

Funding Homelessness Services in Scotland

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Anna Evans Housing Consultancy provides leading housing consultancy and research services for housing associations, local and central government, and housing developers. This study was commissioned by Shelter Scotland as a follow-up from previous 2012 research examining the sources and trends of funding Scottish local authority homelessness services.

Thanks to their time, willingness and knowledge this research was possible.

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1. EXECUTIVE SUMMARY

This study was commissioned by Shelter Scotland as a follow-up from previous 2012 research examining the sources and trends of funding Scottish local authority (LA) homelessness services. Five years on, this update has involved consultation with 15 LAs to understand how the context and reality of funding homeless services has changed, to understand the challenges faced, and discuss possible solutions to put the funding framework of homeless services on a more stable footing.

The context in which homeless services across Scotland operate has shifted considerably over the last decade. Key drivers of change have been the recession, constraints in new housing supply, reducing public finances, welfare reform, and successive legislative change which has expanded the rights of homeless people in Scotland. This has all put considerable pressure on LA housing and homelessness services. The recent national [Affordable Housing Needs report](#) suggests that Scotland now needs at least 12,000 affordable homes a year for the next five years, with current housing supply programmes providing half of estimated need.

Local authorities have realigned their homeless services from an entitlement led response, to a Housing Options approach, emphasising prevention and early intervention. Homeless applications have nearly halved since 2005, although the footfall of clients has increased, or at least remained static. The drop in homelessness applications has slowed recently, with many of the LAs consulted predicting increasing demand, partly in anticipation of the impact of new Housing Options guidance. In contrast to the decreasing homelessness applications, the use of temporary accommodation has

increased by over 40% since 2005, with more variable recent trends depending on the nature of the local housing markets.

Trends identified by LAs include an increasing proportion of clients with complex needs; greater integration of services; increasing use of specialised housing pathways and person centred approaches; use of smarter systems across housing providers; and increasing private sector involvement where it is cost effective. Trends in temporary accommodation show there are two main typologies: those LAs where demand for temporary accommodation has equalised, and those in pressured housing markets where capacity in temporary accommodation is still increasing. Temporary accommodation restructuring and property repositioning has been an ongoing theme over the last five years.

The key change in expenditure levels for non accommodation based services over the last five years has been LAs' requirement to drive efficiencies and work within overall static budgets - this is a considerable shift from the overall theme of protection of homelessness budgets and investment pre 2012. Despite this change, most (but not all) LAs stated homelessness services have not felt the level of funding reductions experienced by many other services. LAs have generally not been under pressure to reduce expenditure as a direct result of decreases in homelessness applications, and they have been able to justify resources based on the footfall to Housing Options services, and strong prevention activity. Temporary accommodation spend is driven by demand, with falls in expenditure in areas of less pressure, and increases in pressured areas.

There are a variety of approaches to accounting for the income and expenditure for homelessness. In the 2012 study, there had been a shift by several LAs from Housing Revenue Account (HRA) to the General Fund (GF). At that time, the reasons were to:

“tidy things up,...make it more accountable..... make it more transparent and easier to manage and monitor costs”.

Findings from this study show more LAs shifting from the HRA to GF, with reasons cited around financial risk from Welfare Reform.

The research shows the dilemma for LAs, and implications for the long term - whether to continue holding homelessness services on the HRA but face significant financial risk, with potential adverse effects on services and stock for the temporary and mainstream HRA tenants, or whether to transfer to the GF and face the prospect of increasing contributions from the GF, but in the context of potentially reducing resources from this source, and so threats to the homelessness service.

Comparing trends between the 2012 and 2016 research, there is greater proportional funding coming from the GF for homeless services. There is also a reducing amount of specific ring-fenced homeless grants and funding streams from Scottish Government, and increasing proportion of funding coming from the LAs' internal GF allocation.

Welfare Reform is bringing considerable challenges and risks for supply of temporary accommodation in Scotland, and wider homelessness services, due to current and potential Local Housing Allowance (LHA) caps. The majority of temporary accommodation supply in Scotland comes from LA socially rented accommodation for which there is currently no rent or service charge cap, unlike the private rented sector (PRS) and Registered Social Landlord (RSL) leased temporary accommodation. However, the UK Government has stated that social rents will in future be capped in line with

the LHA, and there are also likely restrictions to be placed on 'Exempt Accommodation'.

'Full cost recovery' (FCR) is used by most LAs in the sample, where the LA has accounted for all the costs (property, staffing, management and support) and charged a unit cost on a daily or weekly basis for temporary accommodation. Evidence shows that these temporary accommodation charges are often used to fund homeless services beyond temporary accommodation provision. There is a large range of average LA temporary accommodation charges, and percentage distance from the LHA; ranging from 63% below to 282% above the LHA rate. There are examples of LAs that do not use FCR from the sample. One uses the standard social rent, and another has developed a standard charge based on the average social rent plus a small service charge to come within LHA rates, with the aim of charging a rent which is affordable for both working tenants, and for the General Fund. Two other LAs are examining options for reducing temporary accommodation rates to within LHA rates, or lower. Others have modelled the financial impact of LHA caps with considerable funding shortfalls anticipated, and resultant impact on the General Fund.

Opportunities and solutions identified to tackle challenges faced in delivering and funding homelessness service are around increasing supply; property repositioning; addressing the mismatch between housing stock and household size; increasing the supply of supported accommodation including 'Exempt Accommodation'; harnessing the resources of the private rented sector (PRS); and vigorously pursuing prevention strategies. Financial solutions were all discussed within the current financial framework – increasing Council Tax, additional Scottish Government financial mitigation, and LA led financial mitigation funds.

It is concluded that the large variability of charges for temporary accommodation raises questions about value for money and access to services. It suggests an inequitable situation where access to a statutory service varies, depending on where people have presented as

homeless, and whether or not they are in work, or have access to benefits. This includes migrants who have access to assistance, but not welfare benefits. In a small minority of cases temporary accommodation is affordable regardless of working status; in most areas it is not.

Given the pressures that LAs are under, balancing the competing pressures of demand with ever decreasing resources available to fund services, it is perhaps not surprising that LAs have used high temporary accommodation charges to finance the wider homelessness service, for as long as this option has been available.

Comparison between findings from the 2012 study and this 2016 work shows that little has changed regarding the fundamentals of the funding framework and approach in Scotland, with a few exceptions. The imminent LHA cap will now likely force change. Recommendations to create a more sustainable model for financing the homelessness service in Scotland are:

- Ensure a sustained focus on increased supply of affordable housing, both permanent and temporary, addressing the imbalance in volume, and mismatch between size of accommodation and size of prevailing demand from homeless households, and those in need for affordable permanent housing.
- Understand the cost of homelessness services, and value for money considerations – there should be a clear break down in costs by advice and assistance, and temporary accommodation, with transparency around costs relative to services provided.

Establish national benchmarks on quality, costs and charges:

- quality of service delivery may be based around the Housing Options guidance 2016, and quality of temporary accommodation could be based around the CIH/Shelter Scotland 2011 guidance;
 - from these quality benchmarks, establishing cost ranges for temporary accommodation;
 - establishing what an affordable charge would be for temporary accommodation tenants who are working, or seeking work, or not entitled to welfare benefits;
 - determining what difference there is between the cost of service delivery and temporary accommodation charges, and affordability for tenants.
- Once there is increased clarity over cost, value for money, and affordability of temporary accommodation charges, the Scottish Parliament/Scottish Government may wish to consider stimulating innovation in the sector to explore a wider range of funding methods, and to use its powers to mitigate against the difference there may be between the cost and affordability of temporary accommodation.

2. INTRODUCTION AND STUDY METHOD

2.1 Background and the brief

In 2012 Shelter Scotland commissioned Anna Evans Housing Consultancy to undertake research on the funding of homeless services. The research set out the sources and trends of funding for local authority homeless services, and made recommendations to Scottish Government to put funding arrangements on a more stable footing.

One of the significant findings of the research was the potential impact that Welfare Reform may have on the incidence of homelessness and the sustainability of the funding for temporary accommodation. Temporary accommodation is the most significant cost in homelessness services and yet the research found that funding of temporary accommodation is often very opaque, even to quite senior practitioners.

In addition to the continuing challenges of benefit changes, welfare reform and the implications for temporary accommodation funding, Scotland has seen a move towards homelessness prevention through the national implementation of a housing options approach. Shelter Scotland considers that the concurrent fall in the number of homeless applications may put at risk the sustainability of the funding for homelessness services when budgets across the public sector are being cut.

Five years on from the first research, Shelter Scotland have commissioned a follow-up investigation to understand how the funding of homelessness services has changed, how LAs are adapting to this change or what plans are being considered, and what the implications are for delivering Scotland's commitments to alleviating and preventing homelessness.

Research Aims:

- establish what the current sources of funding for homelessness services and TA are (though not necessarily the amounts involved), exploring how this has changed over the last five years
- explore the opportunities and challenges for funding homelessness services and temporary accommodation
- identify any groups of type of household who are particularly likely to lose out, or to gain from changes to the funding arrangements
- identify examples of good practice in relation to homelessness services funding and temporary accommodation
- Identify potential solutions or innovative models to put the funding of homelessness services on a more stable footing.

2.2 Research approach

The focus of the research method has been a qualitative assessment from a sample of LAs' journeys over the last five years, exploring trends with Heads of Services and Service Managers, and projections for the future for funding homelessness services, including the biggest threats moving forward.

The approach to the study has been:

- Profiling of LAs – desktop research of key demographics, homelessness trends and housing market drivers. This work also assisted in sampling of LAs across a range of different criteria;
- Local authority evidence on funding homelessness services – in depth face to face and telephone semi-structured interviews - 15 achieved against a target of 12;
- Workshop discussion with practitioners at Shelter Scotland conference;
- Round table discussion with senior managers involved in homelessness services;
- Analysis in the final report has reflected and compared findings between the 2012 and 2016 research.

Recruitment of the local authorities was achieved through email approach and letter from the Director of Shelter Scotland. LAs were assured of anonymity, with the topic guide used for discussion issued in advance of interviews. For each a case study was developed based on desktop

research and the interviews. These were sent to the LA participants for review and approval. The anonymised case studies have been reported to Shelter Scotland, but will not be published to safeguard anonymity. One LA – Highland – has stated it is willing to identify and share some of its specific Welfare Reform experience due to its status with the roll out of Universal Credit.

Analysis and reporting of findings is in line with the qualitative approach, with key examples of practice highlighted through text boxes.

2.3 Limitations of the research

The interviews with LAs were mainly qualitative, but participants were also asked to provide a range of financial information in line with the interview guide. The depth and quality of this information varied by LA, and so not all the financial information provided for all 15 LAs has been used in this work.

The method employed between the 2012 and 2016 studies have differed in emphasis and so are not directly comparable. The 2012 study involved fewer LAs (11 compared to 15 in 2016, with 6 LAs in common), and there was a greater emphasis on providing detailed financial data in the previous study. However, the qualitative topics around service delivery, challenges and possible solutions were similar in both studies, and so are comparable.

3. CONTEXT

3.1 Homelessness and Housing in Scotland

The context in which homeless services across Scotland operate has shifted considerably over the last decade. The key drivers of change have been the recession, constraints in new housing supply, reducing public finances and welfare reform, and considerable legislative change relating to housing and homelessness. At the same time, the demographic drivers of overall increasing numbers of households, and reducing household size continue.

Successive housing legislation in Scotland has expanded the rights of homeless persons. The Homelessness, etc. (Scotland) Act of 2003 set the target date for the abolition of the priority need test as by the end of 2012, after which local authorities were statutorily obliged to assist in the resettlement of all (eligible) unintentionally homeless households. The 2012 commitment has had to be met by most local authorities without significant increases in housing supply. By March 2015 the waiting list for local authority housing consisted of more than 150,000 households¹, with more than 10,000 households living in temporary accommodation. A recent national housing needs report suggested that Scotland now

needs at least 12,000 affordable homes a year for the next five years, with current housing supply programmes providing only half of estimated need.²

Over the same time, local authorities have realigned their homeless services from an entitlement legislative response, to a housing options approach that emphasises housing advice and early intervention. Homeless applications nearly halved in Scotland from a peak of over 60,000 in 2005/06 to just over 35,000 in 2014/15. However, the drop in homelessness applications has slowed in recent years, with two fifths of LAs seeing an increase in applications between 2013/14 and 2014/15.

1. Housing Statistics for Scotland – Housing Lists, Scottish Government, see <http://www.gov.scot/Topics/Statistics/Browse/Housing-Regeneration/HSfS/HousingLists>

2. Affordable Housing Need in Scotland. Final Report, September 2015. Ryan Powell, Richard Dunning, Ed Ferrari and Kim McKee. CIH Scotland, Shelter Scotland, SFHA. http://scotland.shelter.org.uk/_data/assets/pdf_file/0009/1190871/7909_Final_Housing_Needs_Research.pdf

3.2 The local context

The 15 LAs involved in the research included a range of types and sizes of area in terms of geographic characteristics and population profiles: from large cities, large rural areas, medium and small mixed rural and urban communities. Given the diverse sample, the demographic and housing market trends seen across the sample are more or less reflective of the broader national context. In the main, the LAs in the sample project a modest rise in population alongside faster rates of household growth over the next 20 years.

In general terms, the LAs which have higher than average projected population and household growth³ are associated with relatively healthy local economies, have more buoyant housing markets and higher prices, higher homelessness presentations than the Scottish average⁴, a higher proportion of permanent social lets allocated to homeless households, and more often have increasing pressure on their temporary accommodation. For those with less pressure in their housing markets and economic decline there is usually (but not always) less pressure on their temporary accommodation stock.

There are some important differences in demographic trends at the local level insofar as some more rural local authorities project an overall population and household decline, whereas a much more rapid growth is anticipated in more urban areas in the coming years. This urban-rural divide is likely to have important consequences on future housing demand and the delivery of homelessness services. It should be noted that whilst most areas could be characterised as either 'pressured', or 'less pressured', some of those LAs consulted cover large areas and include a diverse range of local markets. These variations within LAs add to the

challenge of delivering homelessness services locally. Housing markets do not operate evenly within LAs and in some areas there are wide disparities in housing need and demand.

3.3 Homelessness and temporary accommodation trends

In all but one of the 15 LAs consulted, homeless applications have dropped significantly over the past decade. The Scottish average has dropped 41% since the peak of 2004-5, and in the areas consulted the decreases from peaks ranged from 5% falls to over two thirds. All LAs confirmed the reason for the fall was in line with implementation of the housing options approach, with some stating they had "fully embraced" it, and others stating they had taken a cautious approach to guard against "gate keeping". Two of the 15 LAs also spoke about their affordable housing programmes making an impact on availability of settled accommodation and reduction of homelessness.

Whilst the majority of LAs have seen a reduction in the volume of formal homeless applications, the LAs consulted noted that this does not reflect a decrease in footfall of people looking for services: the number of people served through housing options approach has either remained broadly constant or has increased, with the resultant service and staffing implications. This finding is also supported by Shelter Scotland's recent analysis of HL1 and Prevent 1 data, which argues that the reduction in the number of homeless applications in Scotland is almost wholly due to the impact of housing options, rather than any change in the underlying causes of homelessness.⁵

3. Source: National Records for Scotland: All council area factsheets

4. Proportion of homelessness household presentations from Scottish Government 2014/15 homelessness statistics as a proportion of current estimated total households

5. Statistical Analysis Report: Homelessness and prevention through Housing Options in 2015 - what does the data show? Shelter, December 2015

Most recent trends suggest there is a slow down in the reductions in homelessness, with two fifths of LAs consulted seeing recent increases (or zero change for two LAs) since 2014/15. Many LAs also expect to see further increases, some due to local economic circumstances, but more cited the projected impact of the new housing options guidance and the “twin track” approach to housing options and homelessness applications. If a LA has reason to believe an applicant is homeless or threatened with homelessness within 56 days, the LA has a statutory duty to investigate, regardless of whether the LA has the applicant’s consent to make initial enquiries. This should result in recording of the application on the HL1 system, a homelessness assessment, progressing the homelessness application and, where appropriate, housing options⁶. For many LAs consulted, the new guidance represents a change in emphasis compared to the housing options approach taken over the last five years, and will mean increased time and resources spent on taking both housing options and homelessness applications at the same time.

In contrast to the decreasing homeless applications since 2005, the use of temporary accommodation has increased by 44% over the same period, with the current population of 10,488 not far below the peak of 11,264 seen in 2010⁷. Since 2012 the trends have been more variable; for Scotland as a whole the use of temporary accommodation has reduced by 2%, but some areas are still experiencing pressure, with 12 LAs seeing increases in temporary accommodation with 2014/15⁸. Eight of the LAs participating in this research discussed gradual reductions in temporary accommodation over the last five years, whereas the other seven LAs consulted have had to increase capacity in temporary accommodation – on average by 25% over the last five years. This variety in the profile of use of temporary accommodation by area is demonstrated in recent Scottish Government statics – see figure 1.

6. Scotland Act 2016, see <http://www.legislation.gov.uk/ukpga/2016/11/contents/enacted>

7. Scottish Government, Operation of Homelessness Legislation, <http://www.gov.scot/Resource/0048/00480524.pdf>

8. Operation of the Homeless Person Legislation, 2014/15, Scottish Government see <http://www.gov.scot/Resource/0048/00480524.pdf>, page 45-46

3.4 The national and local public service delivery and finance environment

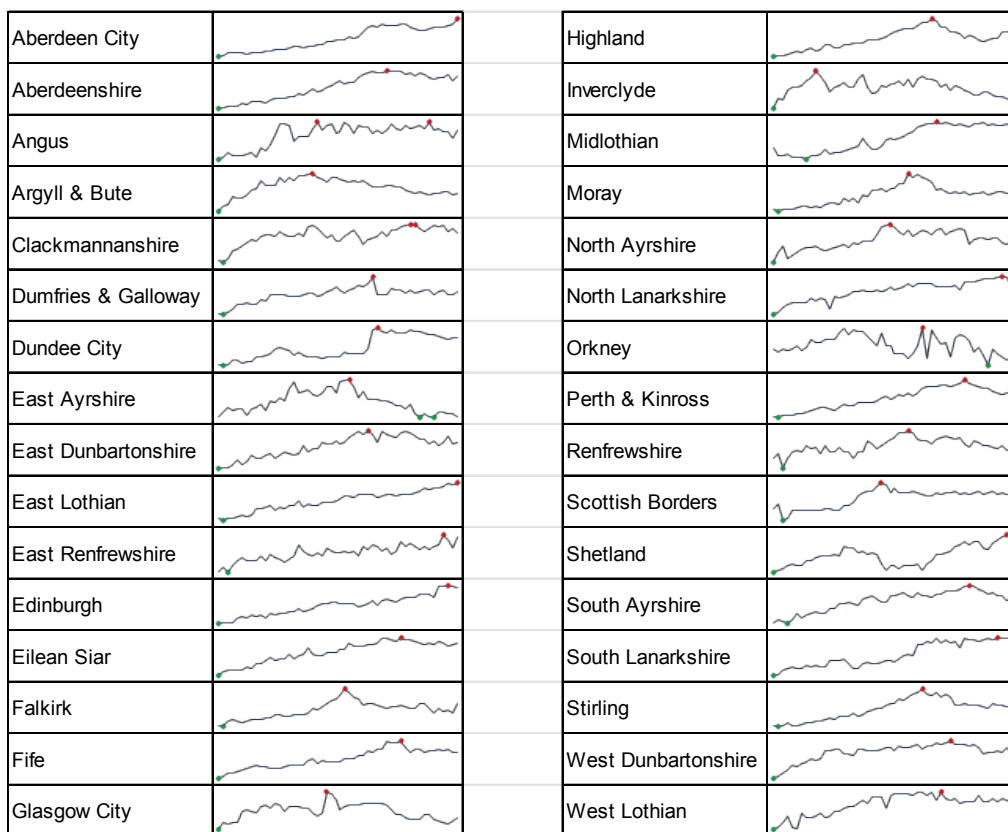
All public services in Scotland have been influenced by the recommendations of the Christie Commission published in 2011. These recommendations set out a vision for future delivery of public services with much greater focus on outcomes and tackling inequalities, prevention, collaboration and integration of services, and community based design and delivery of services.⁹

The 2016/17 Scottish Government budget has reduced local government spending overall by 3.5% on 2015/16. All the LAs consulted have been experiencing several years of expenditure restraint affecting the LAs expenditure as a whole, which they project will continue. For the last three years LA consultees cited annual budget reductions of between 2% and 10%. For the most recent year 2015/16 and

budget 2016/17, there appears to be increased level of budget reductions with ranges of between 11% and 27% commonly discussed. The financial constraints have resulted in widespread restructures, and service redesign across LA services.

Also of relevance to funding homelessness services is the increased devolution of financial (and other) powers through the Scotland Act 2016¹⁰. Amongst other things, the Act gives the Scottish Ministers certain regulatory powers over the housing element of Universal Credit including the social housing under-occupancy regulations, or the 'bedroom tax', Local Housing Allowance rates, and greater autonomy over discretionary housing payments. It also gives powers to create new benefits for social security purposes.

Figure 1: Temporary accommodation by Local Authority, 30th June 2002 to 31st March 2015.



Green markers show the lowest recorded number of households in temporary accommodation 30th June 2002 to 31st March 2015. Red markers show the highest.

Source: Operation of Homelessness legislation in Scotland, 2014-2015, page 47

9. Commission on the Future Delivery of Public Services, June 2011 see <http://www.gov.scot/resource/doc/352649/0118638.pdf>

10. Scotland Act 2016, see <http://www.legislation.gov.uk/ukpga/2016/11/contents/enacted>

4. TRENDS IN SERVICE DELIVERY AND TEMPORARY ACCOMMODATION

4.1 Definitions

In this section we explore how consultee LAs reported change in the homelessness service over the last five years. Homelessness services are defined here as 1) non-accommodation based services - advice, assistance and assessment and 2) temporary accommodation.

4.2 Changes in non-accommodation based service delivery

The greatest driver of change in non-accommodation based homeless service delivery over the last five years has been the move to the housing options and preventative approaches. These have been pursued vigorously since the last 2012 Shelter Scotland funding homelessness report. The key changes and implications for service delivery and resources are discussed below.

Increasing footfall. The increasing (or at least static) volume of customers, despite fall in formal homelessness presentations and move to prevention approaches, has resulted in the need for remodelled staffing structures (and in several cases involving numerous restructures). Comparing findings to the 2012 study, there was previously a trend of increased investment in services and staff numbers, but more recently there have been restructures to increase staffing resources in some areas, while making savings elsewhere - the overall aim being to ensure static expenditure (reduction in expenditure in homeless services for a minority of LAs consulted).

More complex needs. The increasing prevalence of homeless or potentially homeless people with complex needs since 2012 means that many LAs are reviewing support assessment approaches, the specialist training needs of staff in relation to complex needs, and the service approaches or pathways required for people with

complex needs - this has an impact on resources for frontline staff, and on the type of temporary accommodation and support services required. A key challenge in increasing or remodelling support services is the overall reduction of LA resources, which some say has already impacted on many of the LAs' third party support providers. Housing support was discussed as a key challenge for the integration of health, housing and social care agenda - with the need for greater clarity over responsibility, type, intensity and quality of support that is provided.

Greater service integration.

There was a common theme of increasing integration of services - whether through creation of housing access teams for all housing customers (waiting list applicants and homeless/potentially homeless clients), or creation of generic, locality based management covering a range of local authority services. The theme here is around removing duplication, increasing efficiency in service delivery, and achieving better outcomes for clients e.g. the same housing support worker staying with the individual through temporary and settled housing, rather than changing by location and agency every time there is a change of housing or circumstance (see key example in text box below).

For LA A, services have been restructured to be more focused on locality management, integrating service delivery across Council services, and across housing, health and social care. This has meant previous homeless support roles have been redesigned to Housing Support Officers who take a holistic role across permanent and temporary tenants. The philosophy here is that relationships should stay the same, even if people move home, and removes duplication in staff activity. This has also produced a saving to the General Fund.

Specialised support. Alongside increasing prevalence of generic teams and locality based management, there is increasing adoption of specialist housing pathways or service approaches (rather than structures) designed for particular client groups e.g. for young people, older single people, complex needs. A minority of LAs discussed other person centred approaches including ‘one door’ service delivery methods – ensuring one staff member stays with the customer throughout their rehousing journey, as recommended by the new housing options guidance. However, many LAs envisaged staffing resource and cross agency implications and challenges through this approach.

Smarter systems. Consultees referred to increasing emphasis on IT systems to improve efficiency and market intelligence across housing providers and the housing system overall – much wider adoption of common housing registers (CHRs) since 2012, common allocation policies and changes in allocation policies and rehousing targets with the aim of increasing priority for homeless people, improving rehousing timescales, and reducing length of stay where possible in temporary accommodation (see key example text box below).

For LA B, online assistance, and supporting digital engagement is a key priority, not just for housing options and Welfare Reform, but also for the wider economic development strategy. The LA works very closely with its RSL partners. Recently the LA has renegotiated the homelessness rehousing arrangements. They have moved away from target of 50% of relets to homeless people as this did not achieve housing within an acceptable timescale in some areas, and have moved to a new target of rehousing within 26 weeks.

This is being achieved in most places except the most pressured markets. A key tool to effective working and achieving outcomes is the housing register partnership, and a common IT case management system where all partners can see Housing Options, Homelessness and Allocation cases – client names, but not case details. This is seen as a key tool to achieve efficiency and effectiveness, and better housing outcomes for all housing and homeless/ potentially homeless people.

Prevention focus. This included increasing emphasis on access to the private rented sector and wider prevention initiatives including rent deposit and guarantee schemes, empty homes initiatives, mediation services, education in schools.

4.3 Temporary accommodation

In relation to the use of temporary accommodation, the LAs consulted may be categorised into two main typologies:

- Those where temporary accommodation has increased over the long term (last 10 to 15 years), but **demand has equalised**, and they are also seeing reductions in the length of stay in temporary accommodation. Examples of reductions of length of stay over the last five years are 180 to 160 days, and 130 to 108 days. These areas tend to have less pressured housing markets and greater availability and range of housing options. This type of experience relates to eight of the LAs consulted. It should be noted, however, that some of these areas still experience local hotspots and therefore localised pressure on temporary accommodation.

- Those where temporary accommodation use is **pressured**. Some of these authorities are reluctantly using B&Bs, with increasing bottlenecks, and length of stay across different types of temporary accommodation has been increasing. Examples of increases of length of stay are: 80 to 118 days; 109 to 140 days; 231 to 311 days over the last five years. These tend to be pressured markets where the key drivers are lack of access to move-on settled accommodation, high house prices and lack of affordable supply. Even though homelessness applications and volume flows into temporary accommodation may have been reducing, the log jam within temporary accommodation is increasing. This experience relates to seven of the LAs consulted.

These profiles can be correlated to Scottish Government statistics on temporary accommodation¹¹, as discussed in the context above which show that in 2014/15 the 12 LAs experiencing increases in temporary accommodation are largely in pressured areas, and those with falls, or no change are where there is less pressure or greater equilibrium in the housing markets.

It should be noted that the variability of local markets in some larger areas means categorising a LA either as 'pressured' or 'unpressured' misses the challenges faced where there are local 'hotspots'. Within some local contexts, it is unreasonable to expect homeless people to move large distances to be rehoused. It is also important to note that length of stay in temporary accommodation has also increased in some of the lower pressured areas, where a restructure in temporary accommodation has resulted in reductions in supply (for example, to eliminate B&B, or a reduction in private sector leasing

schemes (PSL)). However, these longer periods of stay are considered as a short-term necessary trade off to staying in poorer quality, or more expensive temporary options while the property realignment strategy works through in the short term.

The experience of increasing length of stay in temporary accommodation is also confirmed by Shelter Scotland's 2015 research on the use of temporary accommodation¹².

Temporary accommodation restructuring and property repositioning has been an ongoing feature for the majority of the LAs consulted. The main drivers for this have been: the initial requirements to increase supply to cope with the impact of legislative change; more recent corrections in the supply demand balance – in terms of volume (up or down); and then rebalancing the type and size of accommodation, and the cost profile of provision. The emphasis on the cost of provision, and the perceived threat of Welfare Reform in relation to temporary accommodation is a significant change since the 2012 report.

Temporary accommodation restructuring has been around seven key themes, as discussed below:

Strategic reviews – comprehensive reviews of the whole temporary accommodation portfolio, analysing projected supply and demand, restructuring charges to anticipate changes in Welfare Reform and putting in place a short and medium term change strategy. Three LAs have taken, or are in the process of taking, this approach. The other 12 LAs have reviewed some elements of the temporary accommodation portfolio, but have not undertaken a comprehensive review, including restructuring charges.

11. Operation of the Homeless Persons legislation in Scotland 2014-15 <http://www.gov.scot/Resource/0048/00480524.pdf>, page 45-46

12. The use of temporary accommodation in Scotland, Shelter Scotland, January 2016 http://scotland.shelter.org.uk/_data/assets/pdf_file/0005/1223843/The_use_of_temporary_accommodation_in_Scotland_

Some LAs plan to make this change to charges “only when they have to, and not before”.

Increasing capacity – by increasing and widening leasing options either through PRS or RSL accommodation, or through LA and/or RSL new build programmes for temporary accommodation – particularly for supported accommodation options, or increasing supply of smaller one-bedroom or shared accommodation models. There were some difficulties cited in leasing from the PRS: it can be relatively expensive, and some of the LAs are losing PSL properties from landlords when they do not want to lease within LHA levels. One LA consulted is actively disposing of PSL properties if landlords are not willing to lease within LHA, and replacing with RSL or Council properties, although this in turn affects move-on rates.

Reduction and / or restructure – typically to reduce or eliminate use of B&B and other forms of private lets that LAs identified commonly as the most expensive form of provision (see key example text box below): both financially and in human terms. Some LAs have eliminated B&B use, some are on target, whilst others are still struggling to reduce its use on a regular basis.

For LA C, the temporary accommodation service delivery has changed radically since 2013. Pre 2013 B&B was used routinely, with an average stay of 70 days in B&B. Since 2013 there have only been six households staying in B&B for emergencies of 4-5 days. The Council increased its stock of private sector leased, serviced accommodation and RSL leased accommodation, and rationalised all the temporary accommodation charges.

Now, all are charged at the average social rent plus a service charge of £38.65 per week, regardless of location and tenure. In relation to PSL stock, the Council agrees to pay the landlord a rent equivalent to the LHA and the LA subsidises the cost if it is not fully covered by HB. The aim here was to ensure charges are affordable for tenants living in temporary accommodation, and they are able to stay or move into work. It was also set up so that the Council could afford any shortfalls, bad debts and voids. The exception is two supported complexes, one direct access hostel, and a Women’s Refuge, all of which have a higher cost base and charges, all of which are currently managed by third parties, with charges covered by HB. The direct access hostel is exempt accommodation. At this stage it is not known whether the charges will be covered by Welfare Reform arrangements, but the Council has originally taken a firm line in negotiations on the level of costs and charges and so hopes the financial risks to this temporary accommodation has been mitigated.

Addressing mismatch between supply and demand – particularly the mismatch between high demand from single people and lack of supply of one-bedroom accommodation, especially in the context of Welfare Reform and the social housing size criteria. Examples of addressing this included new build, transferring one-bedroom stock from permanent supply to temporary supply, and procuring from the PRS.

LA D is implementing a property repositioning project to decrease the use of private sector HMOs (B&Bs) and PSL accommodation and to gradually replace these with LA owned property for temporary accommodation. At present the accommodation comprises 13% council owned properties, 40% leased (includes RSL and PSL) and 46% private sector HMOs; over the last two years there has been a considerable shift away from the private sector HMOs towards the other options. A key component to this strategy is to anticipate the impacts of Welfare Reform, to reduce the cost of temporary accommodation, and to enhance the quality of accommodation is an HRA new build programme creating more one bedroom units specifically for temporary accommodation. However, in the interim while the private HMO provision is being phased out, there has been less stock available for temporary accommodation at a time of increasing use – causing increasing length of stay and bottlenecks. The average council temporary accommodation costs are within LHA rates.

A shared house model for B&Bs involves Council D procuring 'self-catered shared housing'. The Council has already procured 49 of these bedspaces, and is looking to increase the number through negotiation with existing providers. Future procurement is likely to specify the self catered model for the majority of the B&B provision. Providers are required to provide shared kitchens which meet HMO standards so the use changes from offering cooked breakfast to a facility that guests can use for self catering. The Council has found that

some providers are receptive to the model and are keen to secure long-term business through this approach. Customers also like the approach, and the Council has found that the change has not caused problems. This model means the Council / provider is still able to charge a shared room rate.

Business efficiency measures –

improving voids and turnover periods to increase supply, freezes on rent increases for LA temporary stock, or where there are surpluses reducing supply of temporary stock particularly from the LA stock.

Accommodation with support - greater focus on housing with support to reflect needs of those with complex needs and making tenants 'tenancy ready' – including Housing First, and other registered floating and accommodation based supported models including 'exempt' and 'specified' models (see further discussion below), and tenancy training e.g. through accredited Chartered Institute of Housing / Crisis courses.

Prevention through settled

housing options – two LAs discussed the ambition to create one move only, straight to settled accommodation. One called 'Home First', or 'flipping' temporary accommodation into settled accommodation, although it was noted that this was the exception rather than the rule due to financial considerations.

Overall, there was a strong sense from consultees that there is a very difficult balance to strike with the changing demographics of homelessness, the evolving picture of Welfare Reform, the impact on income for the LA and costs for tenants, and for those working in pressured markets, the limited flexibility to source a range of housing options in both the temporary and settled accommodation sectors.

5. HOMELESSNESS SERVICES EXPENDITURE AND INCOME

5.1 Expenditure

This section summarises the trends in expenditure on homelessness services over the last five years.

5.2 Expenditure on advice, assistance and assessment

The key change over the last five years has been LAs' requirement to work within overall static budget levels for non-accommodation based services. This is considerable shift from the overall theme of protection of homelessness budgets and investment pre 2012 (albeit at that time there was some "pressure beginning to be felt"). Most LAs provided evidence of no change or small reductions over the last five years, although there have been restructures with efficiencies in some service areas to achieve investment in other areas while maintaining the same overall spending levels.

There were four exceptions from the 15 LAs consulted:

- Two relatively small LAs showed an increased spend of 13% and 8% respectively in their staffing budgets, relating to a restructure, and increases in their housing options teams.
- One large LA discussed substantial saving requirements involving 6% budget reductions in the most recent year 2015/16, achieved through a service redesign which the LA does not believe has affected the quality of service or outcomes for the homeless service users.
- Another large LA has to meet saving targets of 15% reductions in front line staffing budgets, and 27% reduction in management staffing budgets. This LA achieved much of the efficiency requirement through natural staff turnover, but also requires a restructure and staff redundancies.

Even those LAs experiencing modest budget savings or neutral budget changes, stated they have had to balance investment in some parts of the service, with efficiency savings elsewhere. Overall there is a strong theme of drive for efficiencies and lean service delivery. Some people mentioned positive aspects of efficiency and service redesign exercises, suggesting it was:

"well overdue" and created "discipline which has been lacking".

This reflects a significant change in tone compared to pre-2012.

There was consensus that while overall LA culture and approach has changed over the last three to five years, so far homelessness services have not felt the same level of impact of budget reductions that many other LA services have encountered. Many LAs mentioned political and senior management support for homelessness services: this is demonstrated by politicians generally, and supported by the ruling administration, rather than driven by individual politicians or champions.

However, the majority of consultees stated that while homelessness services have not felt the level of funding reductions that other LA services may have, this does not mean homelessness services are totally 'protected', or immune from efficiency savings. Most felt that efficiencies and restructures have so far not yet affected frontline service delivery, quality of service or temporary accommodation, and in some cases felt that the redesign exercises have improved service.

But there was common concern expressed in light of the latest round of budget reductions, and the view that these would inevitably start to affect frontline services as efficiencies continued year after year, with the eventual possibility of moving to “purely statutory” based services. Three LAs mentioned cuts to the Supporting People¹³ budgets, and impacts this had on in-house and externally commissioned support services.

LAs were also asked whether the impact of housing options approaches and reductions in homelessness numbers had increased pressure to reduce homelessness service budgets. None of the LAs have had to reduce their budgets as a direct result of the move to housing options and the reduction in homelessness applications. A number of LAs stated that they have had to discuss the homelessness service budget in the context of reducing homeless numbers, but have convinced senior management teams and politicians through evidence on static or increased footfall of service users, and the requirement to adequately resource prevention activity.

5.3 Expenditure on Temporary Accommodation

Temporary accommodation accounts for the largest proportion of spending on the homeless service, but spend is driven by volume and demand – as discussed above, this varies by the type of housing market. Expenditure therefore varies to a much greater extent compared to expenditure on non-accommodation based services. Key findings on discussions on temporary accommodation expenditure are set out below:

LAs with generally less pressured housing markets, although with hotspots, and pockets of pressure - changes in expenditure over the last five years have ranged from static budgets to significant falls of spend by 50%. For some

of these LAs this has been driven not only by fall in demand and volume, but in restructuring a way for relatively expensive forms of temporary accommodation (eight LAs).

LAs experiencing pressured housing markets, with limited range of housing options and increasing bottlenecks in temporary accommodation -

these LAs have seen increasing spend of up to 25% over the last five years. This is driven by increasing demand, and/or increasing bottlenecks (lack of move-on options) and so need for increased volume of temporary accommodation. However, included within the increase in spend there has also been some restructuring, with LAs’ efforts to reduce unit spend and to create efficiencies where possible (seven LAs).

Restructuring – as noted above, for both types of LA profiles there has been a drive towards more efficient types of accommodation over the last five years, and move away from higher cost/lower subsidised forms of accommodation. This is more prevalent than was discussed pre 2012. However, the extent of this restructuring varies considerably by LA (as discussed in 4.3 above) and is also driven by pressure in the market and the ability to secure alternative forms of more affordable temporary accommodation. A number of LAs consulted have been prioritising use of LA furnished flats over other forms of temporary accommodation as a more cost effective option. The downside to this strategy is reduction in availability of move-on accommodation.

A comparison of findings from the previous funding homelessness report shows that in 2012 a number of LAs were experiencing a reduction in demand, and therefore expenditure on temporary accommodation, which they attributed in part to the housing options approach. As discussed above, the reduction in demand has continued for some LAs, usually in lower pressured housing markets. The Scottish Government’s

13. Supporting People funds formerly came to LAs as a ring fenced budget from Scottish Government. Following the Scottish Government and Local Government concordat agreed in 2007, this comes as part of the overall Scottish local government grant allocation from Scottish Government. Some LAs still internally allocate funding under a ‘Supporting People’ budget head, and continue to use this term, as demonstrated through consultation with LAs for this research.

latest annual homelessness statistics publication 2014/15 discusses the varying impact of changing Scottish homelessness legislation, the housing options approach, and the size criteria (removal of the spare room subsidy - RSRS, also known as the 'bedroom tax' in the social rented sector) on the demand for temporary accommodation.

It also states that the "impact of the RSRS in Scotland is likely to be offset by the Scottish Government's commitment to fully mitigate the impact of the RSRS in 2014/15 and 2015/16."¹⁴

As discussed later in this report, most LAs consulted have seen the impact of the 'bedroom tax' fully mitigated in their temporary accommodation, but there was a significant minority where there were insufficient LA funds to fully mitigate against RSRS, with the impact of the RSRS being to increase costs for LAs (and/or increase levels of bad debt).

A strong theme coming from the LAs working in pressured markets is that demand and expenditure for temporary accommodation is still increasing. The majority opinion is that the demand/supply balance can only be addressed through a full range of measures. These will include welfare and housing supply options to help alleviate the bottlenecks in temporary accommodation, and rising costs. Scottish Government statistics confirm the increasing proportion of social lets to homeless households, increasing numbers on social housing waiting lists in these pressured areas over the last five years,¹⁵ and therefore these LAs' limited ability to rehouse homeless households in settled accommodation.

The previous 2012 report also showed increasing expenditure on improving standards of temporary accommodation. There was no sense from consultees this time round that spend has increased due to any further improvement of standards over the last five years, but there was some concern over the possibility of the standards falling with budget

pressures in future. LAs did reflect (as they did in 2012) on the higher cost associated of maintaining standards with the greater prevalence of complex needs amongst homeless people. The following section provides findings on how consultees consider income for temporary accommodation, and therefore expenditure, may change in future.

5.4 Income and funding sources

This section discusses the range of income sources, and methods employed by LAs to fund homelessness services. First, the different approaches and trends in accounting for homelessness income and expenditure are outlined, followed by a discussion of the key income sources.

5.5 General Fund and Housing Revenue Account

There are a variety of approaches to accounting for the income and expenditure for homelessness in Scotland based on the 15 LAs participating in this study. The two LA accounts are the General Services Account (or General Fund, GF) and the Housing Revenue Account (HRA)¹⁶.

In the 2012 study, there had been a recent shift by several LAs from HRA funded homelessness services to the GF. At that time the reasons were to:

"tidy things up...make it more accountable...make it more transparent and easier to manage and monitor costs".

Findings from this study show another four LAs shifting from the HRA to GF over the last four years, with the reasons cited around financial risk of Welfare Reform and Universal Credit. Two other LAs involved in this study that currently have a mixed accounting of GF and HRA for homelessness are also planning on

14. Operation of the Homeless Persons legislation in Scotland 2014/15 <http://www.gov.scot/Resource/0048/00480524.pdf>, page 48

15. Housing Statistics for Scotland – Housing Lists

16. Under the Housing (Scotland) Act 1987 the HRA is a ring-fenced account to record all income and expenditure relating to LAs own direct provision of housing. Councils may transfer HRA surpluses to the general services account, but they are not permitted to budget for a transfer of funds from general services into the HRA. The HRA is not permitted to show a deficit at the end of the financial year. If this occurs, authorities are required to transfer funds from the general services account to cover this deficit.

shifting all homelessness services to the GF (with leasing from HRA). This relates particularly to those LAs that charge temporary accommodation rents that are higher than LHA rates, and therefore have higher risk of rent arrears and bad debt. The implications of shifting from the HRA to GF will be to lessen the burden on the HRA, but to increase the burden and possible financial risk to the GF. LAs with high temporary accommodation charges relative to LHA rates discussed the inevitable requirement for rents restructuring to lessen financial risk, regardless of accounting on the HRA or GF due to the:

“unsustainable current high temporary accommodation rent levels with the likely LHA cap”

(discussed further below).

Findings based on the 15 LAs consulted suggests four types of approach:

Stock transfer General Fund only – two stock transfer LAs account for all their homelessness services cost and income through the GF. One of these LAs owns a small amount of housing which is held on the GF, and both also lease accommodation from RSLs and the private sector.

General Fund with leased stock from HRA – the largest proportion of LAs consulted (seven) account for their homelessness services through the GF, but leased LA owned properties from the HRA for the purpose of temporary accommodation. Some of these also have a small proportion of the temporary accommodation accounted for on the HRA – typically hostels where all income and expenditure remains on the HRA.

Mixed GF and HRA – Four LAs have a mixed approach to accounting for homelessness, which assessment, advice and assistance, and private sector temporary accommodation is accounted for on GF (including B&B, PSL, other forms of private/external leased property), with LA owned HRA temporary accommodation including self-contained flats, supported accommodation and hostels accounted for on the HRA. In these cases LAs discussed the contribution of income from some types of temporary accommodation offsetting the losses from other types of LA owned accommodation, but one LA also spoke about the temporary accommodation income making a contribution to HRA posts that are not related to the homeless service, including housing management roles.

Mainly HRA – two LAs consulted account for the majority of their homelessness service income and expenditure on the HRA, including advice, assistance and housing options. Only private sector temporary accommodation is accounted for on GF. In these cases the contributions from some types of temporary accommodation support losses in other types of accommodation, and also pay for the wider homeless advice, assistance and prevention services.

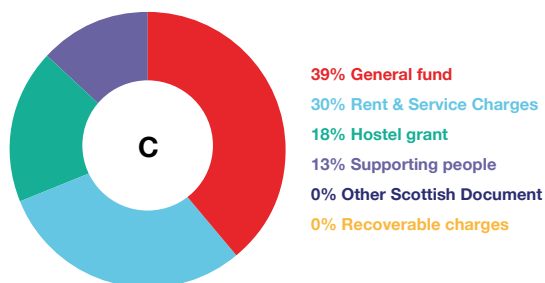
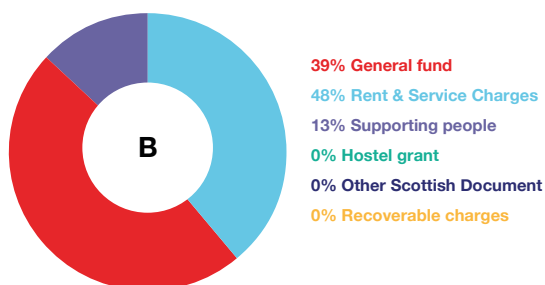
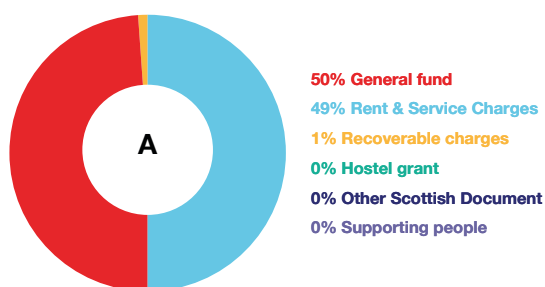
For LA E, all B&B, short term lets, externally commissioned services and the PSL are accounted for on the General Fund. Shortfalls between income and cost for this accommodation is met by the General Fund. There is currently no shortfall between cost and income for temporary accommodation held on the HRA. However, it is expected as the impact of Welfare Reform increases, pressure on the HRA will increase, and the HRA/GF split will be reviewed with a view to moving away from the

HRA over the next 2 years to avoid any financial pressure from temporary accommodation. The Council is also looking at restructuring the temporary accommodation rent/service charges as these are considered unsustainable at current levels when the LHA cap comes more fully into force. This LA may be categorised as 'mixed GF/HRA' as defined above.

There are different opinions over whether homelessness services should be accounted for on GF or HRA, and each LA has varying reasons for adopting their specific approach. The consultation shows the dilemma for LAs, and implications for the long term - whether to continue holding homelessness services on the HRA but face significant financial risk, potentially adversely impacting on services and stock for the temporary and mainstream HRA tenants, or whether to transfer to the GF and face the prospect of increasing contributions from the GF, but in the context of potentially reducing resources from this source, and so risks to the homelessness service.

5.6 Proportional Split of Income Sources

The main sources of income for funding homelessness services are rent and service charges, and the GF (Council tax and Scottish Government block funding), with various other minor income sources. Funding profiles vary according to the mix and type of temporary accommodation with the following charts showing three examples of total funding sources for all homelessness services including advice, assistance and temporary accommodation. As discussed above, despite the removal of ring-fencing of certain budgets through the Concordat in 2007, some LAs still keep a separate Supporting People budget, whereas others have removed this distinction.



The profiles show us that LAs A and B largely have a 50/50 split between rent and service charges and the GF, after taking account for Supporting People being part of the GF and internal local authority fund allocation.

However, LA C demonstrates a different profile with proportionally much lower income from rent and service charges at 30%, with higher reliance on various GF sources. Changes over the last five years are:

- LA A's profile in 2011/12 was 66% rents and service charges and the remainder GF with some other recoverables. The proportional shift to the GF has therefore almost doubled. Reasons include a reduction of temporary accommodation, but the relative funding from GF in temporary accommodation has also increased, while Hostel Grant has reduced to 0% from 5% over that time.
- LA B's profile in 2011/12 was 50% rent and service charges and 50% GF, demonstrating little change. However, Hostel Grant has reduced to 0% from 5% five years ago. This LA has also seen a reducing volume of temporary accommodation, and closure of one hostel.
- LA C's profile in 2011/12 had a greater proportion of rent and service charge income five years ago. This is a pressured area, with a mix of LA, PSL and B&B temporary accommodation demonstrating that a higher proportion of GF funding is required for externally leased properties and B&B. However, Hostel Grant has been retained.

A minority of LAs participating in this research discussed that a large majority of funding for all homelessness service is through rent and services (which coincides with mainly HRA funded services). However, in general when comparing trends between the 2012 and 2016 research, consultees suggested a general shift to greater proportional funding from the GF.

5.7 Specific grants and funding streams

The Hostel Grant is provided as part of the Scottish Government block grant. Its distribution has changed over recent years, with many of the LAs consulted seeing a drop in the level of grant, although some have seen increases and have used this to commission new

supported housing. A number of LAs noted that this is no longer ring fenced and so there is no guarantee that the homelessness service actually receives the allocation from the LA. The same is true of Supporting People grant – some LAs no longer make a distinction between the GF and Supporting People as it is no longer ring fenced, whilst others still refer to it as a specific funding sources, albeit a reducing one. There was also reference to small amount of funding coming through the Scottish Government housing options hub funding.

5.8 Rent and service charges structures

Rent and service charge structures as well as HB subsidy levels vary according to the type of temporary accommodation. Key issues discussed by consultees are listed below:

Private and RSL leasing sectors –

There are various current and anticipated restrictions on private sector leasing schemes. According to some consultees working in pressured markets the reduction of LHA to the lowest 30th percentile, rather than 50th in 2013 has reduced the supply of temporary accommodation, and access to more affordable private settled accommodation where landlords do not wish to lease to LAs, or let to tenants at reduced LHA levels.

For this reason and in anticipation of Universal Credit and lack of clarity over the management fee (see discussion below) some LAs are actively reducing their supply of PSL, and replacing supply with LA properties. But as outlined above, this has a knock on effect on supply of move-on accommodation. For some pressured areas this is not an option, and supply of PSL/RSL stock has to be used, and so shortfalls between the LHA and leased rates must be met by the GF with the resulting financial impact.

LA F feels it is only now feeling the full impact of 2012 - this combined with the reduction in the LHA from mid 2013 and high pressure in the private rented sector, has resulted in less flexibility to use a range of housing options for temporary accommodation. The pressure in the housing system is demonstrated by increasing prices in the PRS, and the reduced ability to procure PRS properties for temporary accommodation - the PSL provider is finding it increasingly difficult to sign up owners into the PSL scheme resulting in a drop in the number of flats in the scheme this year. At same time, demand and the need for greater supply of temporary accommodation continues to increase and does not appear to be levelling off.

Recent conclusions on the demand / supply balance assessment of temporary accommodation for LA G suggests that this Council will in future be making increased use of more affordable (for tenants and the Council) HRA accommodation through a reprovisioning programme and dispensing of the more expensive private TA stock, including handing back of leased properties where landlords are not willing to match the LHA rate. There will also be increased focus on void management and rent arrears management in temporary accommodation. However, it is recognised that this will also impact on the stock of settled accommodation, and so until the demand supply balance is in greater balance, the bottlenecks in temporary accommodation will probably increase.

Private and RSL sector leasing schemes rates vary according to the local markets and the LA contracts, but with the standard DWP subsidy paying 90% LHA rate + £60 management charge per week under Housing Benefit. There is currently lack of clarity over future arrangements for the management fee under Universal Credit – whether it will exist, be reduced

or come through some form of block allocation from the UK Government¹⁷. Negotiations are ongoing between UK and Scottish Government over this, but this presents a considerable risk for LAs currently using or considering expansion of PSL or RSL schemes. Despite this, one LA consulted is exploring a housing association leasing scheme.

The Housing Association Leasing (HAL) scheme is where an RSL would procure stock from PRS and would work in partnership with the Council to manage the properties and pull down a management fee. Tenants would hold a standard PRS tenancy. This approach means there is no financial / legal risk to council unlike the PSL schemes. It is thought this may be a growth area for RSLs due to the management fee potential. This service model requires the RSL to register with DWP as a Registered Provider (RP). Only 'social housing' agencies can become RPs. The registration permits the RP to claim a management fee currently £60 per property per week for providing councils with 'temporary accommodation'. Confirmation is required from a RP agency they are registered under section 57(3) (b) of the Housing (Scotland) Act 2001. If this is the case then a weekly management fee per property (currently £60, but see above) and HB of 90% of applicable LHA can be claimed. The RP must also be registered with the Scottish Housing Regulator and be a not for profit organisation.

B&B rates vary according to the local market, with the DWP single room rate usually not covering the cost, with shortfalls met through the GF. For most LAs it is the most expensive form of temporary accommodation. There has been no change in subsidy, but for

those LAs where use of B&B is currently unavoidable, there was a common pattern of using more efficient methods of procurement, entering longer term B&B contracts to reduce unit costs, and one LA has procured self-catering houses.

LA H has attempted to address the problem of increasing costs through fixed contracts with B&Bs, and steps to reduce unit costs through procurement, but these savings have been offset with having to use more units to address need, which results in procuring additional units 'off contract' which is more expensive.

LA owned temporary accommodation – mainstream HRA housing, and specialist homeless LA owned accommodation is used as temporary accommodation by 13 of the 15 LAs consulted with the other two being stock transfer authorities (one of which also had a small amount of LA stock). There is currently no cap on LA rent and service charge rates, although UK Government has stated that social rents will in future be capped in line with the LHA¹⁸. The UK Government had been consulting on this principle at the time of the last Funding Homelessness Service research in 2012, but no conclusive statement had been made until 2015.

The majority of the LAs consulted use a 'Full cost recovery' (FCR) approach to charges for LA owned temporary accommodation, where the LA has accounted for all the costs (property, staffing, management and support) and charged a unit cost on a daily or weekly basis. The range of charges for LA temporary accommodation from those participating is considerable from a standard social rent in one case to over £250 per week higher than the average social weekly rent in three cases (rent and service charge); considerably more than the 90% LHA rate plus management charge that currently

17. Outlined in the Treasury Autumn statement that the Housing Element of Universal Credit will not include a management fee but a lump sum will be transferred to Department of Communities and Local Government (DCLG) for distribution to Local Authorities. However, this arrangement is irrelevant in the Scottish context as Scottish local government funding comes through Scottish Government, not DCLG.

18. UK Government Autumn statement / Comprehensive Spending Review, 2015 - Local Housing Allowance rates will be applied to all social rents from April 2018, where tenants had signed new or re-let tenancies from 1 April 2016.

applies for the private and RSL sectors. LA hostel accommodation charges were quoted at levels of between £150 and £400 per week, but the type of accommodation varies considerably across LAs.

The chart below shows the range and variability of average LA temporary accommodation charges, and percentage distance from the LHA currently charged by the participating LAs for mainstream furnished temporary accommodation.

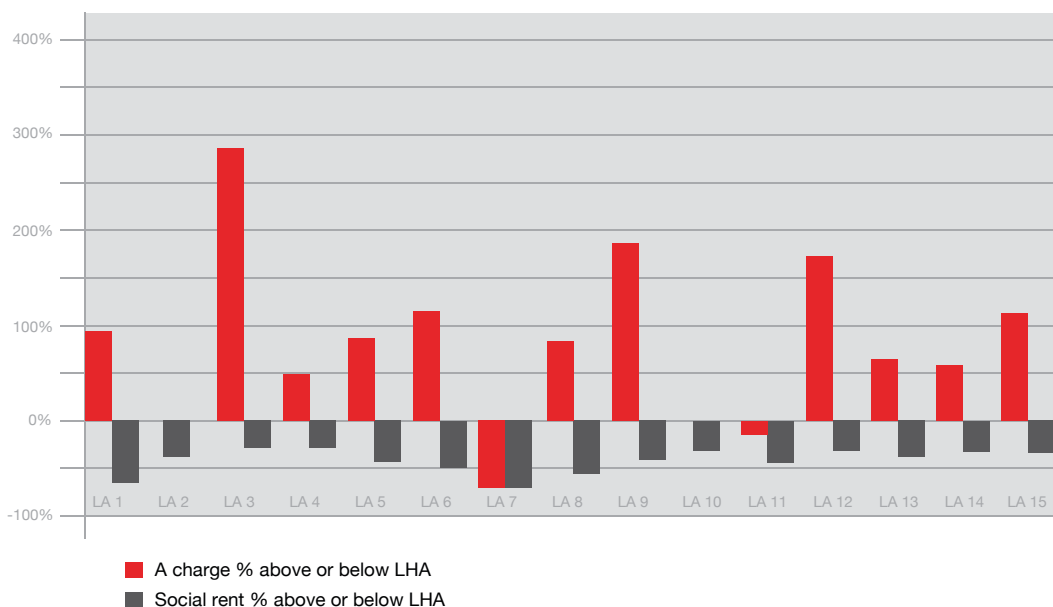
Where an average was not supplied, the 2 bedroom rent has been used as a proxy, and charges shown include total rent and service charges. All but one LA provided the temporary accommodation charges. Two are stock transfer LAs, one of which has a small amount of LA stock.

There are two LAs from the sample that do not adopt a FCR model. One participating LA does not adopt FCR for its temporary accommodation and charges the normal social rent, and in some properties there is a small service charge of up to £5 for

gardening, in line with other social housing tenancies. The participant stated that this LA had taken the view that temporary accommodation rents should remain affordable for tenants, and had anticipated change in DWP policy. As a result this LA believes it has little or no financial risk moving forward in relation to temporary accommodation.

Another LA (stock transfer with some LA stock) has developed a standard charge (average RSL rent plus £38.65 per week service charge) which is described as a 'partial cost recovery', and is applied to all temporary accommodation regardless of tenure (see example LA C) – the balance between costs and rental charge is met by the GF. The aim is to set a charge which is affordable for working tenants, and for the GF. Two other LAs are planning, or implementing reviews to their rents. The anticipated impact of the change on subsidies for LA temporary accommodation is discussed further below.

Temporary accommodation charges relationship to LHA



Note that LA 2 in the chart above has TA charges equal to LHA rates. No average rents were provided for LA 10.

5.9 Potential impact of LHA cap on rents

As outlined above, some LAs discussed the impact that the change in the LHA levels has had on the availability of private sector properties for temporary and move-on accommodation. However, the largest anticipated impact is the cap on social rents for temporary accommodation. As shown above, most LA temporary accommodation rent levels in the sample are well above LHA rates. A small minority of LAs have already restructured rent, or have temporary accommodation rents at or near social rent levels.

One Council has been gradually reducing unit costs, and the charge has been coming down over time over the last five years - this has ranged from a 27% reduction since 2011/12 in dispersed accommodation to up to a 62% reduction in hostel type accommodation since 2011/12.

The ambition is to get the temporary accommodation rent levels down even further, and ideally to social rent levels. Another LA is developing a restructuring strategy. The LAs with lower rents, or in line with LHA do not envisage significant financial risk, other than the general risk associated with Welfare Reform in the mainstream social rented sector (debt collection and arrears control).

However, all other participating LAs are considering, to varying degrees, over what change would have to be required to meet the drop in income as a result of the LHA cap. None of these consultees were specific on exactly what change would be implemented other than re-examination of the costs relating to temporary accommodation, possible reduction in quality and support, and reduction of services which are not strictly statutory, including prevention. One LA has already developed a lower cost temporary accommodation option which involves partially furnished flats compared to the

standard fully furnished accommodation, with a suggestion that this type approach may be increased. Some of the LAs stated they would start restructuring plans within the next year, while others intend to keep temporary accommodation charges at current levels, for as long as they are able to do so.

A number of LAs have modelled the financial impact with the anticipated impacts being considerable funding shortfalls, resulting in greater impact on the GF. Some LAs spoke candidly about the “loop hole” closing, which currently allows “cross subsidy” and “cross pollination” across different aspects of homelessness services through the prevailing funding system in Scotland, and that LA GF will have to bear a greater share in future.

5.10 Specified and exempt accommodation

Specified accommodation relates to certain types of LA accommodation, and Exempt Accommodation relates to certain types of accommodation managed by third parties including RSLs and charities. Rent levels and service charges are typically higher than LHA as they relate to support and related services, and may be considered eligible for HB. Again, there is considerable lack of clarity, and concern in the housing sector over possible change to subsidy eligibility for this type of accommodation. Recent announcements¹⁹ have confirmed that the planned reduction in benefits for supported tenancies will be delayed pending the findings of a research project into supported housing costs. Several LAs consulted for this study stated that they have recently commissioned, or are exploring the conversion of some temporary accommodation to ‘exempt’ status so that housing benefit, or the housing component of Universal Credit is administered outside of Universal Credit in a manner consistent with the existing Exempt Accommodation rules.

19. 1st March 2016 DWP Minister announcement stated that the LHA cap would apply to new supported housing tenancies starting from April 2017, instead of April 2016 as originally intended, with the fall in benefit applying and Council, Resources Committee February 2016.

Options in relation to Exempt Accommodation include: need assessments to establish the level of supported accommodation required, procurement of new build supported accommodation designed to be exempt, leasing of existing supported accommodation to RSLs and other third party supported accommodation providers to meet the Exempt Accommodation criteria, and redesign of existing property to meet the exempt criteria. Some of these discussions were more speculative than others, and some consultees suggested there should not be a knee jerk reaction to fit certain criteria if that was not meeting evidenced need.

5.11 Impact of Welfare Reform

LA participants were asked to comment on the impact of Welfare Reform on funding homelessness. The majority stated that so far the impact has been in relation to capping, benefit sanctions experienced by tenants, and restrictions on backdating housing benefit, with resultant increases in rent arrears and bad debt, all similar impact in the mainstream housing sector. Few were able to quantify the actual amount attributable to Welfare Reform but LAs spoke about increasing their bad debt provision with examples varying between 10% and 25%. One LA has budgeted for contributions from the Council's wider Welfare Reform contingency fund as the impact of Universal Credit is expected to increase for that LA over 2016/17.

Consultees suggested the size criteria (bedroom tax) could have had a considerable impact on income for temporary accommodation, but the majority of LAs stated that this has been fully mitigated by Discretionary Housing Payments (DHP). However, there were some LAs that stated that there were inadequate funds to meet the level of demand, and noted that temporary accommodation tenants had low priority. Most LAs stated that they do not pursue temporary tenants for arrears, demonstrating the tension between

affordability and sustainability of tenancies where there are high rents, and whether eviction would be a realistic option with ultimate statutory duty to house. Others talked about pursuing rent arrears for temporary accommodation tenants, but with varying success. Few of the LAs have had experience of the Benefit Cap, with one suggesting the DWP has been slow to enforce the Cap. Those that have been affected most are large families. Highland Council is happy to be identified as a case study for this work as it provides a useful insight to the anticipated impacts of Welfare Reform²⁰ due to status as the first LA in Scotland experiencing the full Universal Credit rollout.

Welfare reform has had a significant impact, particularly with Universal Credit and the resulting impact on rent arrears, and the shift to LHA rates under the Housing Element of UC. The number of temporary accommodation tenants on Universal Credit is currently very small but already arrears are mounting up – as at December 2015, 100% of UC temporary accommodation tenants were in arrears, with the average arrear for UC temporary tenants £2,085, an increase from £1,433 in the previous quarter. Looking at mainstream tenants where the numbers involved are much greater, and the Council is concerned about the long term implications of Universal Credit and other welfare reform changes in relation to resource and cost implications of collecting rental income. Between September 2015 and December 2015 there has been a 10% reduction in the percentage of mainstream tenancies in receipt of Universal Credit in arrears from 90% to 80%. However, this is in comparison to all mainstream Council tenancies where in Dec 2015 27% were in arrears compared to Sept 2015 32% Council tenants were in arrears. Currently, the average rent arrear of a mainstream household in receipt of Universal Credit is £687.06. This is around 1.9 times higher than the average rent arrear of £365.30 per household for all other secure tenancies.

20. http://www.highland.gov.uk/meetings/meeting/3656/resources_committee.

The Council has found Alternative Payment Arrangements (APAs), the safeguard mechanism that pays the housing cost element of Universal Credit direct to landlords, are resource intensive and therefore much less efficient to administer but are nonetheless proving to be an effective tool to help mitigate the impact of Universal Credit, lessen the risk to the Housing Revenue Account (HRA) and Non HRA, and reduce rent arrears.

At December 2015, the 80% of tenants in receipt UC in arrears compares to the national English figure published in December by the National Federation of ALMOs (NFA) and the Association of Retained Council Housing (ARCH) which shows that 89% of Universal Credit claimants have accumulated rent arrears, with 34% subject to an APA. This Council has calculated the equivalent of 42%

known Universal Credit cases for Council tenancies. This indicates that the Council has a lower number of cases in arrears but a higher proportion subject to an APA than the average being demonstrated in England.

The Council recently submitted an Expression of Interest to participate in a Universal Credit project that will trial the role of Social Landlords as a 'Trusted Partner' in the Universal Credit process to test the proposal whereby social landlords make a recommendation to DWP that an alternative payment arrangement (APA) is appropriate for one of their tenants. Involvement in this pilot will enhance the Council's current arrangements with DWP, speed up the APA process and minimise the risk to the HRA through more effective arrears management of Universal Credit cases.

6. CHALLENGES AND OPPORTUNITIES

The participating LAs interviewed were asked to consider the main challenges and opportunities in delivering the homelessness service moving forward, and to identify any solutions for the funding challenges on the horizon. The majority of LAs see considerable challenges and risks, and have been developing a range of service development and supply initiatives in response to these pressures. However, none of the sample have identified or have been introduced to new or innovative sources of funding homeless services, which may assist them with these challenges.

6.1 Challenges and risks

The challenges and risks identified by the 15 LAs were principally around Welfare Reform, the context of public finances, housing supply issues, and the change in the client group. Comparing this list of issues to the research in 2012 shows strong similarities, but with the addition of challenges faced in public sector finances, and expenditure constraint.

Welfare Reform and rent capping, as discussed above, is universally cited as the biggest challenge facing LAs in funding homelessness services.

This relates to:

- The broader impacts of Welfare Reform as experienced in the mainstream housing sector: LHA capping in the private sector, benefit sanctions, restrictions on backdating housing benefit, with resultant increases in rent arrears and bad debt.
- The impact of the reduction of the LHA rate in the private sector was predicted by some LAs in the previous 2012 research as having a detrimental effect on temporary and settled accommodation supply - this prediction has been proven correct particularly for LAs working in

pressured areas, resulting in reduced supply options from the PRS either as a result of landlords withdrawing from this part of the market, or LAs following a specific strategy to withdraw from this option where landlords do not meet the LHA benchmark.

- The impact of the size criteria would have been greater in temporary accommodation if it were not for Scottish Government mitigation. There is a greater mismatch between housing stock and homeless household size due to the prevalence of smaller households, more of which are now entitled to temporary accommodation. This has been a key change, and challenge since 2012 abolition of priority need. The financial impact has not been universally mitigated with some LAs bearing the impact where there are insufficient DHP funds to cover all the demand. The issue of size mismatch is discussed further below.

The previous section has outlined the challenges LAs face in relation to social rent capping in the temporary accommodation sector, including Exempt Accommodation. The original DWP consultation paper on this change was

published in 2011, and discussed by LAs in the last 2012 funding research. Since then, three out of the 15 LAs participating in this round of research have made changes in anticipation of the LHA cap in temporary accommodation. One does not need to make any change due to low rents. The remaining 11 are waiting on the outcome of negotiations and anticipated mitigations they think may come through the Scottish Government as a result of increasing financial devolution and the Scotland Act 2016.

Financial constraint - A key change since the 2012 report has been the shift in public sector finances from one of investment or static budgets in homeless services, to one of static budgets or reductions. While this is generally seen as a challenge, many LAs also referred to the service development opportunities created through efficiency disciplines experienced over the last four to five years.

Housing supply issues continue to be a key challenge, and this issue has increased for many LAs since 2012 due to restrictions in LHA rates, especially in higher priced areas. For around half of those LAs consulted in this round of research, the lack of move-on accommodation is still argued to be the key problem. Further possible restrictions in terms of allowable management fees may further reduce opportunities for increasing capacity through leasing. The imbalance is seen as particularly acute for one bedroom properties. This has been exacerbated by the social housing size criteria, and LAs emphasised the need for additional supply of one bedroom, but also other sized properties, regardless of any financial restriction or mitigation.

Another risk and key challenge identified by the majority of LAs is the increasing proportion of homeless households with **Complex Needs** - Another risk and key

challenge identified by the majority of LAs is the increasing proportion of homeless households with complex needs. This was also identified in the 2012 research, but was previously identified in terms of increased costs relating to furnished accommodation; in this research, consultees discussed the impact in relation to increased requirement for more intense support for more clients, and shift in strategy by some LAs towards supported accommodation. Consultees raised their ongoing frustration over lack of clarity on roles and responsibilities for meeting support needs. The role of health and social care partnerships are seen as key, but with challenges in the context of falling LA resources for Supporting People activities, and the new health and social care arrangements still bedding in.

The **revised housing options** guidance is also seen as a challenge with the resource and staffing implications LAs believe that it brings. This relates to the twin tracked approach between housing options and homelessness applications, and single point of contact in housing options or other advice teams. All of the LAs consulted agree that the shift to prevention has been a positive change over the last five years, but discussion around the new housing options guidance has certainly been less positive in 2016 compared to discussion around the approach in 2012. At that point, housing options approaches were seen as a key opportunity in reducing demand for temporary accommodation.

Finally, recent **increases in homelessness applications** are seen as a potential challenge, and one that is anticipated to affect demand on temporary accommodation. Actual increases have affected over two fifths of LAs over recent years, and consultees spoke about the anticipated effect of the new housing options guidance possibly having the effect of increasing applications further.

6.2 Opportunities and solutions

The LAs discussed opportunities and solutions around property repositioning and service development, rather than around any substantial change to the way in which services may be funded in future. The opportunities and solutions listed here have been discussed elsewhere in detail in the main body of the report. The majority of the solutions discussed relate to supply challenges; creating cost efficiencies in the temporary accommodation stock and rebalancing supply in terms of volume and size of stock.

Property repositioning – there are difficult trade-offs in increasing or decreasing the proportion of different types of temporary accommodation with impact on costs for the LA, affordability for tenants, availability of permanent move-on accommodation, and length of stay in temporary accommodation. For some LAs the right solution is reducing private leasing where it is over LHA rates, and increasing the provision of LA owned temporary accommodation (but decreasing move-on), for others the solution lies in cost effective procurement from the private sector, and leaving LA and RSL accommodation for permanent supply. The emphasis of one strategy over another is the result of the local market, availability and cost of different options.

Addressing the mismatch between size of housing stock and households –both temporary and permanent- through new build to increase supply of one bedroom properties. Some LAs identified this as a solution for both temporary and permanent supply, but also spoke about the challenges in convincing housing investment colleagues about the merits of building one bedroom properties (instead of two), despite long term demographic projections.

The challenge of building specifically for temporary accommodation is the reduction of funding for permanent supply. Other strategies for increasing the supply of smaller accommodation for temporary accommodation are around increasing stock from the private rented sector, including development of shared housing models, and transferring smaller properties from LA owned stock, but which again has the knock on effect of availability of move-on accommodation and increasing bottlenecks in temporary.

Increasing the supply of supported housing – in response to the higher proportion of homeless clients with complex needs, increasing intense forms of supported housing including Housing First models. Exempt accommodation is seen as a means of providing supported accommodation and to obtain full cost recovery for intense housing support through Welfare Benefits, rather than LA Supporting People, or other health and social care budgets. There is an urgency for increasing supply of Exempt Accommodation due to the delayed cut-off date for tenancies to come under the LHA cap, and one consultee suggested LAs are using the:

Exempt status as a “knee jerk reaction” to funding challenges rather than basing their procurement strategy on need.

Harnessing the resources of the private rented sector – taking the opportunities presented through the new private tenancy regime to discharge homelessness duty in the PRS. However, this solution was qualified around the fact that potential limitations are unknown, until such time as the statutory instruments are in place and understood.

Restructuring rents – two out of 15 of the LAs consulted have already restructured rents in anticipation of the LHA cap, and one is in the process of developing a strategy. All these three saw this as an opportunity to create a more affordable rent structure for tenants and the GF. The majority of other LAs see this as an inevitable, but so far resisted consequence of Welfare Reform, rather than a solution or opportunity. One LA with temporary accommodation charges set at social rents sees an opportunity to increase rents up to LHA levels when/ if the cap is confirmed, but is unlikely to maximise rents due to the LA's approach to keeping rents affordable for temporary accommodation tenants.

Other solutions related to continuing the focus on prevention strategies:

- Housing options – while a number of LAs identified challenges with the new housing options guidance in terms of staff resourcing, the majority of LAs still see the merits of a strong preventative approach, and wish to use the new guidance as an opportunity to undertake new training programmes and refresh staff skills. Many see opportunities for developing client specific pathways for housing options to further focus prevention activity.
- Wider prevention activity – two LAs emphasised the need to increase the breadth of prevention activity into training and employment advice, in line with the new housing options guidance.
- In terms of financial solutions, none of the LAs consulted said they were exploring any new or innovative funding mechanisms, but were looking to work within the current financial arrangements, mainly through risk mitigation – rent restructuring, changes in accounting arrangements for housing and homelessness, efficiency measures and increasing contingency funds to manage the financial impacts of Welfare Reform.
- A number of LAs suggested that additional sources of funding could include removal of the Council Tax freeze, and / or reform it, and additional mitigation through grant from the Scottish Government. None of the consultees suggested re-establishing ring fencing as a method of safeguarding funding for homelessness services in the future.

7. CONCLUSIONS AND RECOMMENDATIONS

7.1 Conclusions

This research has provided insight from LA senior officers, complemented by secondary data on trends in homelessness service delivery, income and expenditure on services and projections on the way in which these services may be funded in future. The work has involved a comparison of findings from a similar study undertaken in 2012.

The study suggests that despite the success of the strong preventative approach adopted over the last five years, housing system imbalances continue to put pressure on homelessness service delivery and expenditure for around half of participating LAs. A combination of economic and demographic drivers, the legislative framework for homelessness in Scotland, combined with UK government policy on welfare retrenchment has resulted in continued demand. This is particularly acute for LAs working in pressured markets. The housing options approach set out in the Guidance is predicted to increase demand, regardless of the type of housing market.

The continuing housing system imbalances are evidenced by the recent Affordable Housing Need in Scotland Report²¹ published in 2015, which concluded that 12,000 affordable homes are required in Scotland every year for the next five years. Pressured housing market areas see increasing waiting lists, increasing proportions of homeless people being housed in social housing, reducing

access to supply in the private rented sector for both permanent and temporary accommodation and, as result, increasing bottlenecks in temporary accommodation. The restriction of volume of supply is further exacerbated by mismatch between size of housing stock and households. In less pressured areas this demand supply imbalance is less evident, shown through reducing temporary supply requirements, but the issue of mismatch between housing and household need is a problem across Scotland. Long term demographic projections mean that over the long term, housing strategies will need to address this supply mismatch, beyond relying on financial mitigation mechanisms from the Scottish Government.

When compared to the 2012 findings, we see that LAs working in pressured markets are still struggling to meet demand, exacerbated by the impact of further LHA restrictions. For those working in less pressured areas, demand has fallen, assisted by the shift to the housing options approach, and they are less reliant on supply from the PRS.

There has been a significant change in emphasis around homelessness service expenditure since 2012, with greater focus and stronger culture around efficiency and spending discipline. There has been a continued trend since 2012 to shift accounting for homeless services to the GF, which brings with it greater corporate-wide scrutiny and potential for efficiency gains.

21. Affordable Housing Need in Scotland. Final Report, September 2015. Ryan Powell, Richard Dunning, Ed Ferrari and Kim McKee. CIH Scotland, Shelter Scotland, SFHA. http://scotland.shelter.org.uk/_data/assets/pdf_file/0009/1190871/7909_Final_Housing_Needs_Research.pdf_nocach

Findings from this research have shown that officers are able to defend the homeless service on the basis of preventative approaches, which is in line with Christie Commission recommendations and within the context that homelessness services expenditure is a relatively small proportion of LA overall General Services Accounts.

Temporary accommodation expenditure is driven by demand, but there has also been more attention on examining cost effectiveness of temporary accommodation. Judgement around the balance of type and source of temporary accommodation tends to rest on the level of subsidies that can be achieved, and therefore cost effectiveness for the LA, rather than around affordability for tenants. However, a minority of LAs are now considering the balance between affordability for the LA and tenants, increasingly driven by Welfare Reform, and limits to be placed on subsidy across all sectors.

Evidence from this research shows that the full cost recovery model, and high charges for temporary accommodation is used to fund homelessness services beyond temporary accommodation provision. The large variability of charges for temporary accommodation across the 15 participating LAs raises questions about value for money of charges for temporary accommodation. It suggests an inequitable situation where access to a statutory service varies, depending on where people have presented as

homeless, and whether or not they are in work, or have access to benefits. This includes migrants who have access to assistance, but not welfare benefits. In a small minority of cases temporary accommodation is affordable regardless of working status; in most areas it is not.

Given the pressures that local authorities are under, balancing the competing pressures of demand with ever decreasing resources available to fund services, it is perhaps not surprising that LAs have used high temporary accommodation charges to finance the wider homelessness service, for as long as this option has been available.

7.2 Recommendations

Comparison between findings from the 2012 study, and this 2016 work shows that in some respects little has changed regarding the fundamentals of the funding framework and approach in Scotland, with a few exceptions. The imminent LHA cap will now likely force change.

Recommendations to create of a more sustainable model for financing the homelessness service in Scotland are:

Ensure a sustained focus on increased supply of affordable housing, both permanent and temporary, addressing the imbalance in volume, and mismatch between size of accommodation and size of prevailing demand from homeless households, and those in need for affordable permanent housing.

Understand the cost of homelessness services, and value of money considerations – there should be a clear break down in costs by advice and assistance, and temporary accommodation, with transparency around costs relative to services provided.

Establish national benchmarks on quality, costs and charges:

- quality of service delivery may be based around the housing options guidance 2016, and quality of temporary accommodation could be based around the CIH/ Shelter Scotland 2011 guidance²²;
- from these quality benchmarks, establishing cost ranges for temporary accommodation;

- establishing what an affordable charge would be for temporary accommodation tenants who are working, or seeking work, or not entitled to welfare benefits;
- determining what difference there is between the cost of service delivery and temporary accommodation charges, and affordability for tenants.

Once there is clarity over cost, and value for money for temporary accommodation charges, and affordability, the Scottish Parliament / Scottish Government may wish to consider stimulating innovation in the sector to explore a wider range of funding methods, and to use its powers to mitigate against the difference there may be between the cost and affordability.

22. Guidance on Standards of Temporary Accommodation, Shelter Scotland and CIH Scotland http://scotland.shelter.org.uk/_data/assets/pdf_file/0009/322677/Temporary_Accommodation_Guidance.PDF/_nocache

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