therefore project appraisals will need to be approved prior to the commencement of these projects.

5.11. The Sacred Heart convent is to feature in a forthcoming cabinet report. The proposals are for some 17 units of temporary accommodation by converting existing facilities together with 45 units of new build temporary accommodation.

5.12. In addition, officers are looking at other facilities for potential adoption in mid to late 2017 that could provide 50 – 60 units of accommodation.

5.13. Increasing the supply of move on accommodation: It is clear that, over the last 6 months, the Service has been increasingly successful in positively reducing the number of homeless acceptances by increasing homeless preventions and by finding alternatives to the making of a homeless application.

5.14. It is these successes that have seen a halting in the rise in the homeless population and, with it, a limit on the increase in expenditure, the use of “at cost” accommodation no longer increasing refers.
5.15. However, a static temporary accommodation portfolio will serve only to prevent a rise in costs. The key to achieving cost reductions then is to reduce the size of the at cost temporary accommodation.

5.16. The growth in hostel accommodation as referred to above will make a modest contribution to this goal. In addition, the relaxation of the one hour's travel distance criteria as agreed at Cabinet on 18th November 2016 is likely to afford access to a modest number of units where the net costs will be lower than currently.

5.17. An earlier Cabinet (19th April 2016) agreed to upwards of four infill sites, albeit that one of these sites is now likely to form a part of a larger development (subject to further Cabinet approval). On the three remaining sites there will be constructed around 55 units of temporary accommodation.

5.18. However, achieving the long term reduction in the size of the temporary accommodation portfolio and, with it, the attenuation of costs, obliges more innovative measures. The proposed Placements Policy is one such measure for it will permit for the appropriate and judicious use of affordable private sector properties to cease the homeless duty. Duty cessation means no ongoing commitment to the household, save in circumstances where the tenancy might break down in the first 24 months. However, the financial (and social) advantages in working to prevent that from happening will justify the investment in proper tenancy attainment and sustainment.

5.19. Officers are in the early stages of exploring other accommodation opportunities which might be able to achieve operational savings, principally around expanding the portfolio of accommodation which may give the council an income instead of private landlords. These though are only at the earliest stages of development but if more information is available by the time of the PAASC meetings, officers will be able to provide a verbal update.

5.20. The final observation deals with obtaining accurate and relevant data and using it to inform the service’s direction. It is clear that the service has benefitted from timely and accurate financial data. More recently, it has developed a more comprehensive suite of performance monitoring methods. It is vital that the service maintains this data gathering and uses the same in tandem with the regular income and expenditure information in order to promptly and strategically respond to opportunities and threats to a cost-effective service.
5.21. The following tables serve to tabulate proposed actions and their respective timetables, impact in 2017/18 and in any full year and reminds of assumptions, risks, etc.

<table>
<thead>
<tr>
<th>PART ONE: ACTIONS ALREADY IN TRAIN OR IN PREPARATION</th>
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<tbody>
<tr>
<td>Action</td>
</tr>
<tr>
<td>Hostel Charges</td>
</tr>
<tr>
<td>Reducing Use of B&amp;B</td>
</tr>
<tr>
<td>Top 100 properties</td>
</tr>
<tr>
<td>Reducing households in TA</td>
</tr>
<tr>
<td>Boundary Road</td>
</tr>
<tr>
<td>Maximising offers from Registered Providers</td>
</tr>
</tbody>
</table>
| Hostel Expansion | Further Expansion of remaining three hostels providing up to 14 rooms | TBA | 180 | 15 for each month open | Assuming £34.43 per night rent but only marginal extra cost to hostel budget. Dependent on identification of capital.

| Sacred Heart | Proposal to develop 62 units of Temporary Accommodation | TBA | 190 | 16 for each month open | Cost avoidance for 62 households at £4.70 per night plus net contribution to Council from hostel rent. Does not include the interest costs/repayment of capital.

| Further units of lower cost TA | Identification of units of TA that are cost neutral or preferably secure a surplus | April 2017 | 1.7 per unit loss avoidance plus potential income of 5.2 per unit @ £100 p/w surplus | TBA | To complement the essential need to avoid accepting a homeless duty, the key to the successful attenuation of the overspend is in using properties that secure an operational surplus.

| Removal of one hour rule | Removal of one hour rule should allow some households where it is appropriate to be placed in cost neutral accommodation further away from London | From now | Around £1,000 to £4,000 per h/h subject to costs and income | 60 | Successful legal challenge over reasonableness to expect acceptance of offered TA.

| Draft Placement Policy | Adopting the opportunity to offer accommodation whose costs risk poverty trap potential by ceasing duty in affordable areas of the country – when reasonable to do so | April 2017 | Around £1,000 to £4,000 per h/h subject to costs and income | 40 | The ability to successfully source such accommodation in the context of ever more tough welfare reforms that jeopardise affordability for non-working benefit dependent households.
Successful legal challenge over duty cessation.
6. Current Budget Position and Financial Implications

Completed by Katherine Heffernan, Group Manager, Finance & Investment

6.1 The Housing General Fund budget (also often referred to as Housing Needs or Homelessness budget) is £0.967m in 2016/17. This is the net budget after rent income and recharges. Gross expenditure is £21.6m as shown in the table below.

Table: The Housing GF Budget 2016/17

<table>
<thead>
<tr>
<th>Expenditure £000</th>
<th>Income £000</th>
<th>Net Budget £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Advice Service</td>
<td>5,888</td>
<td>(4,637)</td>
</tr>
<tr>
<td>Temporary Accommodation</td>
<td>14,419</td>
<td>(13,644)</td>
</tr>
<tr>
<td>Rent Deposits</td>
<td>225</td>
<td>(150)</td>
</tr>
<tr>
<td>Hostels</td>
<td>969</td>
<td>(2,146)</td>
</tr>
<tr>
<td>John Smith House</td>
<td>147</td>
<td>(104)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>21,648</strong></td>
<td><strong>(20,681)</strong></td>
</tr>
</tbody>
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6.2 The Council has had a two-year savings plan to increase the number of places in hostels in order to reduce expenditure on Bed and Breakfast and other forms of Temporary Accommodation. £0.9m of savings were taken from the budget in 2015/16 and a further £0.6m in 2016/17.

6.3 In 2015/16 the expenditure on the Housing General Fund, which is now largely known as Homelessness, was a net position of £2.265m against an original budget of £1.512. This was an underlying pressure of £0.753m but a one off drawdown of £0.500m from Housing GF reserves was applied giving a final variance of £0.253m. The pressure which emerged in the course of 2015/16 was due to the increased use and resulting cost of bed and breakfast placements, ongoing costs associated with placing people through the Rent Deposit Scheme, incentive payments to private sector landlords and costs incurred in respect of the provision of additional security at the hostels. In 2015/16 the total number of TA placements averaged around 1570.

6.4 In 2016/17 the Homelessness budget has reduced to £0.967m as a result of the planned savings. Delays in the hostels expansion programme have meant that the £0.6m saving cannot be achieved in year at a time when demand for temporary accommodation increased. The current number of placements in TA is around 1800 and this level of demand is expected to continue for the rest of the year.

6.5 The Housing service is currently (period 6) forecasting a pressure of £3.1m. Most of this pressure (£2.8m) arises from the Temporary Accommodation budget and is mainly due to the net cost of placing people in accommodation provided by private sector landlords and the
other factors set out in this report. It also includes an increase in the level of bad debt provision as arrears have risen by around 11% this year.

6.6 The other main contribution (£0.25m) to the pressure is the additional costs of security at the Homeless Hostels which has reduced their level of operating surplus. There are no other significant overspends and the staffing budget is on balance.

6.7 There is a high risk that without mitigating action the impact of welfare reform and other potential economic pressures could result in increased levels of homelessness and rent arrears for those households already in Temporary Accommodation. In recognition of these pressures and risks, some of which lie outside the service’s direct control, a growth provision of £1.8m additional budget has been factored into the Medium Term Financial Strategy. Subject to final approval in February this will provide additional funding for the service but action is required to reduce expenditure further. It would take a reduction of £1.3m to bring the budget back to balance in one year.

6.8 This report sets out a number of actions that should have beneficial financial impact. These are shown in the attached table. The combined full year effect of all the actions already in train or in preparation would be a reduction of £1.2m if fully achieved. The in year effect in 2017/18 is estimated to be £0.87m however this is a very high level estimate. The next stage must be a rigorous assessment of what is feasible and the setting of challenging but realistic targets against which delivery can be monitored by finance and the service.

6.9 Achievement of around £0.87m savings would leave a budget pressure of between £0.4m and £0.5m.

6.10 There may also be further reductions that will follow from the strategic approach to homelessness adopted by Cabinet in November and from the development of further temporary accommodation units. These are set out in the second part of the table. However all these proposals will take some time to develop and deliver and their potential impact has not yet been fully assessed.

6.11 Further work is therefore required by service management, finance and others to identify and evaluate the further action necessary to bring this budget to balance. It is recommended that there should be further reports to PAASC in the next quarter or early in the next financial year.

7. Legal Implications

*Completed by Chris Pickering, Principal Lawyer, Employment & Litigation*

7.1 This report provides information to Members for noting and does not require decision. There are no further legal comments to add.