frontier economics

THE SALVATION ARMY'S SUPPORTED HOUSING

Analysis of the Costs of Provision

June 2017

CONTENTS

EXECUTIVE SUMMARY

Supported housing provision in Great Britain

The supported housing sector in Great Britain provides specialist accommodation and support for over 700,000 vulnerable people to allow them to live as independently as possible in the community.[1] Persons living in such housing include older people, people with learning and physical disabilities and those at risk of homelessness, among other client groups. There are currently around 651,000 supported housing units across Great Britain, of which approximately 45,500 are for single homeless people (including rough sleepers) or homeless families.[2]

Government provides funding to ensure the appropriate and efficient provision of supported housing for a number of reasons:

- **Social objectives**: supported housing plays a vital role in supporting vulnerable groups who cannot otherwise safely live independently. Without this housing provision many would be likely to be homeless and living on the streets or entirely dependent on the health and social care sector for their accommodation and care;
- **Part of an integrated care pathway**: supported housing is a core part of the care pathway, acting both as step down accommodation for those who have been in prison, social care or hospital; or as step up accommodation to defer or prevent them from having to enter the health and social care system, or the police and justice system;[3] and
- **Supporting independent living**: supported housing provides a safe space in which vulnerable groups can receive other services that allow them to function independently in the community. For example, many supported housing services offer support with re-entering the workforce, debt advice and managing mental health conditions.

The providers of supported housing are typically housing associations, charities or other organisations.

Public funding for supported housing is currently administered through housing benefit but this funding mechanism is being reviewed. A Government consultation[4] in 2016 proposed that residents in supported housing would no

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[1] This is as defined in the Department for Work & Pensions Research Summary (2016) https://socialwelfare.bl.uk/subject-areas/services-activity/housing-homelessness/departmentforworkandpensions/179972rr927-supported-accommodation-review-summary.pdf

[2] Department for Communities and Local Government, Department for Work & Pensions (2016) Supported Accommodation Review: The scale, scope and cost of the supported housing sector https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/572454/rr927-supported-accommodation-review.pdf

[3] House of Commons – Communities and Local Government and Work and Pensions Committees, Future of Supported Housing, May 2017 https://www.publications.parliament.uk/pa/cm201617/cmselect/cmcomloc/867/867.pdf

[4] Department for Communities and Local Government, Department for Work & Pensions, 'Supported Housing Funding – Consultation', November 2016

longer be able to claim enhanced rates of housing benefit to meet their full rental costs. Instead, core rent and service charges would be funded through Universal Credit, up to the applicable rate of Local Housing Allowance (LHA). Where costs exceed the applicable LHA rates, ring-fenced ‘top-up’ funding would be devolved to local authorities.

Scope of this report

The Salvation Army (TSA) is one of the few national providers of supported housing for people experiencing homelessness across Great Britain, accounting for around 5% of supported housing units for this client group. Such housing is tailored to the needs of this particular client group, many of whom have complex problems such as mental health conditions, addictions to alcohol or other substances, and experience of the Criminal Justice System.

In light of the Government’s proposals, and the high costs associated with meeting the safeguarding and wellbeing needs of this particular client group, TSA has therefore commissioned Frontier Economics to undertake analysis of the costs of its supported housing provision. This includes investigating the potential implications of the new funding proposals for the financial viability of TSA’s supported housing provision across the country under different scenarios, along with consideration of the key principles that could underpin an appropriate alternative funding model.

Our approach

Our analysis focuses on three key questions defined by TSA:

1. What are the key cost drivers of the different accommodation types operated by TSA and how do these vary? Cost variations to explore include: (i) geographic region (using TSA’s seven regions of Great Britain); (ii) accommodation size; and, (iii) accommodation landlord type.
2. How do TSA’s costs of supported housing provision compare with other providers’ costs in the sector?
3. For illustration, what level of ‘top-up’ to applicable LHA rates would be needed (on average by region) to keep TSA’s net revenues the same as 2015/16? What could future cost and revenue scenarios look like?

To address these questions we have undertaken analysis of TSA’s latest full-year budget data from 2015/16; assessed published secondary evidence on the costs of supported housing for those at risk of homelessness; and, conducted scenario analysis to illustrate the potential impact of changes to the way supported housing is funded.

Findings

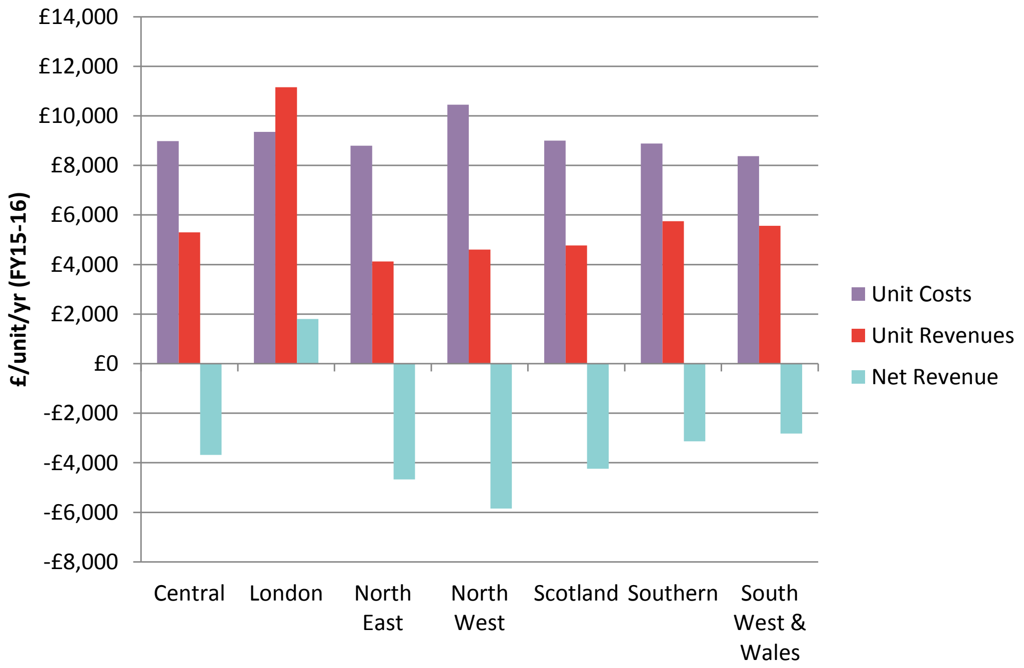
Using cautious assumptions regarding the costs associated with TSA’s supported housing provision (including the assumption of 100% occupancy and not including central overhead costs), we find the following:

- **Across TSA's housing stock in 2015/16, the average cost per unit per week ranged from £153 in the South West and Wales, to £201 in the North West.** These costs include operating costs but exclude overheads and support costs.
- **Costs do not vary systematically across regions but are driven by the nature of supported housing provision within each region.** The variation in the cost of provision across TSA's supported housing units is determined by the characteristics of the housing (namely size and landlord type), and the nature of the provision (namely catering):
  - **Property size:** Larger houses (i.e. those with more units) generally have lower unit costs as a result of economies of scale. This reflects that larger houses make efficiencies by spreading costs across a larger number of units, such as premises costs (e.g. utilities and council tax), housing management staff costs, and property and furniture costs.
  - **Landlord type:** where housing association charges are incurred, unit costs are higher because such costs reflect the capital expenditure involved in developing and maintaining the units, including the need for maintenance and upgrade expenditure.
  - **Catering:** Where catering is provided, this accounts for a large proportion of per unit costs, ranging from 14% in London to 35% in Scotland.[5] Catering is provided in 44% of units to meet the needs of the client-base.[6]
- **The proposed funding model poses significant risks to the financial viability of TSA's supported housing provision unless other sources of funding are found.** Using the 2015/16 housing stock, and associated applicable LHA rates with no 'top-up' for illustration, our analysis shows that overall revenues for TSA's units would fall by around 40%. In particular:
  - Without a 'top-up', revenues would only be sufficient to cover around two-thirds of the operating costs of provision. As shown in Figure 1, revenues would be below costs in all regions except from London (LHA rates are higher in London because of higher rental values in the local housing market); and
  - The average 'top-up' needed to offset revenue reductions in 2015/16 would be around £78 per unit per week, but this varies significantly by region, reflecting the wide variations in applicable LHA rates across the country.

[5] This is the average catering cost among those units for which catering is provided in the region.

[6] There may be scope to re-consider catering provision and move to more self-catering, but this would incur substantial capital costs to reconfigure units to be self-catering.

Figure 1 Direct cost and unit revenues with funding based on applicable LHA rates and no 'top-up' in 2015/16



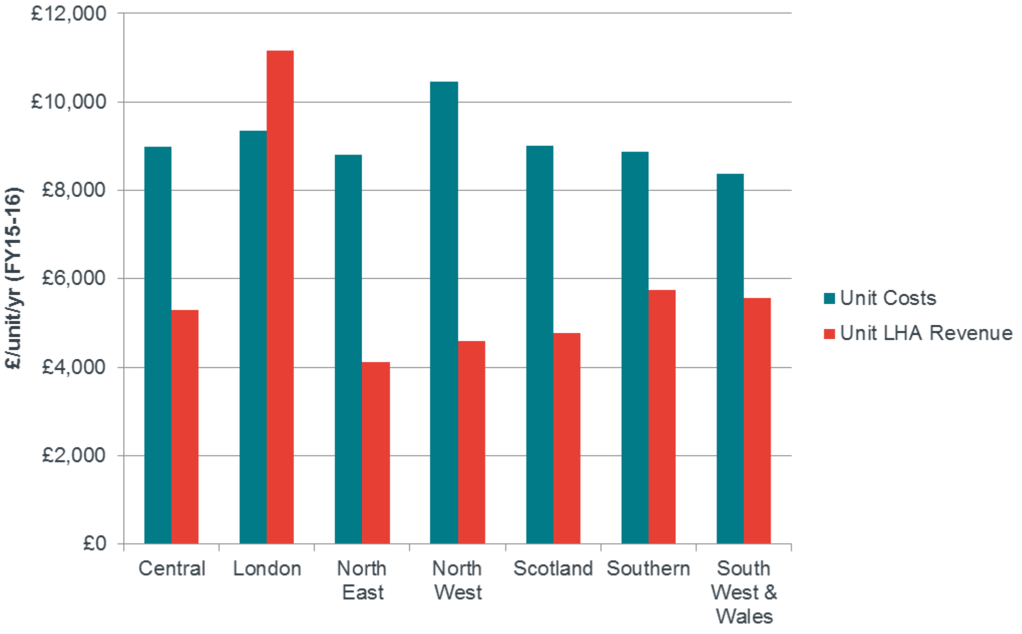
Source: Frontier Economics

Note: All figures expressed in 2015/16 prices

- **Revenues would be expected to fall in real terms over time because the applicable LHA rates are frozen until 2019/20.**[7] Assuming this freeze continues throughout our analysis to 2020/21, with funding in line with the applicable LHA rates and no 'top-up' we note:
  - 91% of TSA's housing stock would have revenues below operating costs by 2020/21. Other revenues would therefore be necessary for them to remain operational.
  - This assumes 100% occupancy and ignores overheads and support costs. If the occupancy rate were 90% instead of 100%, net revenues in 2020/21 would be a further 15% lower.
- **The applicable LHA rates are based on local market rental costs, but these bear no relation to variations in the costs of TSA's supported housing provision** (Figure 2). As noted above, TSA unit costs do not vary systematically by region, but instead are driven by the types of housing provided. In contrast, LHA rates vary significantly by region due to differences in local rental values. LHA rates are therefore neither appropriate nor well targeted at the costs of supported housing provision for those at risk of homelessness.

[7] HM Treasury, Summer Budget 2015.

Figure 2 Regional variation in average applicable LHA rates compared to average annual unit costs of TSA's supported housing



Source: Frontier Economics analysis of TSA and Valuation Office Agency data

- **The complex needs of those at risk of homelessness result in higher costs for the provision of supported housing than many other client groups**. Recent research suggests that supported housing (excluding that provided for older people) has unit costs of £10,800 per year above those of general needs properties[8]. Those at risk of homelessness often have complex needs, such as mental health conditions and addictions to alcohol or other substances, which further increases costs for this client group. Supported housing for these clients must be tailored to ensure it offers a safe environment for clients (such as 24 hour concierge) and is appropriately maintained (damage to properties regularly occurs). These factors, and others, lead to higher costs of provision.

Policy implications

We noted above the case for government funding of supported housing provision. We also noted how supported housing plays a critical role in enabling vulnerable groups to live more independently. Without supported housing provision, there would be an increase in homelessness and associated calls on the health, social care, police and justice systems.

Our analysis has highlighted that **the applicable LHA rates bear no relation to the costs of providing supported housing.** The applicable LHA rates are based on local rental values, but our analysis has shown that TSA's costs of provision do not vary systematically by region, but instead are driven by the

[8] Homes & Communities Agency, 'Delivering better value for money: understanding differences in unit costs – summary report', June 2016 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/527847/Unit_cost_analysis_-_summary_report.pdf

characteristics of the housing and nature of services needed to meet the complex needs of the particular client groups served.

An alternative national funding mechanism would be more appropriate for supported housing than the proposals based on applicable LHA rates. This should ensure funding is delivered for supported housing in a way which reflects the costs of provision for vulnerable groups with complex needs. It should also provide an incentive for efficient and appropriate provision. The following principles can therefore be considered for designing such a national funding mechanism:

1. **Public funding for supported housing should reflect the costs of efficient provision to meet the complex needs of vulnerable client groups.**
2. **Evidence from across the sector is therefore needed on how costs vary for meeting the complex needs of different client groups.**
3. **Costs of provision should be monitored to allow benchmarking across providers over time.**
4. **Public funding could be delivered on the basis of a cost-reflective national funding rate per unit, with supplements to that rate to reflect:**
    a. **Client group:** costs are typically higher for client groups with complex needs. For example, 24 hour concierge is often required to ensure a safe environment for clients.
    b. **Size of house:** costs are generally lower per unit in larger houses, such as premises costs, housing management staff costs, and property and furniture costs**.**
    c. **Landlord type:** where units are owned by housing associations, charges are paid to the housing association by those who are commissioned to manage those properties and ensure appropriate supporting housing can be provided (many of whom are charities). Such charges cover maintenance and capital costs. Such charges to housing associations are not paid where the provider owns and manages their own property.
    d. **Eligible services:** these costs relate to the provision of services that are necessary to meet client needs, such as cleaning of communal areas.
5. **The funding system should incentivise efficient provision by setting funding for three year planning periods.** Certainty over future funding streams will allow providers to develop appropriate strategic business plans to support stable and efficient provision. This implies funding based on entitlement and administered through the social security system is more likely to deliver such certainty than any mechanism which involves a large discretionary element, as is currently proposed.

6. **The national funding rate and supplements should be kept under review but set for three years to allow sufficient business planning time for providers.**

The ***quality*** of supported housing provision must of course also be considered by government – this is particularly important given the vulnerable client groups served. As with other sectors that receive public funding, it will be important for the funding mechanism to therefore be accompanied by an appropriate quality and safety monitoring framework. This may, for example, require that providers in receipt of government funding are registered (locally and/or nationally) and subject to appropriate inspections to ensure they meet relevant quality and safety standards.

1 CONTEXT

1.1 Supported housing provision in Great Britain

The supported housing sector in Great Britain provides specialist accommodation and support for over 700,000 vulnerable people to allow them to live as independently as possible in the community.[9] Persons living in such housing include older people, people with learning and physical disabilities, and those at risk of homelessness, among other client groups. There are currently around 651,000 supported housing units across Great Britain, of which approximately 45,500 are for single homeless people (including rough sleepers) or homeless families.[10]

Government provides funding to ensure the appropriate and efficient provision of supported housing for a number of reasons:

- **Social objectives**: supported housing plays a vital role in supporting vulnerable groups who cannot otherwise safely live independently. Without this housing provision many would be likely to be homeless and living on the streets or entirely dependent on the health and social care sector for their accommodation and care.
- **Part of an integrated care pathway**: supported housing is a core part of the care pathway, acting both as step down accommodation for those who have been in prison, social care or hospital; or as step up accommodation to defer or prevent them from having to enter the health and social care system, or the police and justice system;[11]
- **Supporting independent living**: supported housing provides a safe space in which vulnerable groups can receive other services that allow them to function independently in the community. For example, many supported housing services offer support with re-entering the workforce, debt advice and managing mental health conditions.

The providers of supported housing are typically housing associations, charities or other organisations. TSA is one of the few national providers of supported housing for people experiencing homeless across Great Britain, accounting for around 5% of supported housing units for this client group.

[9] This is as defined in the Department for Work & Pensions Research Summary (2016) https://socialwelfare.bl.uk/subject-areas/services-activity/housing-homelessness/departmentforworkandpensions/179972rr927-supported-accommodation-review-summary.pdf

[10] Department for Communities and Local Government, Department for Work & Pensions (2016) Supported Accommodation Review: The scale, scope and cost of the supported housing sector https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/572454/rr927-supported-accommodation-review.pdf

[11] House of Commons – Communities and Local Government and Work and Pensions Committees, Future of Supported Housing, May 2017 https://www.publications.parliament.uk/pa/cm201617/cmselect/cmcomloc/867/867.pdf

1.2 The Government's proposals for supported housing

The Government published a consultation on public funding of supported housing in November 2016.[12] The consultation proposed changes to the way supported housing is funded in the context of the roll-out of Universal Credit.

The proposals affect the funding of housing for those at risk of homelessness, as well as other types of supported housing. Under the proposals, residents in supported housing would no longer be able to claim enhanced rates of housing benefit to meet their full housing costs. Instead, core rent and service charges would be funded through Universal Credit, at the applicable rate of Local Housing Allowance (LHA). The Government has also announced that LHA rates will be frozen in nominal terms for the four years from 2016/17 to 2019/20.[13] Where costs exceed the applicable rate of LHA, ring-fenced 'top-up' funding would be devolved to local authorities.

The Government has suggested that funding supported housing at the applicable LHA rate would not be introduced until 2019/20.[14] The consultation states that the new model would ensure funding continues at the same levels it would have been in 2019/20, taking into account the Government's plans for social rents. However, a recent Select Committee report has raised some concerns over the proposed changes, particularly regarding the appropriateness of adopting LHA rates to fund supported housing. The report found that LHA rates are an inappropriate starting point for a new funding mechanism for supported housing because they bear no necessary relationship with the costs of provision. It also found that some areas would be far more reliant on local 'top-ups' than others, which could create disparities in provision between different regions.[15]

The proposed changes would have important implications for the ability of TSA to cover its costs of providing supported housing for those experiencing homelessness. The applicable LHA rates are significantly lower than the current enhanced rates of housing benefit in most areas of the country. This means that many of TSA's housing units will only be viable if a 'top-up' is offered by local authorities. As the 'top-up' is discretionary and needs to be allocated across different client groups, this raises uncertainty over future funding levels for TSA's supported housing units and creates challenges for its longer-term strategic planning. This is in contrast to the current funding model which provides certainty through being based on entitlement.

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12 Department for Communities and Local Government, Department for Work & Pensions, 'Supported Housing Funding – Consultation', November 2016

13 HM Treasury, Summer Budget 2015.

14 Written Ministerial Statement (15 September 2016): http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2016-09-15/HCWS154/

15 House of Commons – Communities and Local Government and Work and Pensions Committees, Future of Supported Housing, May 2017

1.3 Objectives of this analysis

In light of the Government's proposals, TSA commissioned Frontier Economics to undertake an analysis of the costs of its supported housing provision, and the possible implications of the proposals for TSA's ability to meet these costs. Our analysis focuses on three key questions defined by TSA:

1. What are the key cost drivers of the different accommodation types operated by TSA and how do these vary? Cost variations to explore include: (i) geographic region (using TSA's seven regions of Great Britain); (ii) accommodation size; and, (iii) accommodation landlord type.
2. How do TSA's costs of supported housing provision compare with other providers' costs in the sector?
3. For illustration, what level of average 'top-up' to the average applicable LHA rates would be needed (by region) to keep TSA's net revenues the same as 2015/16? What could future scenarios look like?

1.4 Our approach

Our approach to addressing these questions has involved using detailed TSA budget data for 2015/16[16], carrying out detailed analysis of that data and of alternative scenarios, and also exploring published secondary evidence on the costs of supported housing for those at risk of homelessness.

The budget data provides information on the costs of each house operated by TSA in 2015/16, whether owned by TSA or a housing association. Our analysis first uses this information to characterise TSA's supported housing provision and the direct housing costs. We also use the budget data to analyse the categories of key cost drivers. Comparisons are made of how these cost categories vary by region, house size, and landlord type. This analysis helps to identify which groups of houses may face most financial risk from changes in funding. For comparison, we have investigated publically available data on the costs of provision faced by other providers in the supported housing sector. However, such evidence is extremely limited and mainly derives from one recent Government report.[17]

Our scenario analysis is used to explore the potential impact of the Government's proposed funding changes on the ability of TSA to cover its costs. The scenarios illustrate changes over the period from 2015/16 to 2020/21 under various assumptions:

- A continuation of current funding through housing benefit;
- Changing to the applicable LHA rates with no 'top-up';
- Changing to the applicable LHA rates plus a 'top-up' of £50; and

[16] This was the latest full year for which the accounts were available at the time of starting our analysis.

[17] Department for Communities and Local Government, Department for Work & Pensions, 'Supported Housing Funding – Consultation', November 2016

- Changing to the applicable LHA rates plus a ‘top-up’ set at an average value per region such that overall funding levels for TSA’s housing portfolio are the same as under the current arrangement in 2015/16.

Each of the scenarios using applicable LHA rates illustrates a change as if it were implemented from 2015/16 to allow an assessment of how impacts could change over time. These scenarios are illustrative as we recognise that in practice the Government’s proposals are for a change from 2019/20.

Our analysis takes a conservative approach in key assumptions to represent a ‘best case’ for TSA’s ability to achieve revenues that cover the costs of its supported housing provision. Revenues would be lower relative to costs under a less conservative set of assumptions. For example, the analysis assumes 100% occupancy, which is unlikely in practice. A lower level of occupancy would make it more difficult for TSA to achieve sufficient revenues to cover its costs. Key evidence sources and assumptions are summarised below.

Key evidence sources and assumptions

Our key assumptions and evidence sources are the following:

- **Budgets**: our analysis uses TSA’s 2015/16 budget data for supported housing provision. This is the latest complete annual data set currently available.
- **Client-base:** TSA’s housing portfolio is assumed to be as it was in 2015/16, which in turn reflects the client-base it served in that year. For example, the very complex needs of clients mean that housing provision must be tailored to be safe, appropriate and allow for required safeguarding, repairs and maintenance.
- **Housing stock:** TSA’s supported housing portfolio in Great Britain from 2015/16 is used in the analysis, consistent with the budget data. It is assumed that this portfolio remains constant over the period of the analysis.
- **Landlord types**: the supported housing portfolio includes different types of landlord arrangements. These groups are:
  a. TSA owned and run;
  b. TSA’s Social Services Investment Programme Properties;[18]
  c. Properties owned by the Salvation Army Housing Association (SAHA), which is TSA’s preferred partner ; and
  d. Other properties, such as those owned by housing associations but operated by TSA.
- **Direct housing costs:** the analysis focuses on the direct costs of operating supported housing. Wider support costs are excluded. This means that the most relevant costs are isolated for understanding the impact of the Government’s proposals, but the analysis is not representative of the full set of costs incurred.

[18] These properties are also owned and run by The Salvation Army, but are treated separately because they have had building investments that involve more significant capital depreciation.

- **Overheads:** TSA overhead costs are also excluded from the analysis. This again means that the analysis will understate the full set of costs incurred by TSA associated with the provision of supported housing.
- **Occupancy:** the analysis assumes 100% occupancy of TSA's supported housing. This assumption is used to demonstrate a maximum level of revenue achievable. Lower levels of occupancy would reduce revenues. In practice, current occupancy levels are around 90% on average.
- **Applicable LHA rates:** 2016/17 applicable LHA rates relevant for each property in TSA's portfolio have been used (these rates reflect local rental markets).

2 CHARACTERISING THE SALVATION ARMY'S SUPPORTED HOUSING

In this section we describe the nature of supported housing provided by TSA, the client group it reaches, and show how the costs differ from other types of housing.

2.1 The Salvation Army's supported housing provision

TSA is one of the very few national providers of supported housing for those experiencing homelessness. In 2015/16 TSA provided 2,232 units within 56 houses in Great Britain. This represents five percent of the 45,500 units[19] for people with experience of homelessness across Great Britain. Provision of supported housing for people with experience of homelessness is a relatively small part of the wider supported housing sector, which has 651,000 units overall, around 71% of which are for older people.[20]

A breakdown of TSA's provision of supported housing in 2015/16 is summarised in Table 3 below. TSA operates in each region across Great Britain, with 7-11 houses per region and, on average, 27-54 units per house. London has the highest number of units at 406, and also the highest total cost at £3.8m in 2015/16.

The average total direct expenditure per unit per week for TSA houses in 2015/16 ranges from £153 in the South West and Wales, to £201 in the North West. These costs include operating costs but exclude overheads and support costs.

[19] Department for Communities and Local Government, Department for Work & Pensions, 'Supported Housing Funding – Consultation', November 2016

Note that the number of 'units' will not always be the same as the number of beds, because some units provide for multiple residents, such as those in family units.

[20] Department for Communities and Local Government, Department for Work & Pensions, 'Supported Housing Funding – Consultation', November 2016

Table 3 Summary of The Salvation Army's supported housing in 2015/16

Region	Number of houses	Number of units	Average number of units per house	Total direct expenditure per year*	Average annual total direct expenditure per unit*	Average total direct expenditure per unit per week*
Central	8	332	42	£2.98m	£8,983	£173
London	7	406	54	£3.80m	£9,352	£192
North East	7	360	51	£3.17m	£8,801	£169
North West	9	355	39	£3.71m	£10,454	£201
Scotland	11	320	29	£2.88m	£9,005	£173
Southern	7	188	27	£1.67m	£8,884	£171
South West and Wales	7	271	39	£2.27m	£8,377	£153

Source: *Frontier Economics analysis of TSA budget data (2015/16)*

Note: **Note that total direct expenditure per year includes property support costs that are currently eligible for housing benefit, as well as operating costs*

2.2 The Salvation Army's client base and the associated costs of supported housing provision

Although charity and voluntary organisations are estimated to account for around seven percent of all supported housing in Great Britain, they are much more prevalent in the provision of supported housing for people of working age with more complex levels of need. This reflects a concerted effort by charities and voluntary organisations to focus on providing for clients whose complex needs are not being met by larger social landlords due to the associated greater levels of risk and costs. In addition, many housing associations contract out the management of specialised supported housing to charity and voluntary groups such as TSA.[21]

The complex needs of the client base mean that costs per unit are likely to be significantly higher than the provision of standard supported housing. Research suggests that supported housing (excluding that provided for older people) has

[21] Department for Communities and Local Government, Department for Work & Pensions, 'Supported Housing Funding – Consultation', November 2016

unit costs on average £10,800 per year above those of general needs properties.[22] This reflects the specialist needs of clients in supported housing. For example, TSA's client base includes vulnerable groups with multiple complex needs. This includes those with mental health problems, vulnerable young people, those who misuse drugs or alcohol and ex-offenders. The supported housing provided by TSA has developed over time to be specialised in meeting the needs of these vulnerable groups. Recent research identified additional costs are associated with:[23]

- Providing communal spaces;
- Repair and maintenance – this is disproportionate given the damage to properties that can often be caused by residents, as well as the general wear and tear associated with high levels of throughput;
- Security and health & safety – staff are needed on site for 24 hours a day for safe guarding;
- Housing management/ concierge – concierge is needed as part of safeguarding measures; and
- Voids – some units will remain unoccupied for lengthy periods of time. Unoccupied units incur costs without associated revenues.

The same research for Government also included data on the core rent that providers of supported housing can reclaim from housing benefit in England. Average rent charges for the homeless people categories range from £93 to £96 per unit per week. However the client base of TSA includes those with complex needs in some of the highest rent charges categories, such as people who misuse drugs (£107/week) and alcohol (£100/week). Note that there are limitations in these estimates, which the authors note do not represent the entirety of the support housing market. The figures are also not directly comparable with analysis presented on TSA specific costs elsewhere in our report.[24]

[22] Homes & Communities Agency, 'Delivering better value for money: understanding differences in unit costs – summary report', June 2016

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/527847/Unit_cost_analysis_-_summary_report.pdf

[23] Department for Communities and Local Government, Department for Work & Pensions, 'Supported accommodation review', November 2016

[24] Department for Communities and Local Government, Department for Work & Pensions, 'Supported accommodation review', November 2016

3 COST DRIVERS

3.1 Introduction

The Government's proposed policy changes to the funding of supported housing may hinder TSA's ability to cover its costs of providing these services. This section looks at TSA's costs and how these costs differ across region, landlord type and house size. We find that the key driver of costs is the nature of supported housing provision for those at risk of homelessness, rather than its location.

Operating costs reported on TSA's financial budgets for the year 2015/16 are grouped into eight categories. These divisions are set out in Table 4 below.

Table 4: Division of TSA's costs into eight categories

Cost category	Costs included
Housing management staff	Management staff, administrative staff, recruitment costs, training and other staff costs
Cleaning	Cleaning staff, cleaning, laundry staff, laundry, contract housekeeping
Premises costs	Premises costs, management & administration expenses
Property and Furniture	Maintenance staff, Service costs - furniture & equipment, Property Support Costs
Concierge	Staff controlling access and providing a safety and security presence
Catering	Catering, catering staff
Housing association charges	Housing association charges
Other expenses	Other expenditure, special efforts expenditure

Source: Frontier Economics analysis of TSA budget data (2015/16)

Table 5 below provides a broad overview of the cost items driving total costs across the seven different regions where TSA provides supported housing in Great Britain.

Table 5: Cost breakdown across regions

	Housing management staff	Cleaning	Premises costs	Property and Furniture	Concierge	Catering*	Housing association Charges*	Other expenses
Central	7%	8%	22%	7%	12%	13%	30%	1%
London	5%	11%	15%	3%	16%	10%	39%	0%
North East	7%	9%	16%	7%	10%	15%	35%	1%
North West	8%	9%	13%	4%	8%	18%	39%	1%
Scotland	12%	8%	20%	12%	13%	11%	24%	1%
Southern	14%	5%	26%	14%	13%	2%	25%	0%
South West & Wales	14%	8%	18%	7%	6%	17%	29%	0%
Total	9%	9%	18%	7%	11%	13%	33%	1%

Source: Frontier Economics analysis of TSA budget data (2015/16);

Note: The geographic breakdown uses TSA's regional definitions across Great Britain.

**Catering and Housing Association charges given as a percentage across all houses for each region. This includes some houses that do not incur these costs, which brings down the average percentage figures.*

Housing association charges are on average the greatest contributor to costs in all regions except Southern. Considering only those houses owned by housing associations, the proportion of costs accounted for by housing association charges ranges from 37% (South West and Wales) to 55% (Scotland). Housing association charges serve as substitutes to other costs such as property support costs or capital investment costs which TSA would need to cover if the property was not under a housing association. For example, housing associations will usually take on capital grant funding to develop/improve their properties. In the absence of a housing association, TSA would need to cover these costs to maintain their buildings.

Similarly, catering costs are on average a significant proportion of total costs across regions. Stripping out those units for which catering is not provided and considering only those houses that have catering services, the proportion of costs accounted for by catering ranges from 14% (London) to 35% (Scotland). Under current housing benefit regulations, catering services are only partly eligible for funding.[25] There are ongoing discussions within TSA, considering how catering charges could be reduced or removed from housing charges to improve cost efficiencies.

3.2 Cost breakdown by region, landlord type and size (with and without catering)

To provide a clearer understanding of what factors drive TSA's costs, we consider the cost categories from three different angles:

1. Breakdown of costs by region;
2. Breakdown of costs by landlord type; and
3. Breakdown of costs by size of supported housing.

[25] TSA claims housing benefit to cover this specified amount, in accordance with Schedule 1, Paragraph 2&3 of the 2005 Housing Benefit Regulation.

As previously noted, catering services are a substantial proportion of total costs for houses where these services are provided. There is an uneven spread of catering services across the different regions, landlord types and size bands. Figures 4-6 show average annual per unit costs, both including and excluding catering costs, to highlight the impact of catering costs across region, landlord type and house size.

By region

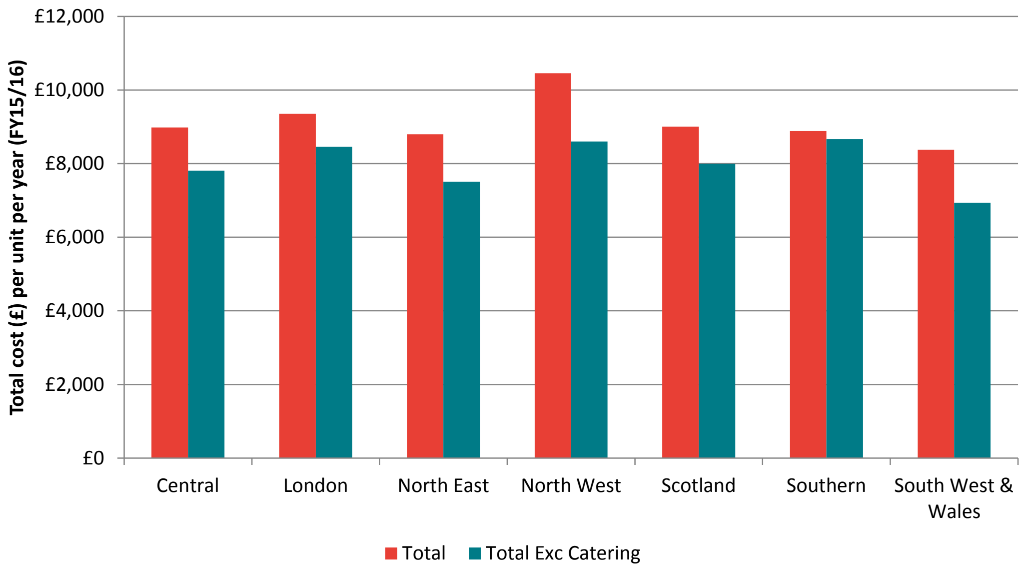
Table 6 shows the breakdown of houses and units across the seven regions where TSA provides supported housing in Great Britain. Scotland has the highest number of houses (11), while London has the highest number of units (406), due to the large average size of houses in this region. Southern has the lowest number of units, 188, and the lowest number of catering units, 12, across the regions.

Table 6: Breakdown of houses across regions

	Central	London	North East	North West	Scotland	Southern	South West & Wales
Number of houses	8	7	7	9	11	7	7
Number of units	332	406	360	355	320	188	271
Catering units	158	130	194	210	103	12	180

Source: Frontier Economics analysis of TSA budget data (2015/16)

Figure 4 Average annual cost per unit across regions (£)



Source: Frontier Economics analysis of TSA budget data (2015/16)

Figure 4 above presents the breakdown of average annual cost per unit[26] per year (2015/16), across the seven regions where TSA provides supported housing. It clearly shows little systematic variation across regions, regardless of whether catering services are included or excluded. The total average cost per unit ranges from £8,377 in the South West & Wales, to £10,454 in the North West, a difference of £2,077. The difference between the highest and lowest cost regions narrows to £1,726 when catering services are excluded. This suggests that the uneven spread of catering costs, which are provided in 44% of units overall, may be driving some of the cost differences. When catering costs are excluded, South West & Wales remains the region with the lowest costs, while Southern overtakes the North West as the most expensive. This reflects that the North West and Southern have the highest (210) and lowest (12) number of catering units respectively. This further highlights the significant impact that the provision of catering has on supported housing costs for TSA.

A closer look at the costs across regions shows that there is a degree of variation between regions in some specific cost categories. For example, cleaning and concierge costs are higher in London, which may reflect higher wages than in other regions. These wage variations may lessen in future to some extent, if planned changes associated with the National Living Wage increase wage costs more in those areas where wage costs are currently lower (outside London).[27] There are also some regional differences in housing management staff costs, premises costs and property and furniture costs. Graphs illustrating these differences are included in the Annex.

By landlord type

Table 7 below shows the breakdown of houses and units, across the four types of landlords where TSA provides supported housing. SA owned and managed relates to houses that are owned and managed by TSA. SSIP are owned and managed by TSA with specific Homes and Communities Agency conditions attached. SAHA relates to the main housing association working with TSA. ‘Other’ refers to all other housing associations that TSA works with, apart from SAHA.

Most of the supported housing, 70%, is owned by housing associations. Of the 56 supported houses considered, 21 are operated by SAHA and 18 are operated by ‘other’ housing associations. SAHA clearly operates the most units overall, with a total of 1166 units under its control, compared with just 497 units under ‘other’ housing associations. This reflects the larger size of SAHA houses, which are 56 units on average, double the average size for ‘other’ housing associations. The ‘other’ housing associations have only 70 units of catering across its 18 houses, compared to 163 units across the 11 houses operated and owned by TSA.

[26] ‘Unit’ is defined at the level that fees are paid. While this mostly refers to a single bed space, in certain circumstances (family units), it may refer to the room.

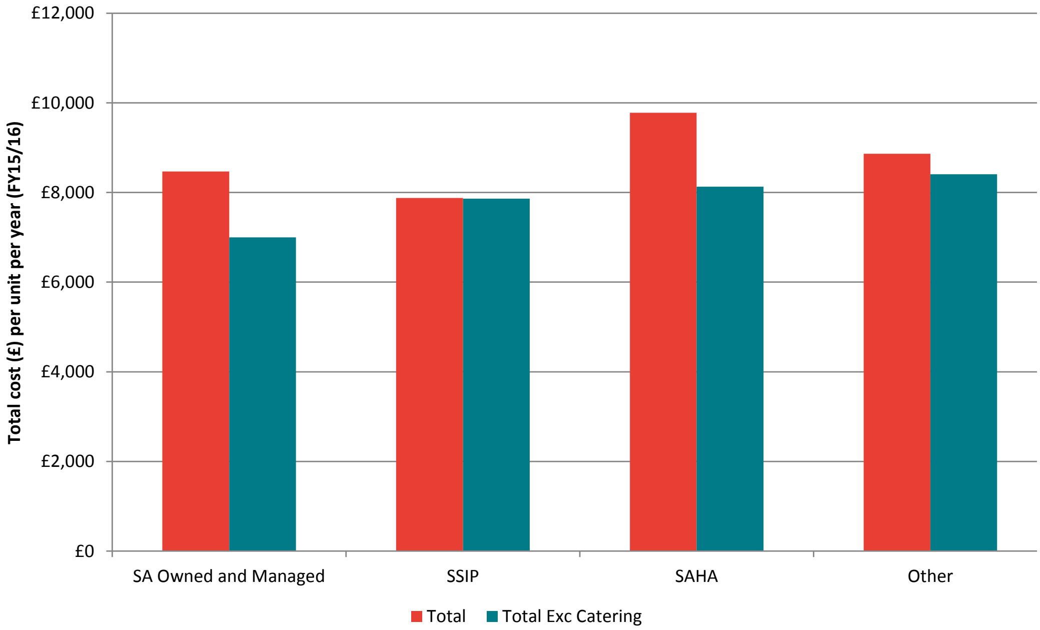
[27] The potential impacts of the National Living Wage changes for The Salvation Army’s costs of supported housing provision are explored further on page 41.

Table 7: Breakdown of houses across landlords

	SA owned and managed	SSIP	SAHA	OTHER
Number of houses	11	6	21	18
Number of units	323	246	1166	497
Average house size	29	41	56	28
Minimum house size	2	21	12	11
Maximum house size	60	80	150	66
Catering units	163	0	754	70

Source: Frontier Economics analysis of TSA budget data (2015/16)

Figure 5 Average annual cost per unit across landlord type



Source: Frontier Economics analysis of TSA budget data (2015/16)

Figure 5, above, presents the average cost per unit per year (2015/16) broken down across landlord type. This figure suggests costs are driven to a certain degree by landlord type. SSIP houses have the lowest annual average cost per unit (£7,878), but excluding catering costs shows that housing owned and managed by TSA is the lowest cost. However, costs for these houses may be understated as other property types include an annual provision for irregular maintenance and repairs; whereas this is budgeted for separately at TSA owned and managed properties and not included in these figures.

Similarly, SAHA has the highest annual average cost per unit (£9,780), but excluding catering costs shows that housing owned by housing associations other than SAHA are the most expensive. The percentage cost difference, excluding catering, between supported housing owned and managed by the TSA and supported housing owned by ‘other’ housing associations is 20%.

A closer look at the annual average costs per unit across landlords shows that concierge costs for SSIP properties are substantially higher than for other landlord types. The premises costs for SSIP properties and houses managed and owned by TSA also appear higher than those houses owned by housing associations. However, this might be because at housing association properties, the housing association charge covers some premises costs, such as property support and capital improvements, which are excluded in the cost data for TSA owned properties. Graphs illustrating these results are included in the Annex.

By size

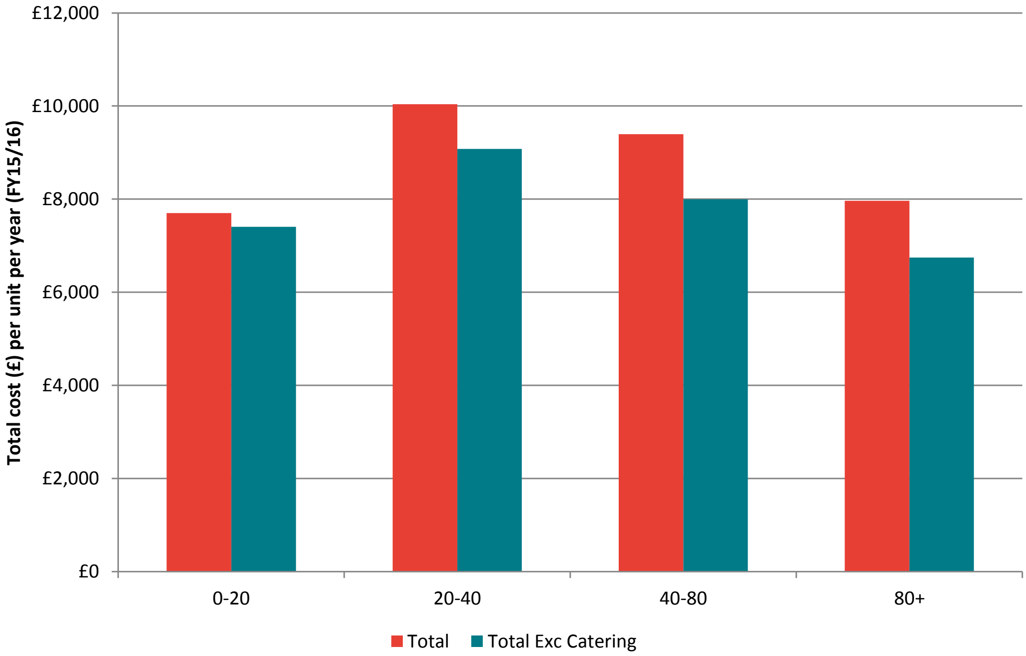
Table 8, below, shows the breakdown of supported housing and units across four size bands. The majority of housing, 20 of the 56 houses, is in the 40-80 size band, with only 4 houses in the 80+ size band.

Table 8: Breakdown of TSA houses across size bands in 2015/16

	0-20	20-40	40-80	80+
Number of houses	13	19	20	4
Number of units	140	585	1071	436
Catering units	17	166	589	215

Source: Frontier Economics analysis of TSA budget data (2015/16)

Figure 6 Annual average costs per unit across house size bands (£)



Source: Frontier Economics analysis of TSA budget data (2015/16)

Figure 6 above presents the average cost per unit per year (2015/16) broken down across four house size bands. There appears to be some evidence of economies of scale in TSA's supported housing provision. Aside from the smallest band (0-20), per unit costs are on average lower for those houses with more units. Houses in the 80+ and 40-80 size bands are on average 35% and 14% cheaper per unit, than houses in the 20-40 size band. The unit costs of the

0-20 size band may appear lower in part because these houses are often move-on accommodation linked to a larger house that provides for some of the costs.

Economies of scale are evident for housing association charges, housing management staff, premises costs, and property and furniture costs. However, per unit costs are constant across size bands for catering, despite relatively high costs for the 20-40 size band. Graphs illustrating these results are included in the Annex.

3.3 Observations

The key driver of costs is the nature of supported housing provision for those at risk of homelessness, not its location. The cost drivers relate to the nature of the housing provision, in terms of size and landlord type. The types of housing related services also drive costs, particularly in terms of catering and differences in property and premises costs. Key observations are:

- **Catering costs** have a significant impact on per unit annual total costs across region, landlord type and size band. For example, including catering costs in total costs shows the North West to be the most expensive region while excluding this cost item would identify Southern as the most expensive. Similarly, SAHA is the most expensive landlord type when catering costs are included, while ‘other’ housing associations have the highest per unit costs when catering is excluded. For the purpose of comparability, total per unit costs excluding catering should be used since there is an uneven spread of these services across region, landlord type and size band. As catering accounts for a significant proportion of costs where it is provided, this is an area where the TSA could potentially consider changing these services to save costs. However, changing catering services would involve substantial capital costs to reconfigure units to be self-catering

- **Landlord type** also drives costs to some extent, with houses owned and run by TSA showing lower costs than houses that TSA operates but are owned by other parties. This is largely because budgets for TSA owned properties have no debt payments or capital investments included. Properties owned by housing associations show the highest costs, mostly because of housing association charges that are used for costs such as property and premises costs. The need for these charges reflects the type of building required to offer the supported housing services needed for those at risk of homelessness.

- **Size** of houses impact some costs, with evidence of lower average costs per unit for larger houses. Economies of scale are particularly evident for housing association charges, housing management staff, premises costs, and property and furniture costs.

- **Region** is not a systematic driver of costs. Whilst there is some variation across regions, this is driven by the nature of supported housing provision through the factors described above, rather than by location.

4 SCENARIOS

This section sets out potential scenarios of the impact of funding changes on the financial position of TSA's supported housing. The scenarios do not represent a forecast but should be seen as illustrative of the nature of potential impacts from funding changes.

The scenarios show that moving to funding supported housing at the applicable LHA rates without a 'top-up' would represent a significant fall in revenues for TSA of some 40% in 2015/16. This presents a significant risk to the financial viability of many TSA houses. This risk cannot be mitigated by 'top-up' funding distributed on a discretionary basis because of the significant uncertainty this raises over what level of 'top-up', if any, will be provided. A 'top-up' in the region of £78 per unit per week (on top of the applicable LHA rates) would be needed on average to offset the revenue reduction in 2015/16. The level of 'top-up' needed varies significantly across the country reflecting the fact that LHA rates reflect local rental markets but costs bear no relation to local rental values. This leads the North West to need the greatest 'top-up', while London does not need a 'top-up', to maintain 2015/16 revenues at their levels under the current system.

4.1 Scenario assumptions

The scenarios illustrate changes over the period from 2015/16 to 2020/21 under various funding cases:

- A continuation of current funding through housing benefit;
- Changing to the applicable LHA rates with no 'top-up';
- Changing to the applicable LHA rates plus a 'top-up' of £50 per unit; and
- Changing to the applicable LHA rates plus a 'top-up' equivalent to the average value needed per region such that funding levels are the same as under the current housing benefit arrangement in 2015/16.

Each of the scenarios illustrates a change as if it were implemented in 2015/16 to allow an assessment of how impacts could change over time. The scenarios with funding based on applicable LHA rates use the rates specific to the region of each TSA house across the country. The same assumptions are applied across England, Scotland and Wales. These scenarios are illustrative, as we recognise that in practice the Government's proposals are for a change from 2019/20, and there could be differences in funding arrangements in the Devolved Administrations. The scenarios also make cautious cost assumptions, by assuming 100% occupancy of units and excluding central overhead costs.

The scenario assumptions are shown in Table 9 below. The revenue assumptions (i.e. funding through either housing benefit or the applicable LHA rate) vary across each of the four scenarios while the cost assumptions are the same. After discussing the scenario results in the next section, we also introduce further analysis to demonstrate the impact of two sets of alternative assumptions. These test (i) alternative cost assumptions, to explore the potential impact of wage cost increases from the introduction of the National Living Wage, and (ii) the impact of changing the occupancy rate to 90% instead of 100%, reflecting that there can be inevitable periods where some units are left unoccupied.

Table 9 Summary of Scenario Assumptions

Scenario	Revenue assumptions	Cost assumptions
Scenario 1: baseline	Current level of housing benefit funding remains, and is kept flat in real terms (i.e. changes exactly in line with inflation)	All costs remain flat in real terms (i.e. changes exactly in line with inflation)
Scenario 2: LHA with no 'top-up'	Change to applicable LHA rates with no 'top-up' from 2015/16. The applicable LHA rates are frozen at 2016/17 levels.[28]	All costs remain flat in real terms
Scenario 3: LHA plus £50	Change to applicable LHA rate plus a £50 per unit per week 'top-up' across all regions from 2015/16, then frozen at the levels onwards.	All costs remain flat in real terms
Scenario 4: LHA 'plus X'	Change to applicable LHA rate plus '£X' per unit per week top-up, where 'X' varies by region to keep average revenues in 2015/16 the same as under today's system.	All costs remain flat in real terms

Source: Frontier Economics

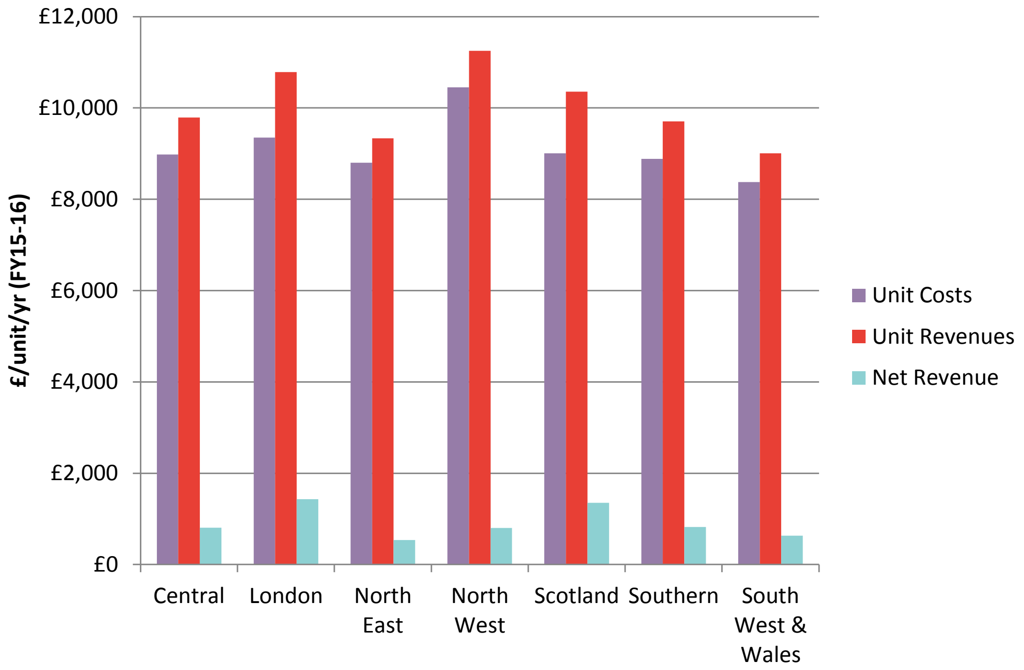
4.2 Scenario results

Scenario 1: baseline

Figure 7 below shows the baseline financial position, in terms of the housing operating costs and revenues, with the current housing benefit funding in 2015/16. All regions show revenues per unit slightly exceeding costs, meaning positive net revenues (before central overheads are taken into account). It is important to note that the analysis focusses only on housing operating costs and revenues, and so excludes overheads and support costs, while also assuming 100% occupancy rates.

[28] HM Treasury, Summer Budget 2015.

Figure 7 Direct costs and unit revenues per unit in 2015/16 under scenario 1: baseline

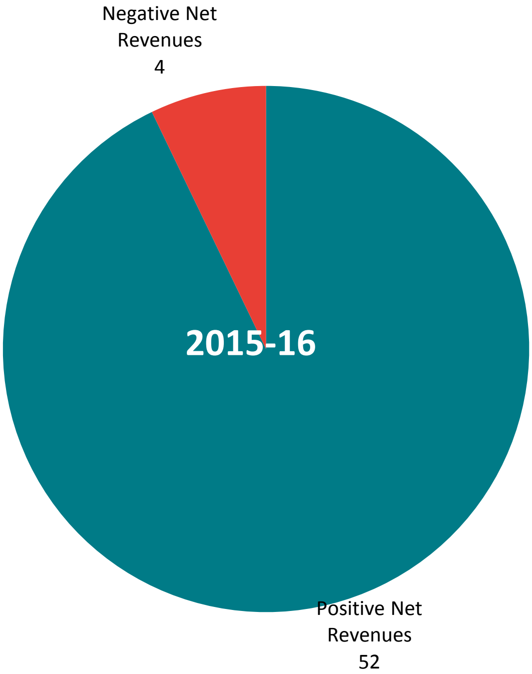


Source: Frontier Economics

Note: All figures expressed in 2015/16 prices

Under this scenario, 52 of TSA's 56 houses show small positive net revenues in 2015/16 (Figure 80). Again, the analysis focuses on operating costs and revenues only, and is excluding overheads and support costs. However, once overheads and rates of under occupancy are taken into account, it is likely that net revenues under this scenario would be close to zero.

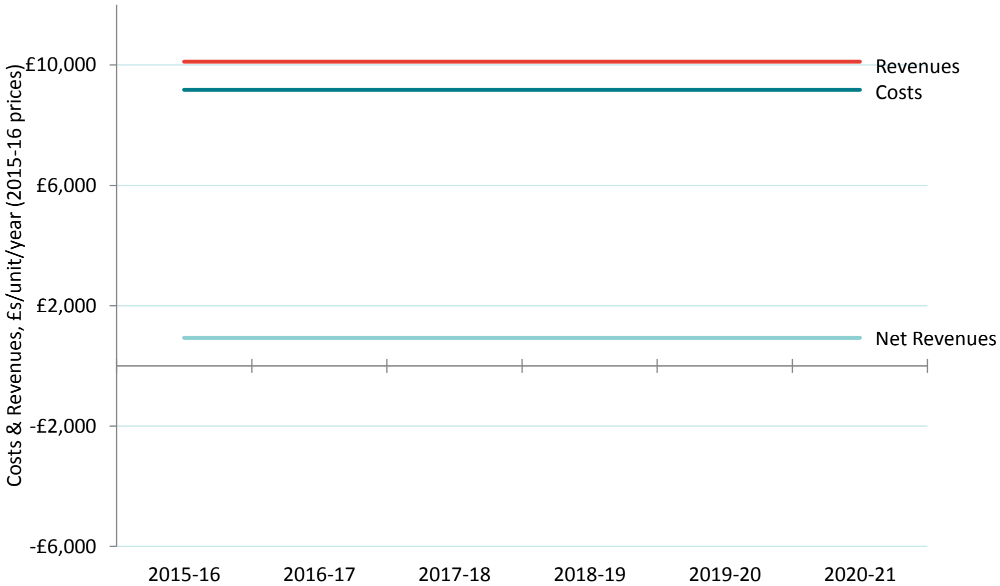
Figure 8 Number of houses with positive/negative net revenues in 2015/16 under scenario 1: baseline



Source: Frontier Economics

Under the baseline scenario, the net revenue position is modelled as constant over time (Figure 9). This reflects that both revenues and costs are assumed to stay constant in real terms (i.e. changing only in line with inflation). The revenue and cost lines are both flat in Figure 9 because the analysis is presented in 2015/16 prices.

Figure 9 Direct costs and unit revenues per unit over time under scenario 1: baseline



Source: Frontier Economics

Note: All figures are in 2015/16 prices

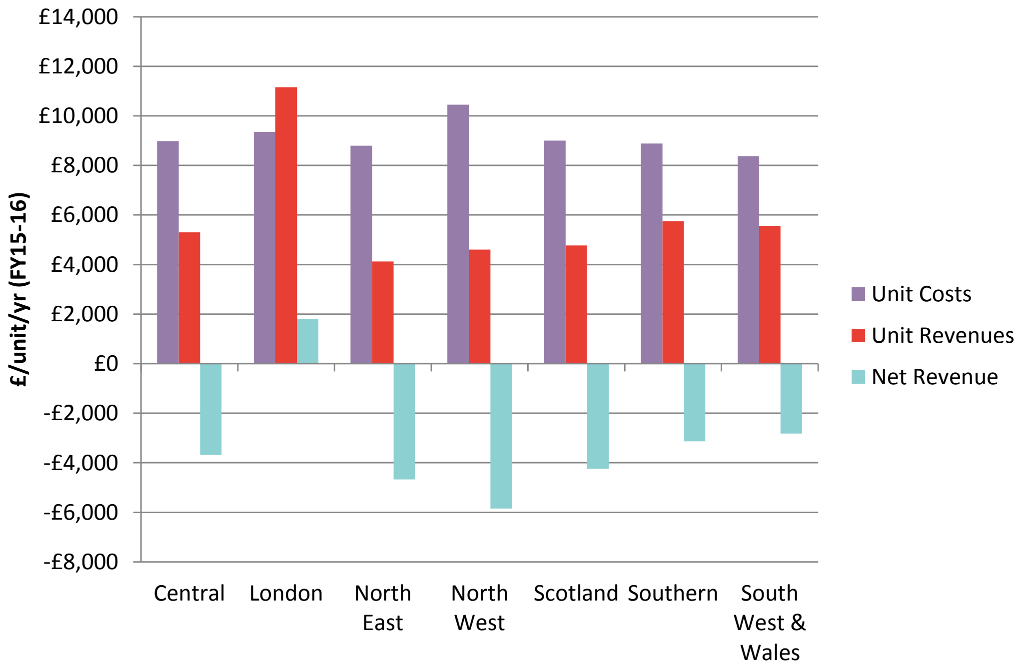
Scenario 2: Applicable LHA rates only, with no 'top-up'

Scenario 2 explores the impact of moving to funding at the appropriate LHA rates applicable to each of TSA's houses from 2015/16, with no 'top-up'.

In all regions apart from London, this causes revenues to drop below costs (Figure 10). As the LHA rates are linked to local rental markets (known as Broad Market Rental Areas), areas where average rent is lower tend to be most badly affected. The North West has the largest negative net revenues, of approximately -£5,900 per unit per year. Across all TSA houses, total revenues in 2015/16 would fall from £22.6m under scenario 1, to £13.5m under scenario 2. This is a reduction in revenues of some 40%.

London is the only region where net revenues remain positive. Net revenues in London actually increase slightly, from around £1,400 per unit per year under scenario 1, to around £1,800 under scenario 2 (Figure 11). This reflects the relatively high rental market in London which increases the applicable LHA rates above the current housing benefit rate.

Figure 10 Direct costs and unit revenues per unit in 2015/16 under scenario 2



Source: Frontier Economics

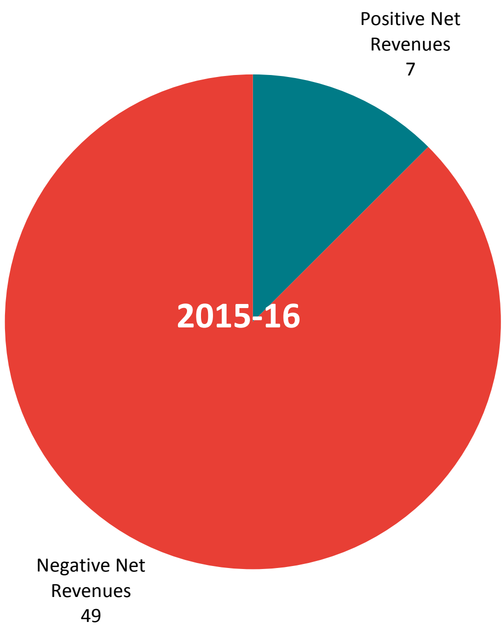
Note: All figures expressed in 2015/16 prices

Figure 11 Change in 2015/16 net revenues from scenario 1 to scenario 2

Source: Frontier Economics

Under scenario 2, the majority of TSA houses, 49 out of 56, now make negative net revenues in 2015/16. This raises uncertainty over the financial viability of these houses under such a scenario.

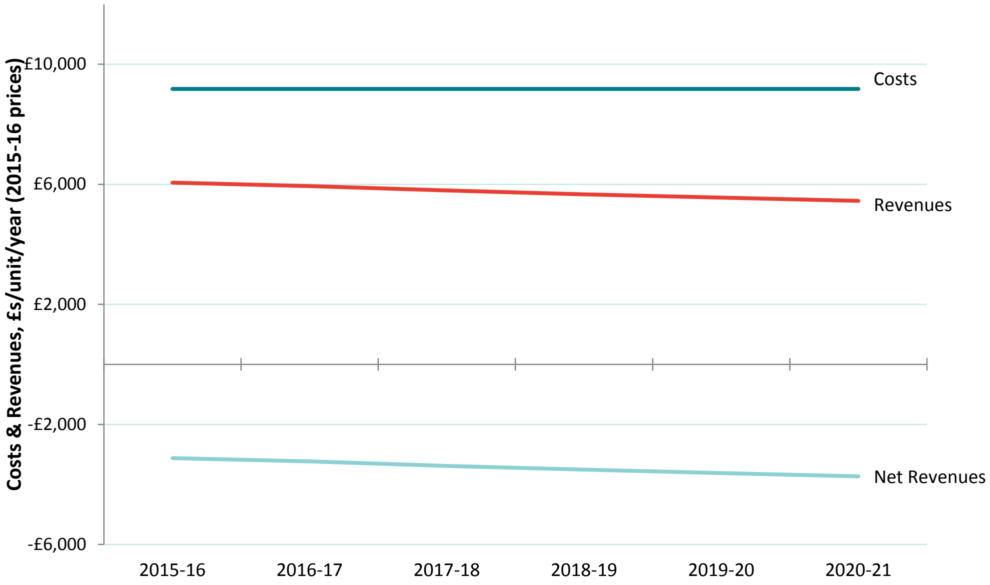
Figure 12 Number of houses with positive/negative net revenues in 2015/16 under scenario 2



Source: Frontier Economics

Costs under scenario 2 remain flat in real terms over time. However, revenues fall in real terms because LHA rates are frozen. As a result, the net revenue position worsens over time, from around -£3,120 in 2015/16 to -£3,730 in 2020/21. Whereas 47 out of 56 houses show negative net revenues in 2015/16, this increases to 49, or 91%, by 2020/21.

Figure 13 Direct costs and unit revenues per unit over time under scenario 2



Source: Frontier Economics

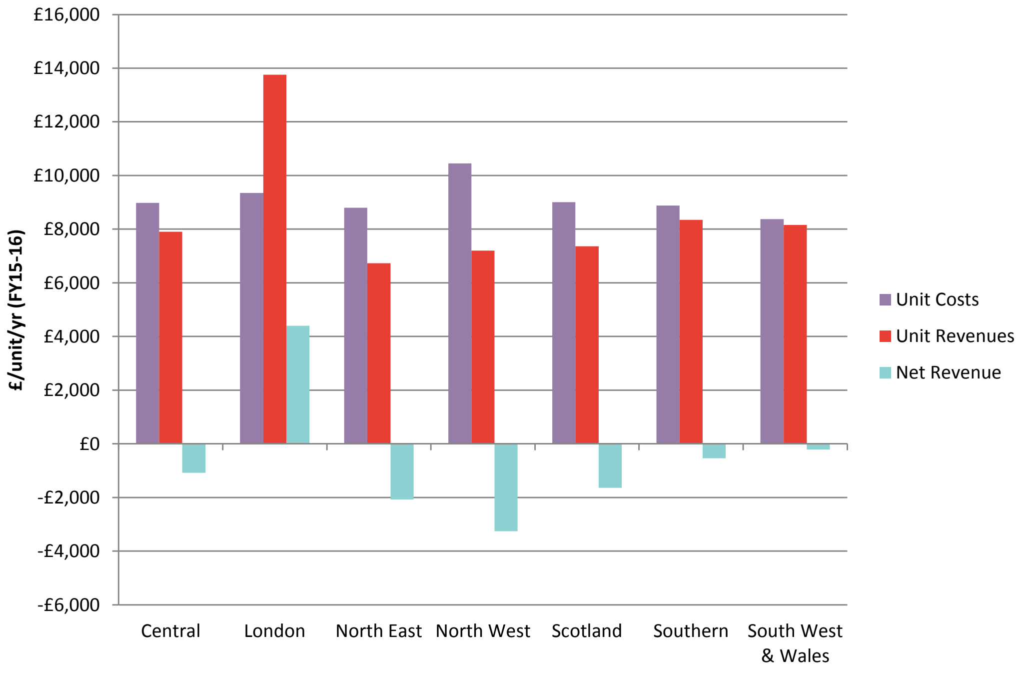
Note: All figures are in 2015/16 prices

Scenario 3: Applicable LHA rates plus £50 'top-up' per unit

Scenario 3 assumes funding for each TSA house unit at the applicable LHA rate, but with a 'top-up' of £50 per unit per week in each region. This scenario therefore shows the impact of a 'top-up' set at the same rate for each region. £50 is chosen simply as illustrative.

A 'top-up' of £50 per unit per week increases revenues in all regions relative to scenario 2. However, this level of 'top-up' is not sufficient to reverse the negative net revenues that occur as a result of the change to the LHA rates in 2015/16 (Figure 14). All regions except London have worse net revenues under this scenario than with the current funding arrangement of scenario 1, despite the 'top-up' (Figure 15). For London there is a relatively large increase in positive net revenues under scenario 3, reaching around £4,400 per unit per year. This reflects that the applicable LHA rate increases revenues in London, and there is now a further 'top-up'.

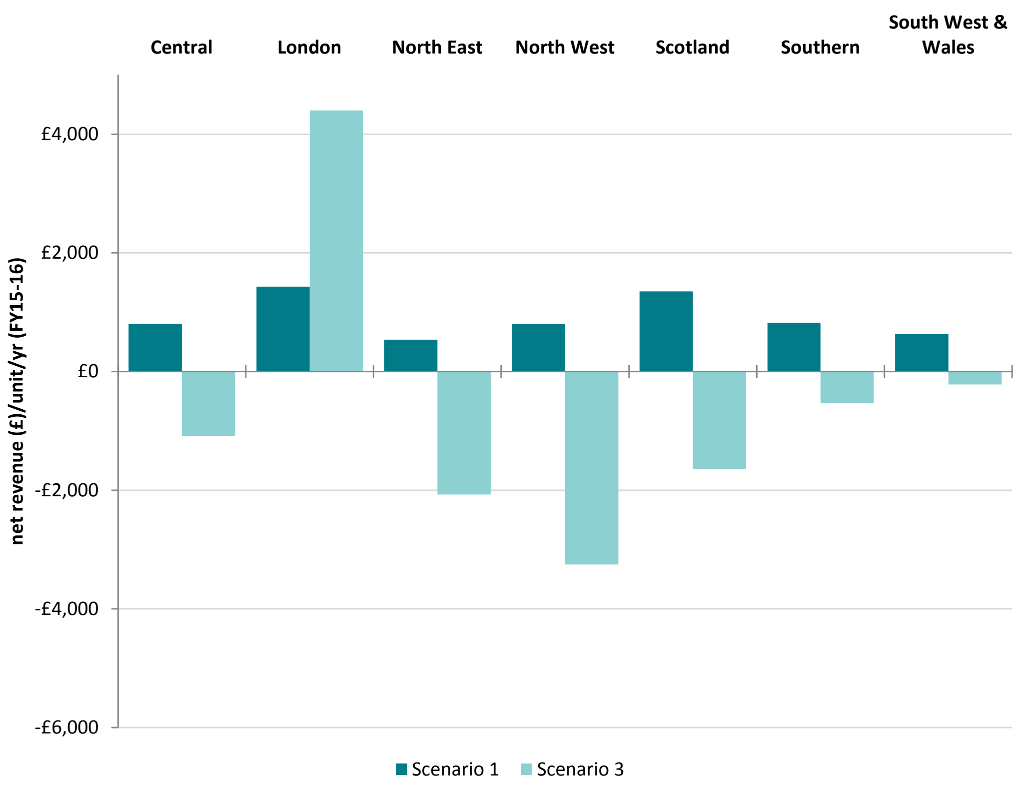
Figure 14 Direct costs and unit revenues in 2015/16 under scenario 3



Source: Frontier Economics

Note: All figures expressed in 2015/16 prices

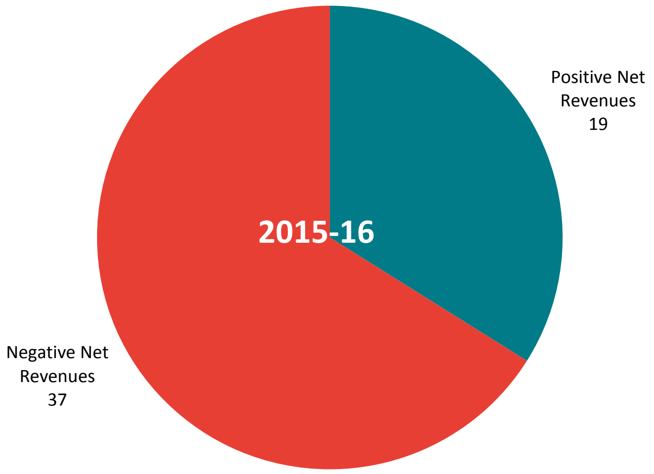
Figure 15 Change in 2015/16 net revenues from scenario 1 to scenario 3



Source: Frontier Economics

With a ‘top-up’ of £50 per unit per week above the applicable LHA rates, around two-thirds of TSA houses make negative net revenues, 37 out of 56. This reflects that this ‘top-up’ is insufficient to offset the reduction in revenues associated with moving to applicable LHA rates for most houses.

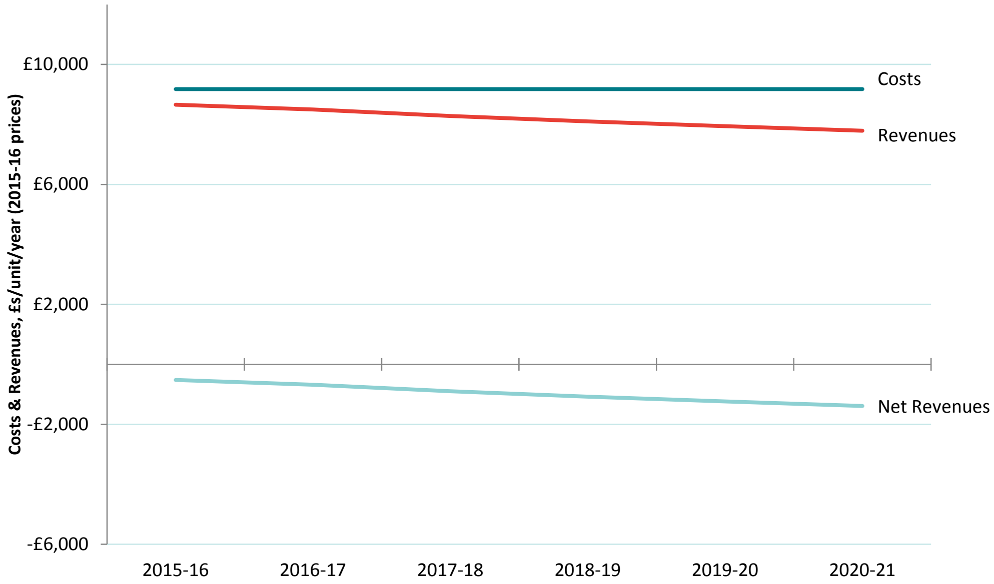
Figure 16 Number of houses with positive/negative net revenues in 2015/16 under scenario 3



Source: Frontier Economics

As before, costs remain flat over time in real terms under scenario 3. However, revenues fall in real terms. This reflects that LHA rates are frozen, and the analysis assumes that the £50 ‘top-up’ is also frozen (Figure 17). On average, net revenues are still negative in 2015/16 with the £50 ‘top-up’. A higher level of ‘top-up’ would therefore be needed in 2015/16 to offset the average fall in revenues from the change to LHA rates. This net revenue position then worsens over time, reflecting the fact that costs are flat in real terms while revenues are frozen nominally and so fall in real terms. Therefore the ‘top-up’ would need to increase over time if seeking to avoid a worsening net revenue position.

Figure 17 Direct costs and net revenues over time under scenario 3



Source: Frontier Economics
Note: All figures are in 2015/16 prices

Scenario 4: Applicable LHA rates 'plus X' where X maintains 2015/16 levels of revenue

Scenario 4 assumes a 'top-up' is set separately for each region such that it exactly offsets the fall in revenues from changing to the applicable LHA rates in 2015/16. Note that this does not mean that all regions 'break even' in terms of their net revenues, rather they simply retain their current 2015/16 revenue position.

The average level of 'top-up' ('X') required to offset the revenue reduction from a change to LHA rates in 2015/16 is £78 per unit per week (Table10). The level of 'top-up' varies in each region, reflecting the significant differences in applicable LHA rates across the country. The North West would require the largest average 'top-up' to retain the current revenue position, at £128. This reflects that the North West has relatively high costs, driven in large part by a high number of catering units and units incurring housing association charges, combined with relatively low rental values which mean applicable LHA rates are lower. London is the only region not requiring a 'top-up' as changing to the applicable LHA rates increases revenues relative to the current system because of the higher London rental market values.

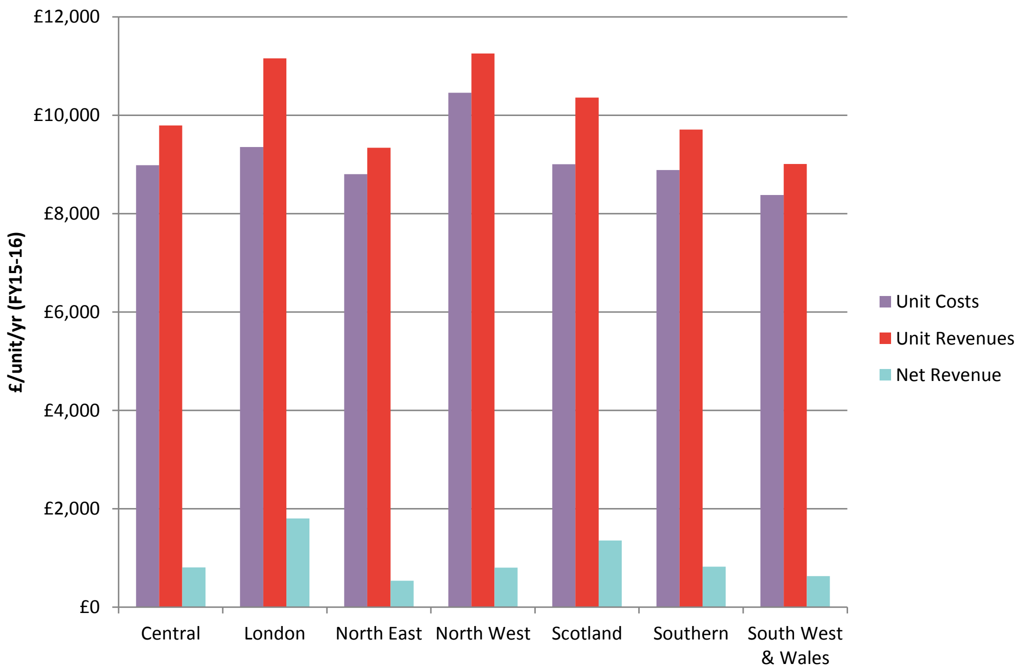
Table 10 Levels of regional 'top-up' required to offset the revenue impact of moving to the applicable LHA rates in 2015/16

Region	'Top-up' required in 2015/16 (£/week)
Central	£ 86
London	£ 0
North East	£ 100
North West	£ 128
Scotland	£ 108
Southern	£ 76
South West & Wales	£ 66
Average	**£ 78**

Source: Frontier Economics

With the regional 'top-ups', all regions return to small positive net revenues in 2015/16 (Figure 18). Note as before that only housing operating costs are included, and not overheads or support costs. The net revenue position is unchanged compared to scenario 1 for all regions except from London (Figure 19).

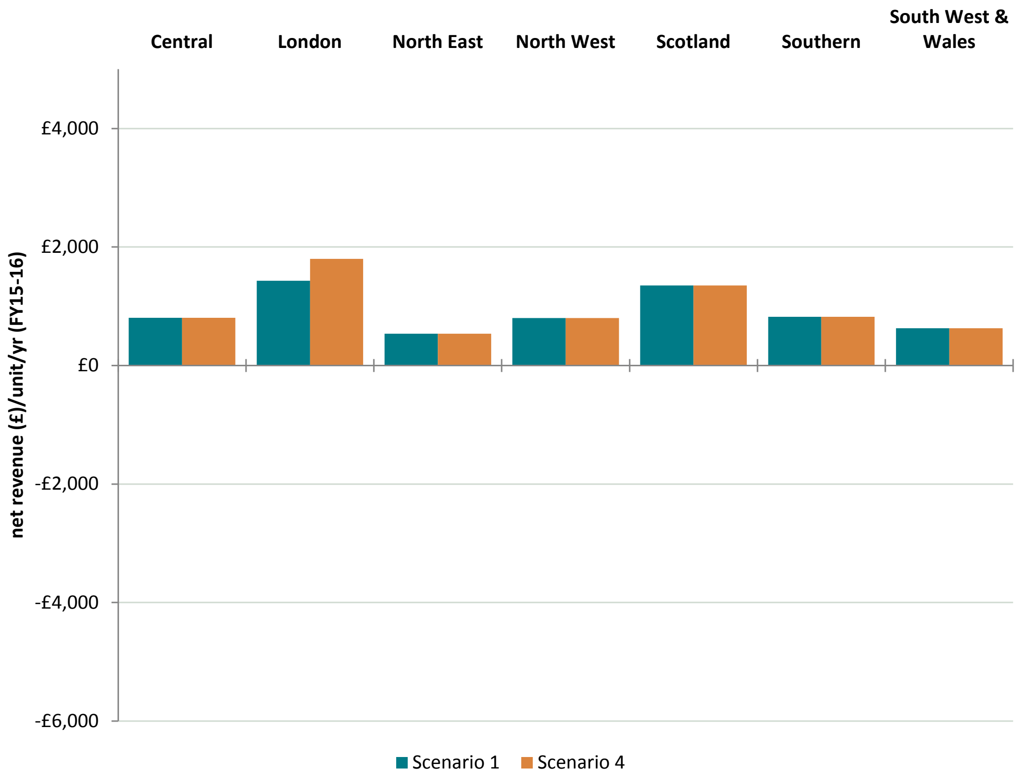
Figure 18 Direct costs and unit revenues in 2015/16 under scenario 4



Source: Frontier Economics

Note: All figures are in 2015/16 prices

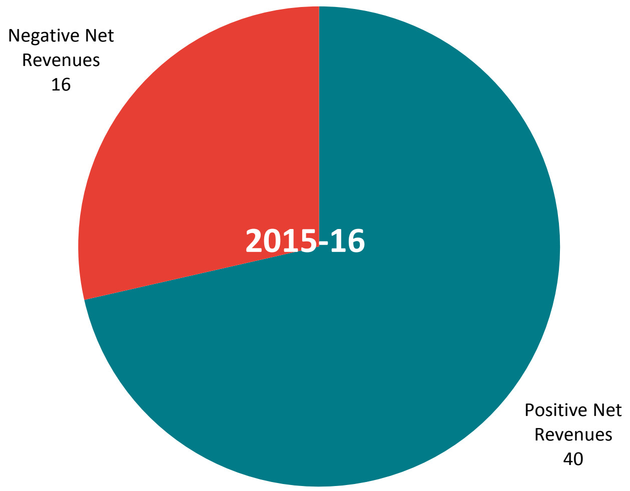
Figure 19 Change in 2015/16 net revenues from scenario 1 to scenario 4



Source: Frontier Economics

Despite the ‘top-up’ being set to offset the funding reduction associated with moving to the applicable LHA rates by region, this does not mean that each house within a region receives the same funding as before as the analysis is looking at the average across the portfolio in each region. 40 of TSA’s 56 houses have positive net revenues under this scenario (compared to 53 under the scenario 1 baseline).

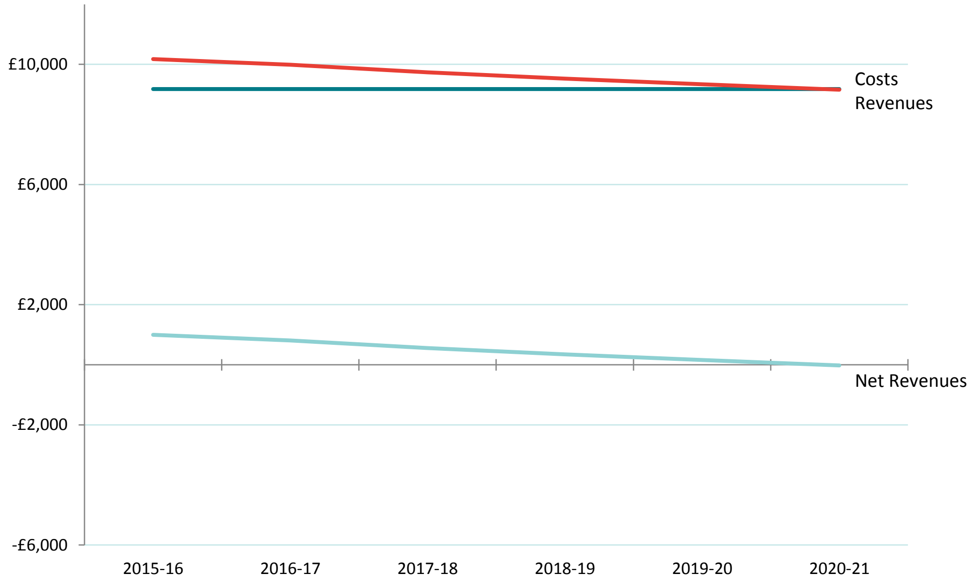
Figure 20 Number of houses with positive/negative net revenues in 2015/16 under scenario 4



Source: Frontier Economics

Under scenario 4 costs are once again flat in real terms over time, whereas it is assumed that the LHA rate and the 'top-up' are frozen. This means that the revenues fall in real terms going forwards, and the net revenue position worsens over time. By 2020/21, the net revenues would be almost exactly zero under this scenario.

Figure 21 Direct costs and unit revenues over time under scenario 4



Source: Frontier Economics

Note: All figures are in 2015/16 prices

Sensitivity to occupancy and wage cost assumptions

The scenarios above make cautious assumptions regarding occupancy and costs of TSA supported housing that present a 'best case' for the impact of funding changes. We now explore the sensitivity of the scenarios to changing these assumptions.

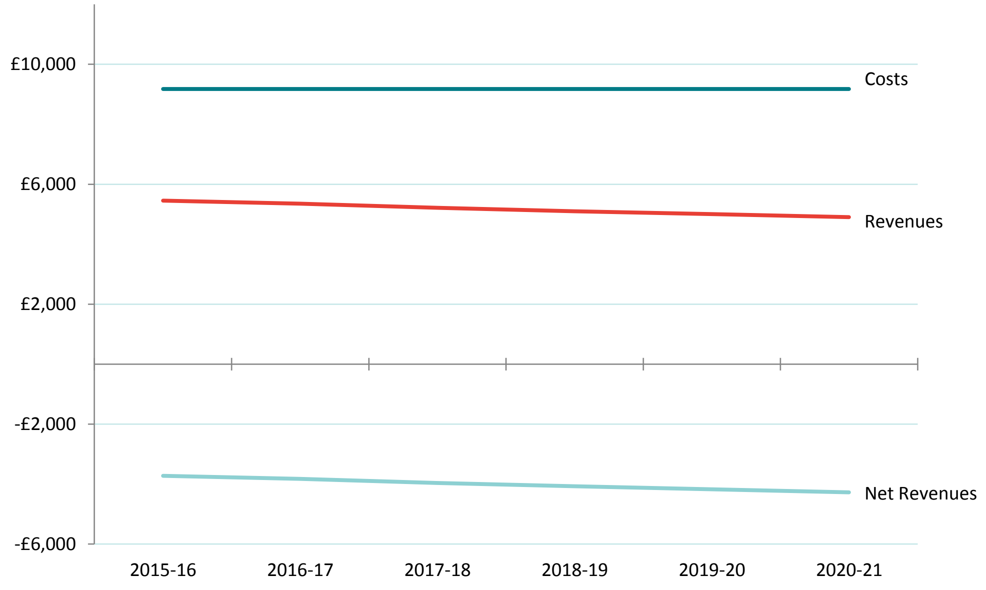
Occupancy rates

The scenario analysis assumes 100% occupancy rates for TSA supported housing, but in reality occupancy levels are typically around 90%. A 90% occupancy rate reflects that there can be inevitable periods where some units are left unoccupied.

We repeat the analysis of scenario 2, where funding is based on applicable LHA rates with no 'top-up', but using the 90% occupancy assumption (Figure 22). Under these assumptions TSA supported housing would on average have negative net revenues of approximately -£4,270 per unit in 2020/21. This compares to approximately -£3,730 under scenario 2. This means that with 90% occupancy, net revenues fall by a further 15%.[29]

Further detailed results are given in the Annex.

Figure 22 Costs and revenues over time with 90% occupancy, and applicable LHA rates with no 'top-up'



Source: Frontier Economics

Note: All figures are in 2015/16 prices

[29] The reduction in occupancy from 100% to 90% reduces *gross* revenues by 10%. This in turn reduces *net* revenues (after taking costs into account, which are unchanged) by 15%.

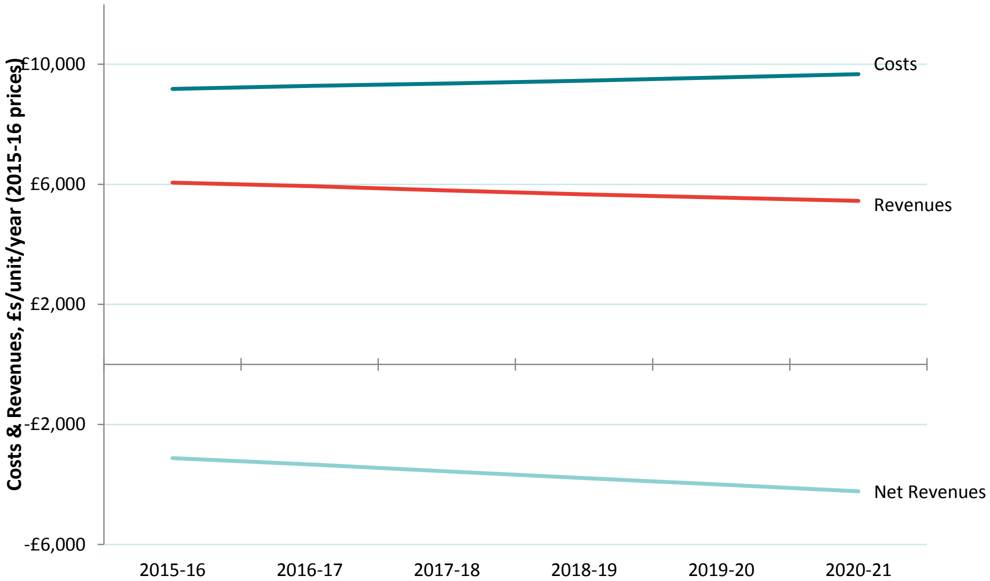
Real increases in wage costs

Whereas scenarios 1-4 all assume costs remain flat in real terms, it is possible that costs could increase beyond this level in practice. For example, increases in the National Living Wage are likely to affect some staff costs for TSA supported housing.

An increased wage costs sensitivity test is explored to show the impact on the revenue position of TSA's supported housing. This scenario assumes that catering and cleaning costs increase in line with forecasts for the National Living Wage (whereas other costs, such as housing management staff wages, are assumed to stay flat in real terms).[30] The revenue assumptions are in line with those of scenario 2, i.e. applicable LHA rates with no 'top-up'.

Under the increased wage costs sensitivity test, costs increase in real terms over time while revenues fall in real terms. As a result the net revenue position worsens over time (Figure 23). Whereas changing to funding based on applicable LHA rates led to negative net revenues in 2020/21 of around -£3,730 per unit in scenario 2, these are worsened by a further 13% to -£4,220 with increased wage costs. Further detailed results are given in the annex.

Figure 23 Direct costs and unit revenues over time with real increases in wage costs, and applicable LHA rates with no 'top-up'



Source: Frontier Economics

Note: All figures are in 2015/16 prices

4.3 Observations

The scenario analysis offers an illustration of the impact of moving to a system where supported housing is funded at applicable LHA rates relevant for each

30 Forecasts for the National Living Wage are taken from: Office for Budget Responsibility, March 2017 Economic and Fiscal Outlook – Economy Supplementary Tables

TSA house, and how net revenues could be affected over time. We make the following key observations:

- **Moving to a system of funding based on applicable LHA rates without a 'top-up' risks 91% of TSA's supported housing becoming financially unviable immediately**. Using the 2015/16 housing stock and associated LHA rates for illustration, and assuming no 'top-up', our analysis shows that revenues fall by around 40%. This means revenues are only sufficient to cover around two-thirds of the operating costs of provision. The discretionary nature of the Government's proposed 'top-up' exposes TSA's supported housing provision to significant levels of risk and uncertainty for setting future yearly budgets. Even under 'best case' assumptions, with 100% occupancy and excluding wider costs such as overheads and support costs – 91% of TSA's housing is not financially viable without other sources of revenue by 2020/21. Using TSA's current occupancy rate of 90% worsens the position further as net revenues fall a further 15% in 2020/21

- **Because the applicable LHA rates are nominally frozen, the net revenue position worsens over time**. Net revenues fall over time because the LHA rates are frozen until 2019/20 (and the analysis assumes this freeze continues thereafter) while costs can be expected to increase, at least in line with inflation. Any cost increases above inflation, in particular those expected from increases in the National Living Wage, would worsen the net revenue position further by an estimated 13% by 2020/21.

- **Following a move to applicable LHA rates, the average 'top-up' needed to offset revenue reductions in 2015/16 would vary across regions between £0 and £128 per unit per week.** On average, a 'top-up' of around £78 per unit per week would have been needed to offset the revenue impact of changing to applicable LHA rates in 2015/16. The average 'top-up' would need to increase over time if revenues are to be sustained going forwards because LHA rates are currently frozen. The average 'top-up' needed varies significantly by region, reflecting the wide variations in applicable LHA rates (which are pegged to local housing market rental values). The North West would need the highest average 'top-up' at £128. This reflects that the North West has relatively high costs, driven in large part by a high number of catering units and units incurring housing association charges, and also relatively low rental values which mean the average applicable LHA rate is lower. London is the only region not requiring a 'top-up', because of the relatively high LHA rates that reflect the London rental market.

5 POLICY IMPLICATIONS

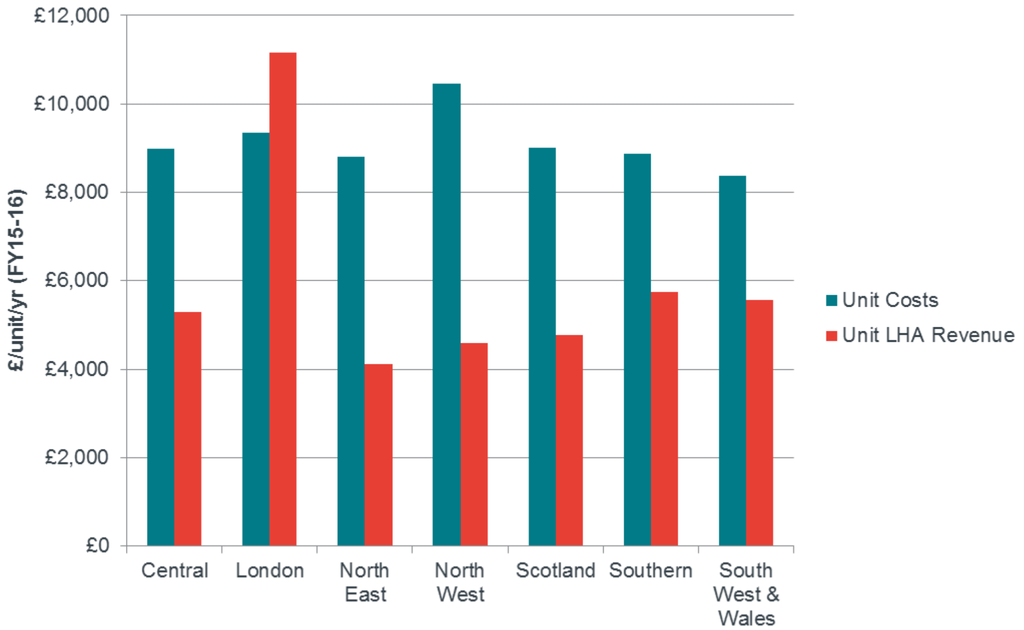
Our analysis has shown that the proposed changes in funding for supported housing raise some significant risks to the financial viability of TSA's housing provision for those at risk of homelessness. We now highlight the main policy implications from our analysis.

Costs and the applicable LHA rates

Applicable LHA rates are based on local rental costs, but these bear no relation to the costs of supported housing provision. Our analysis has shown that TSA's costs do not vary systematically by region, as shown in Figure 24, but instead are driven by the types of housing provided.

This finding is also in line with the conclusions of a recent select committee report for the supported housing sector as a whole. The report found that LHA rates are an inappropriate starting point for a new funding mechanism for supported housing, because the evidence shows there is no correlation between the applicable LHA rates and the costs of provision in different areas. It also found that some areas would be far more reliant on local 'top-ups' than others, which could create disparities in provision between different regions.[31]

Figure 24 Regional variation in unit costs compared to the LHA rate



Source: Frontier Economics analysis of TSA and Valuation Office Agency data

LHA rates are neither appropriate nor well targeted at the costs of supported housing provision for those experiencing homelessness. Funding for supported housing provision should instead be designed to better reflect the costs of

[31] House of Commons – Communities and Local Government and Work and Pensions Committees, Future of Supported Housing, May 2017

provision, rather than local rental values. Costs of supported housing provision are driven by the complex needs of the particular client-base and hence the nature of supported housing provision required to meet those needs.

Societal impacts of supported housing

Our analysis has shown risks for the financial viability of TSA's supported housing under the proposed funding changes.

If supported housing for those experiencing homelessness were no longer financially viable then this would impose substantial costs on other public services, such as the health and care system, or the police and justice systems. Without supported housing provision, there would be an increase in homelessness and associated calls on public services for these vulnerable groups in society. These costs are likely to far exceed any financial savings from changes in funding. For example, previous analysis demonstrates a net benefit to society from investment in specialist housing for vulnerable groups and that these net benefits are especially high for people with experience of homelessness. A 2010 analysis of capital investment in specialist housing found an annual net benefit for vulnerable groups (i.e. the extent to which the level of benefit exceeds the costs) of £938 per person per unit on average, and £1,655 for single homeless people with support needs.[32]

Principles for funding supported housing provision

Our analysis has highlighted that the applicable LHA rates bear no relation to the costs of providing supported housing. The applicable LHA rates are based on local rental values, but our analysis has shown that TSA's costs of provision do not vary systematically by region, but instead are driven by the characteristics of the housing and nature of provisions needed to meet the complex needs of clients.

An alternative national funding mechanism would be more appropriate for supported housing than the proposals based on applicable LHA rates. This should ensure funding is delivered for supported housing in a way which reflects the costs of provision for vulnerable groups with complex needs. It should also provide an incentive for efficient and appropriate provision. The following principles can therefore be considered for designing such a national funding mechanism:

1. **Public funding for supported housing should reflect the costs of efficient provision to meet the complex needs of vulnerable client groups.**
2. **Evidence from across the sector is therefore needed on how costs vary for meeting the complex needs of different client groups.**
3. **Costs of provision should be monitored to allow benchmarking across providers over time.**

[32] Frontier Economics (2010), 'Financial benefits of investment in specialist housing for vulnerable and older people'

4. **Public funding could be delivered on the basis of a cost-reflective national funding rate per unit, with supplements to that rate to reflect:**
    a. **Client group:** costs are typically higher for client groups with complex needs. For example, 24 hour concierge is often required to ensure a safe environment for clients.
    b. **Size of house:** costs are generally lower per unit in larger houses, such as premises costs, housing management staff costs, and property and furniture costs**.**
    c. **Landlord type:** where units are owned by housing associations, charges are paid to the housing association by those who are commissioned to manage those properties and ensure appropriate supporting housing can be provided (many of whom are charities). Such charges cover maintenance and capital costs. Such charges to housing associations are not paid where the provider owns and manages their own property.
    d. **Eligible services:** these costs relate to the provision of services that are necessary to meet client needs, such as cleaning of communal areas.
5. **The funding system should incentivise efficient provision by setting funding for three year planning periods.** Certainty over future funding streams will allow providers to develop appropriate strategic business plans to support stable and efficient provision. This implies funding based on entitlement and administered through the social security system is more likely to deliver such certainty than any mechanism which involves a large discretionary element, as is currently proposed.
6. **The national funding rate and supplements should be kept under review but set for three years to allow sufficient business planning time for providers.**

The ***quality*** of supported housing provision must of course also be considered by government – this is particularly important given the vulnerable client groups served. As with other sectors that receive public funding, it will be important for the funding mechanism to therefore be accompanied by an appropriate quality and safety monitoring framework. This may, for example, require that providers in receipt of government funding are registered (locally and/or nationally) and subject to appropriate inspections to ensure they meet relevant quality and safety standards.

ANNEX

The Annex presents further detailed results from the cost drivers and scenario analysis outlined in our report.

Cost drivers

Individual costs per unit per year across regions

Figure A1: Cleaning costs across regions

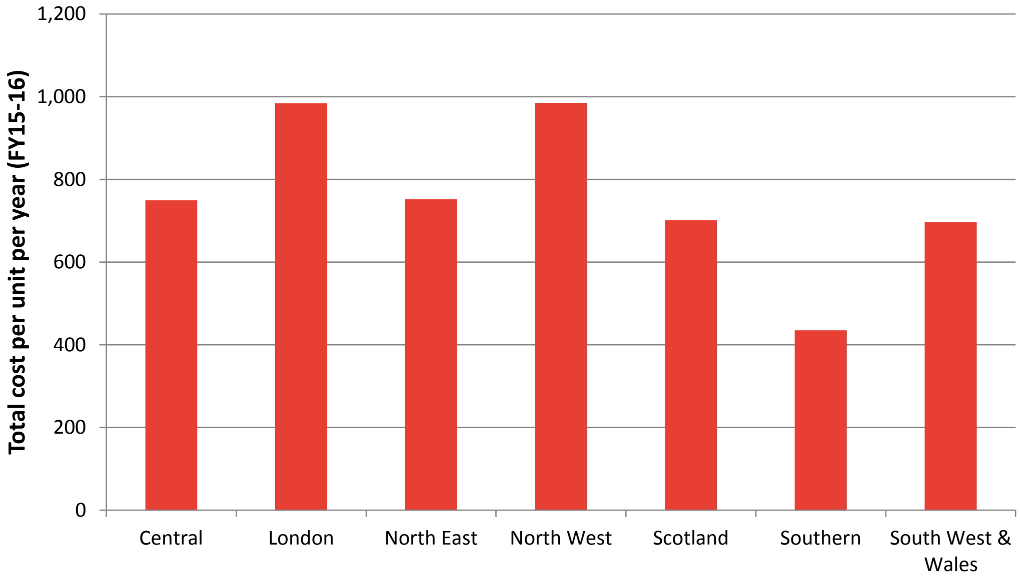


Figure A2: Concierge costs across regions

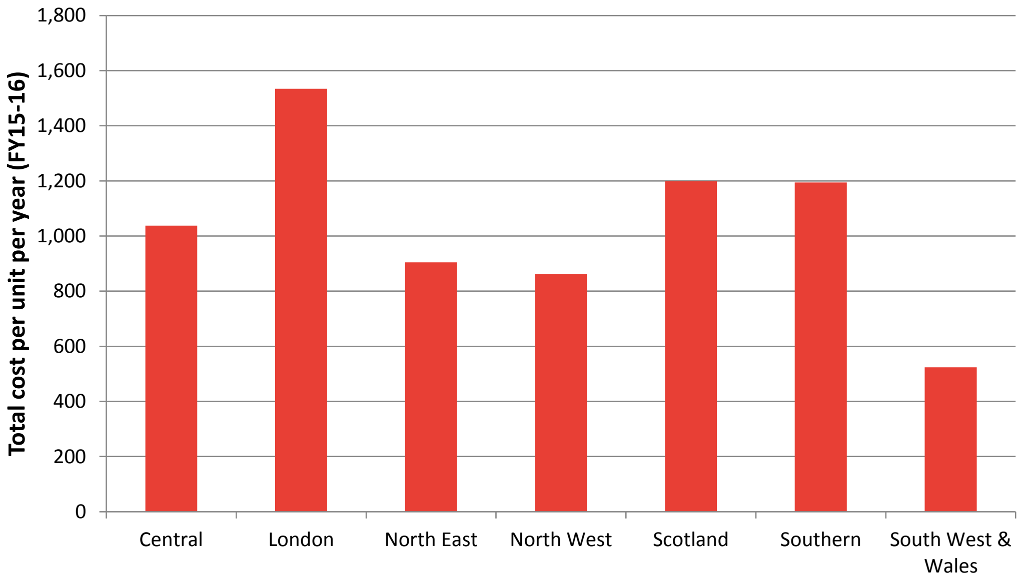


Figure A3: Housing management staff costs across regions

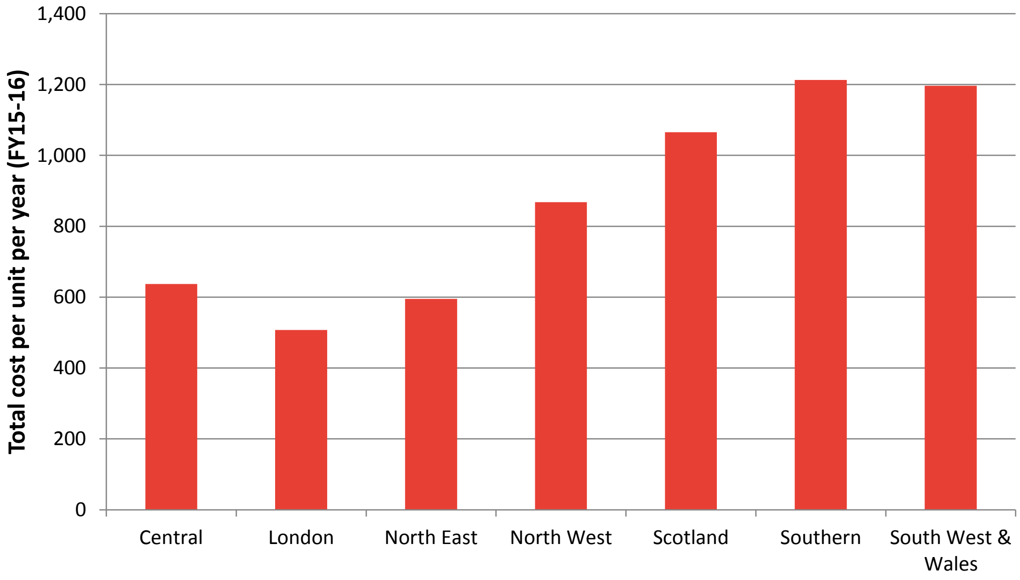


Figure A4: Premises costs across regions

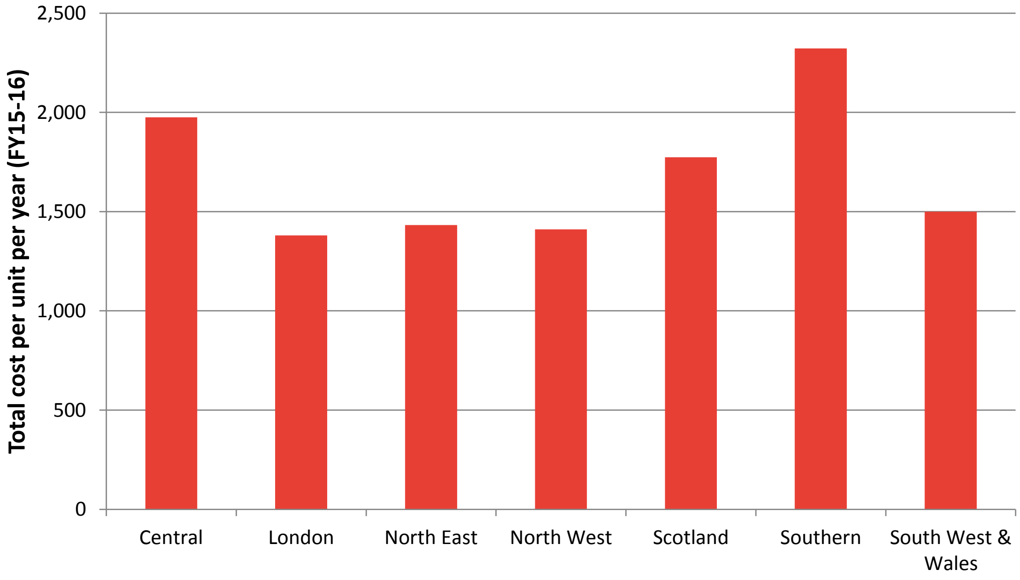
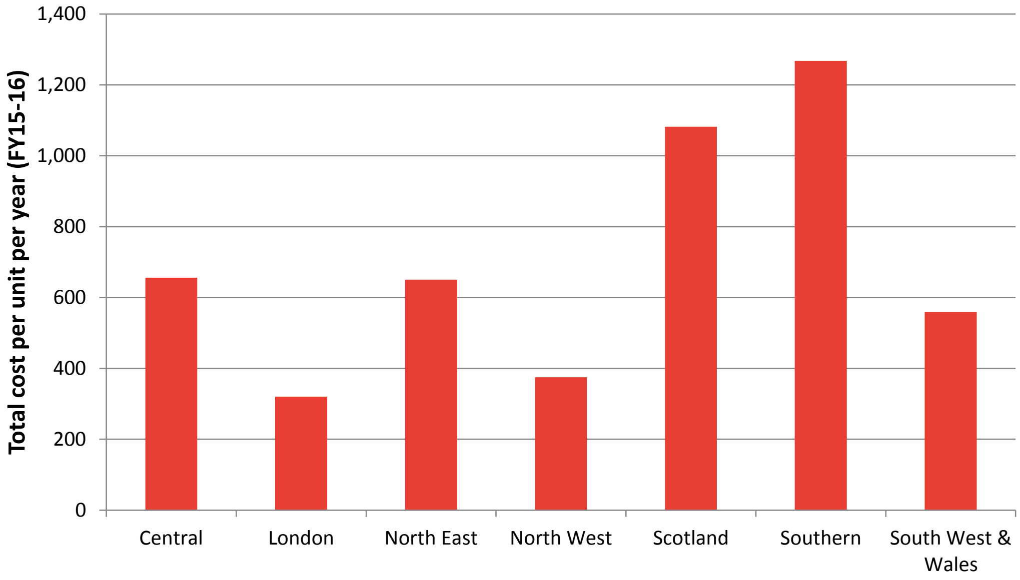


Figure A5: Property and furniture costs across regions



Individual costs per unit per year across landlord type

Figure A6: Concierge costs across landlord type

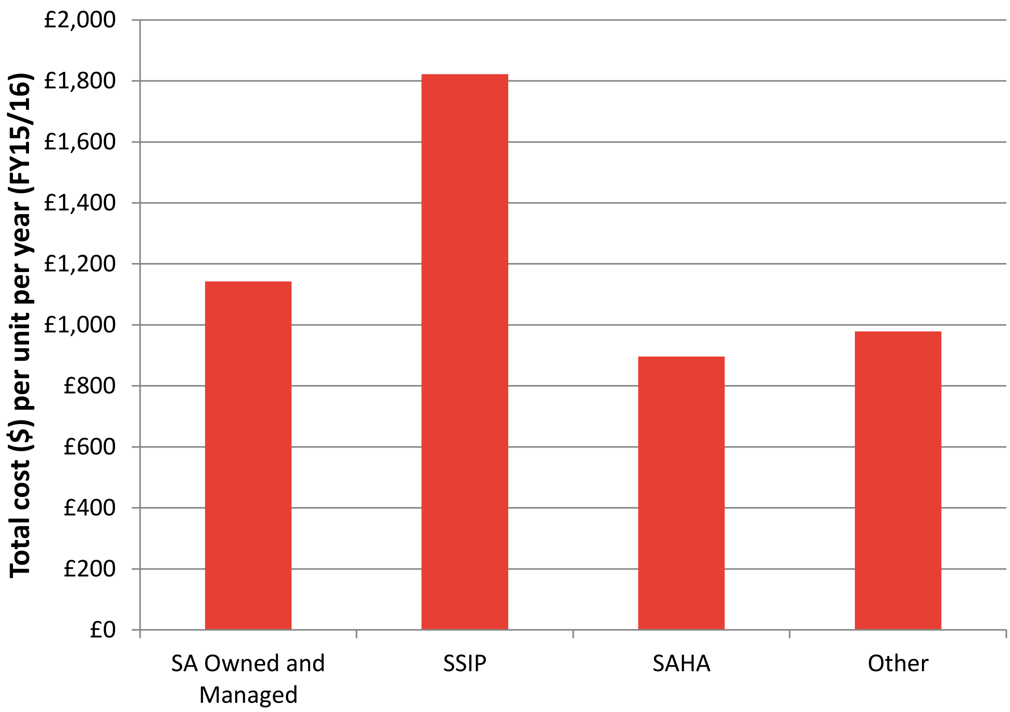
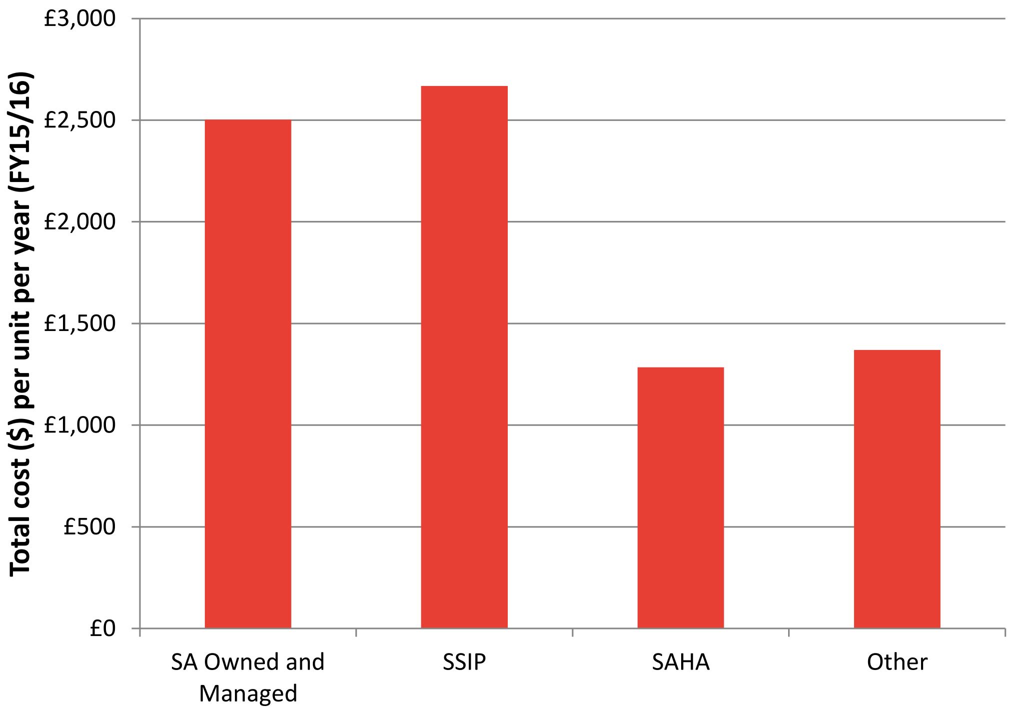


Figure A7: Premises costs across landlord type



Individual costs per unit per year across size band

Figure A8: Housing association costs across size bands

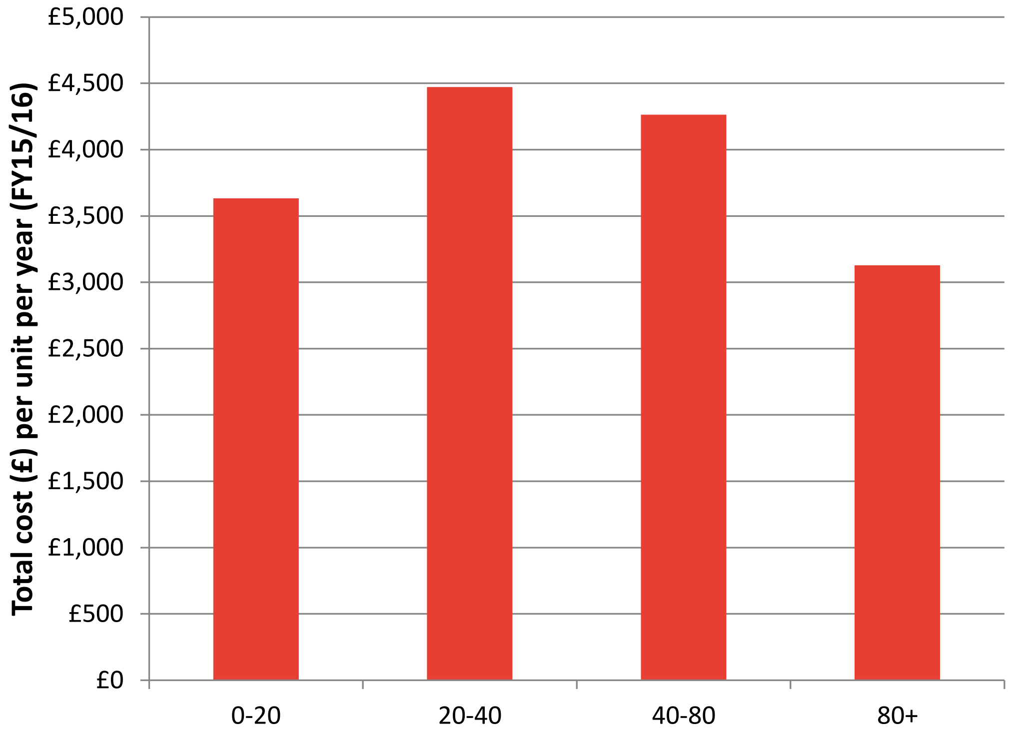


Figure A9: Housing management staff costs across size bands

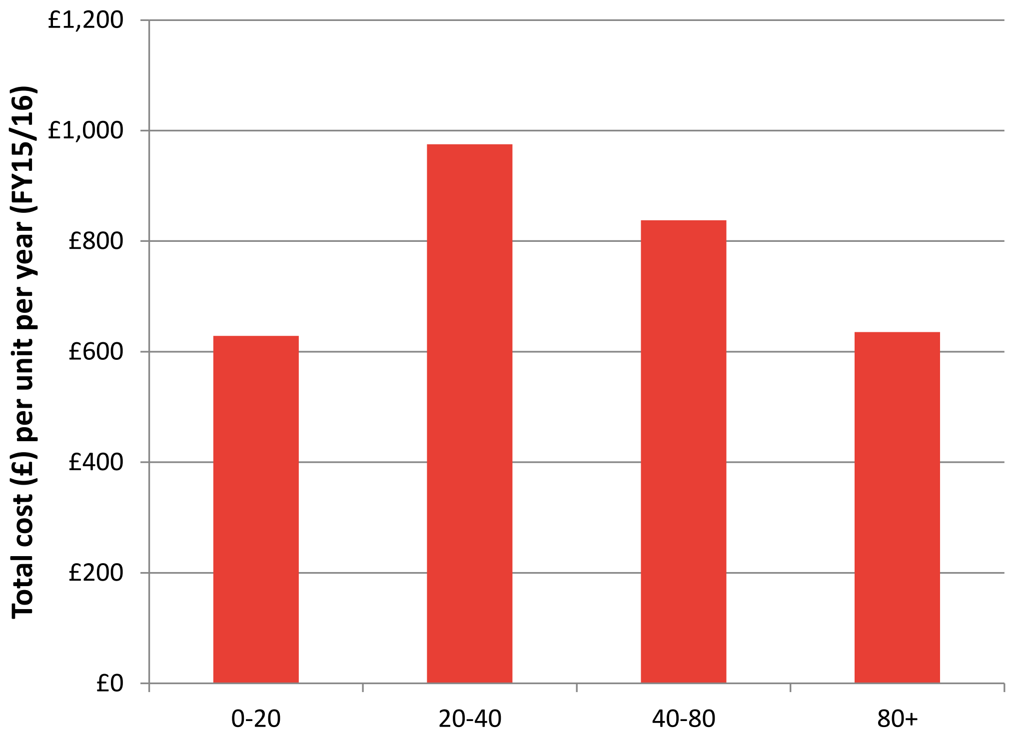


Figure A10: Premises costs across size bands

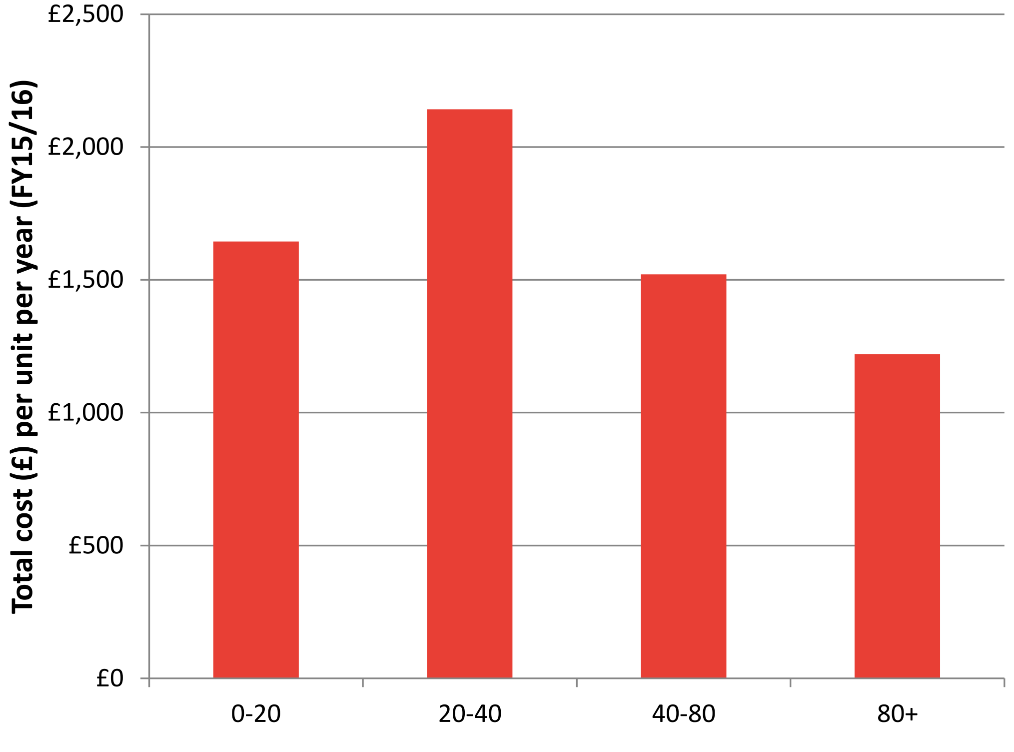


Figure A11: Property and furniture costs across size bands

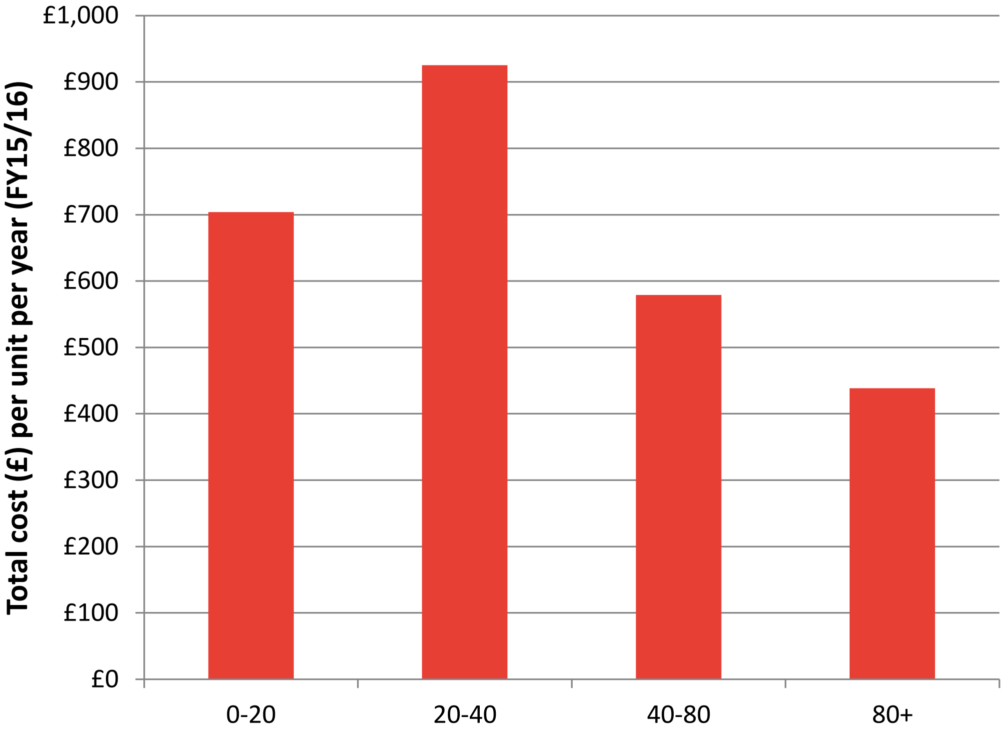


Figure A12: Catering costs across size bands

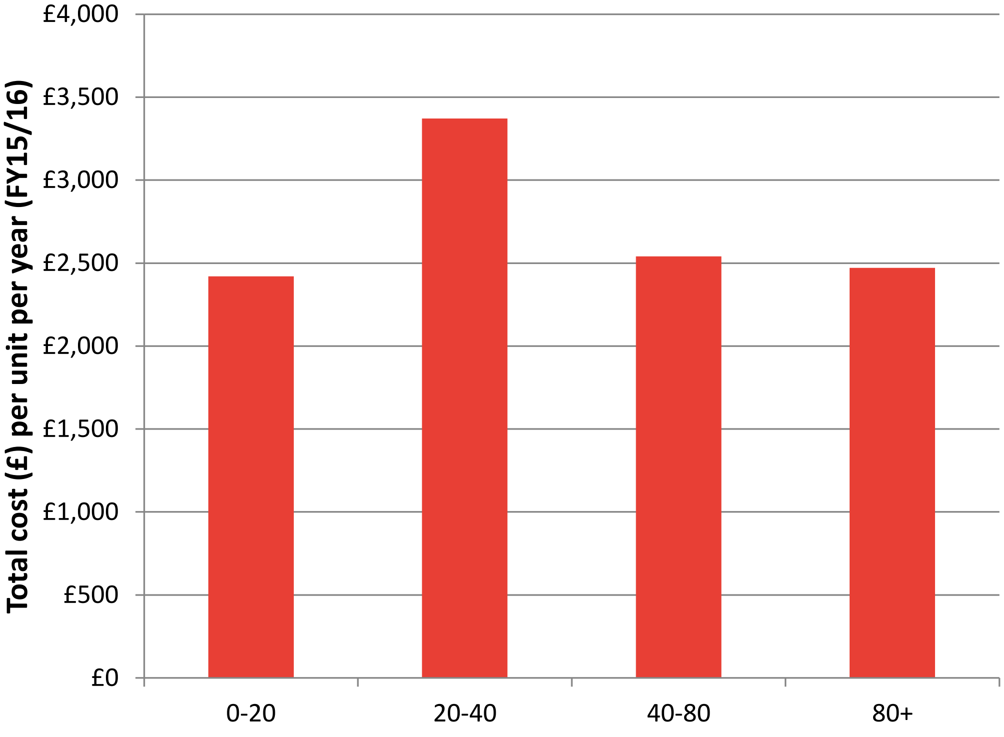
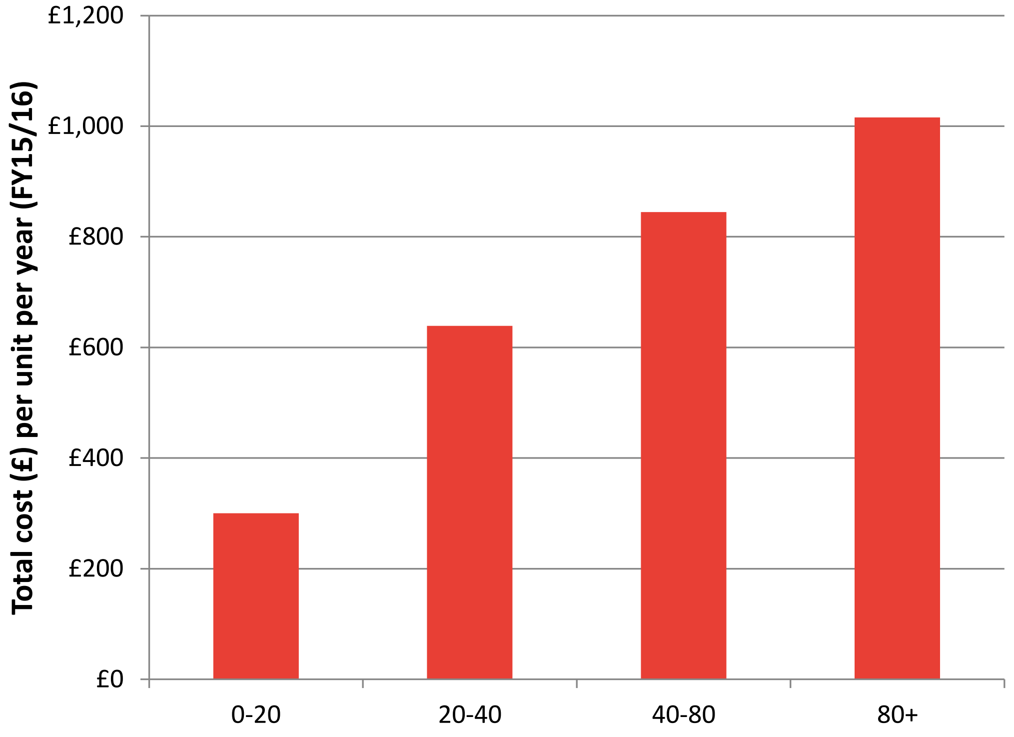


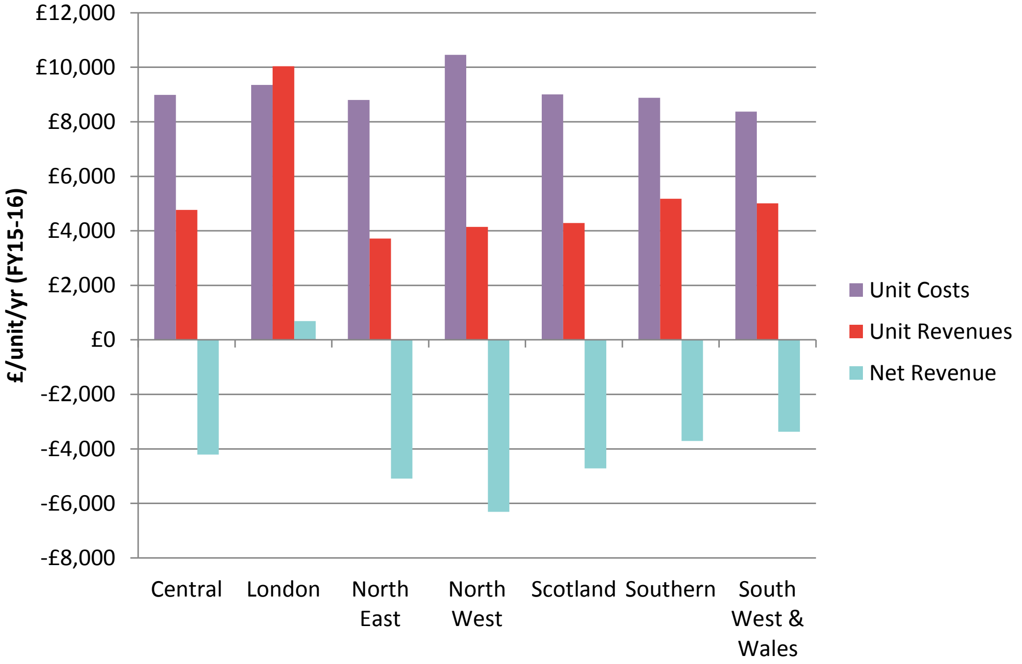
Figure A13: Cleaning costs across size bands



Scenarios

90% occupancy rate

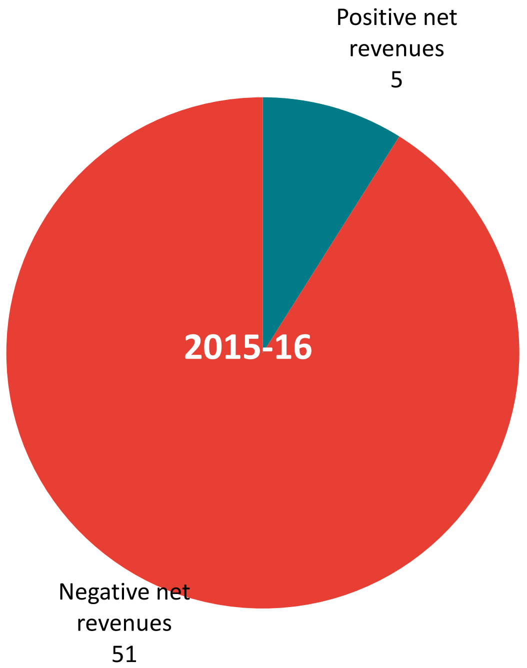
Figure A14 Direct costs and unit revenues in 2015/16 - 90% occupancy, and applicable LHA rates with no 'top-up'



Source: Frontier Economics

Note: All figures are in 2015/16 prices

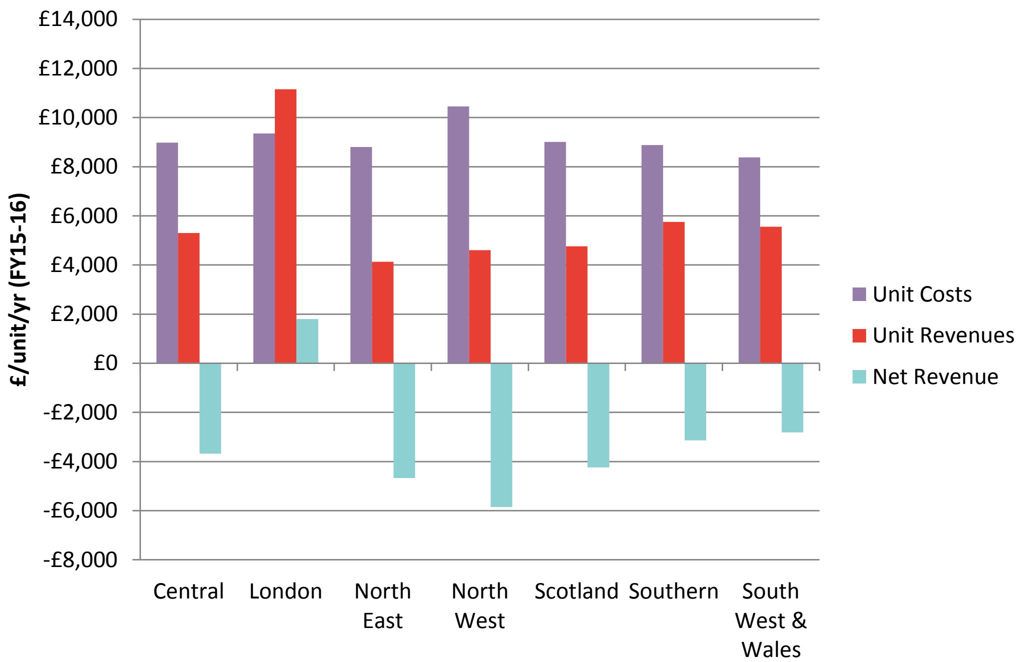
Figure A15 Number of houses with positive/negative net revenues in 2015/16 - 90% occupancy, and applicableLHA rates with no 'top-up'



Source: Frontier Economics

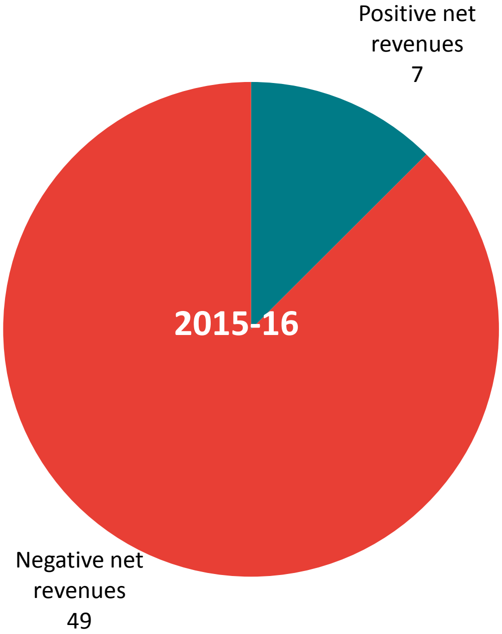
Real increases in wage costs

Figure A16 Direct costs and unit revenues in 2015/16 – real increases in wage costs, and applicable LHA rates with no 'top-up'



Source: Frontier Economics. Note: All figures are in 2015/16 prices

Figure A17 Number of houses with positive/negative net revenues in 2015/16 – real increases in wage costs, and applicable LHA rates with no 'top-up'



Source: Frontier Economics

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