# Funding gap forces English councils into crisis as homelessness and costs escalate



Local councils in England are caught in an escalating crisis of homelessness and unaffordable emergency housing costs, with a growing funding gap that risks pushing council services to the brink. Data from the Local Government Association (LGA) reveals that councils face a shortfall of £266 million between the cost of housing people in temporary accommodation and the funds they can reclaim from the Department for Work and Pensions (DWP). This shortfall has ballooned by 30% in just one year and is symptomatic of a broader crisis related to England's chronic shortage of affordable social housing.

Councils must pay upfront for temporary accommodation, increasingly provided by private-sector landlords who charge rents far above the Local Housing Allowance (LHA) rates from 2011. However, the reimbursement councils receive from the DWP is capped at 90% of these outdated LHA rates, despite rents having soared over the past decade. This disconnect means councils are effectively subsidising emergency housing costs out of their own shrinking budgets. Over the last six years, this cumulative shortfall has surpassed £1 billion, a figure highlighted by the LGA in its calls for urgent reform of the subsidy system.

The shortage of social housing and reliance on expensive private temporary accommodation have contributed to record numbers of homeless households. Recent figures show there are over 131,000 households living in temporary accommodation across England, including 83,150 with children, up by more than 11% year-on-year. Many families remain stuck in emergency housing far longer than intended—sometimes for years—due to the lack of permanent affordable homes, often living in unsuitable spaces such as converted office blocks or shipping containers.

Councils in London are facing acute pressures, spending some £90 million monthly on temporary accommodation, a rise of nearly 40% in a year. The situation has led some councils to declare financial distress or approach bankruptcy after years of funding cuts. Councillor Fleur Donnelly-Jackson of Brent Council described the urgency of the issue, pointing out that over 3,000 children in Brent sleep in temporary accommodation every night, disrupting their schooling and family stability. She lamented that councils are "plugging the gap left by a subsidy system that pays us back at 2011 rent levels, while we face 2025 rents," likening it to "paying today’s bills with yesterday’s wages."

The net effect is a vicious cycle where councils face soaring temporary accommodation costs while having static reimbursement rates, diverting critical funds from broader homelessness prevention and social services. The LGA also reports that a recent change to the allocation of the Homelessness Prevention Grant has increased councils’ financial burdens by an additional £76 million, straining their ability to address rising homelessness levels effectively.

Experts and local authorities argue that failing to invest adequately in affordable social housing is a false economy, as the cumulative expense of emergency accommodation far exceeds the cost of providing secure, affordable homes. For every pound spent on temporary housing, councils lose the opportunity to build or maintain long-term solutions that could reduce homelessness sustainably. Increasing the Housing Benefit subsidy to reflect current rent levels and removing funding ringfences are among the recommended policy changes to provide councils with the financial flexibility necessary for early intervention and housing solutions.

These financial pressures come amid rising homelessness driven by soaring private rents, stagnation in housebuilding, and increased eviction rates. Government officials, including Housing Minister Matthew Pennycook, have noted some "green shoots" in new housing starts, which have risen by 29% compared to last year, including a 28% rise in affordable homes started by housing associations. However, these improvements remain small relative to the scale of the housing crisis. The government’s commitment to building 1.5 million homes and banning no-fault evictions aims to address long-term causes of homelessness, but the immediate funding gap for temporary accommodation remains a critical and growing crisis for councils nationwide.

In summary, councils are struggling to keep pace with the escalating costs of housing England’s homeless population due to a subsidy system anchored to a decade-old rental baseline, the scarcity of affordable housing, and rising demand. Without urgent government intervention to reform accommodation subsidies and boost social housing supply, councils may be forced to make untenable choices between funding frontline services and meeting the immediate housing needs of vulnerable families.

### 📌 Reference Map:

* Paragraph 1 – [[1]](https://inews.co.uk/news/housing/councils-doom-spiral-housing-costs-funding-gap-3934134), [[4]](https://www.theguardian.com/news/2025/apr/29/in-charts-scale-england-temporary-accommodation-crisis)
* Paragraph 2 – [[1]](https://inews.co.uk/news/housing/councils-doom-spiral-housing-costs-funding-gap-3934134), [[3]](https://www.local.gov.uk/about/news/temporary-accommodation-subsidy-gap-has-cost-councils-more-ps700-million-over-last-five), [[4]](https://www.theguardian.com/news/2025/apr/29/in-charts-scale-england-temporary-accommodation-crisis)
* Paragraph 3 – [[1]](https://inews.co.uk/news/housing/councils-doom-spiral-housing-costs-funding-gap-3934134), [[5]](https://www.theguardian.com/society/2023/oct/27/councils-in-england-paying-17bn-a-year-to-house-people-in-temporary-homes), [[6]](https://www.bbc.co.uk/news/articles/cj9l8njg2rzo)
* Paragraph 4 – [[1]](https://inews.co.uk/news/housing/councils-doom-spiral-housing-costs-funding-gap-3934134), [[7]](https://www.bbc.co.uk/news/uk-england-london-68424945), [[4]](https://www.theguardian.com/news/2025/apr/29/in-charts-scale-england-temporary-accommodation-crisis)
* Paragraph 5 – [[1]](https://inews.co.uk/news/housing/councils-doom-spiral-housing-costs-funding-gap-3934134), [[2]](https://www.local.gov.uk/about/news/spending-review-ps76-million-funding-gap-councils-temporary-accommodation-budgets), [[3]](https://www.local.gov.uk/about/news/temporary-accommodation-subsidy-gap-has-cost-councils-more-ps700-million-over-last-five)
* Paragraph 6 – [[1]](https://inews.co.uk/news/housing/councils-doom-spiral-housing-costs-funding-gap-3934134), [[5]](https://www.theguardian.com/society/2023/oct/27/councils-in-england-paying-17bn-a-year-to-house-people-in-temporary-homes), [[6]](https://www.bbc.co.uk/news/articles/cj9l8njg2rzo)
* Paragraph 7 – [[1]](https://inews.co.uk/news/housing/councils-doom-spiral-housing-costs-funding-gap-3934134), [[6]](https://www.bbc.co.uk/news/articles/cj9l8njg2rzo), [[2]](https://www.local.gov.uk/about/news/spending-review-ps76-million-funding-gap-councils-temporary-accommodation-budgets)
* Paragraph 8 – [[1]](https://inews.co.uk/news/housing/councils-doom-spiral-housing-costs-funding-gap-3934134), [[2]](https://www.local.gov.uk/about/news/spending-review-ps76-million-funding-gap-councils-temporary-accommodation-budgets), [[3]](https://www.local.gov.uk/about/news/temporary-accommodation-subsidy-gap-has-cost-councils-more-ps700-million-over-last-five), [[4]](https://www.theguardian.com/news/2025/apr/29/in-charts-scale-england-temporary-accommodation-crisis), [[5]](https://www.theguardian.com/society/2023/oct/27/councils-in-england-paying-17bn-a-year-to-house-people-in-temporary-homes), [[6]](https://www.bbc.co.uk/news/articles/cj9l8njg2rzo)

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## Bibliography

1. <https://inews.co.uk/news/housing/councils-doom-spiral-housing-costs-funding-gap-3934134> - Please view link - unable to able to access data
2. <https://www.local.gov.uk/about/news/spending-review-ps76-million-funding-gap-councils-temporary-accommodation-budgets> - The Local Government Association (LGA) reports that councils face an additional £76 million shortfall in their temporary accommodation budgets due to changes in the allocation of the Homelessness Prevention Grant. This funding gap exacerbates financial challenges as councils strive to meet the growing demand for homelessness services. In 2023/24, councils spent nearly £2.3 billion on temporary accommodation, with £1.06 billion needing to be met by councils using reserves or grants. The LGA calls for the government to remove the ringfence within grant funding and uprate the temporary accommodation subsidy to 90% of the prevailing local housing allowance rate to alleviate pressure on councils' resources and enable them to focus on preventing homelessness. ([local.gov.uk](https://www.local.gov.uk/about/news/spending-review-ps76-million-funding-gap-councils-temporary-accommodation-budgets?utm_source=openai))
3. <https://www.local.gov.uk/about/news/temporary-accommodation-subsidy-gap-has-cost-councils-more-ps700-million-over-last-five> - Over the past five years, frozen Local Housing Allowance rates have left councils to cover more than £700 million in costs that they cannot claim back from the government. This situation threatens their financial viability and hampers efforts to reduce homelessness. Councils pay the cost of housing benefit upfront and are reimbursed by the Department for Work and Pensions (DWP). However, the amount councils can claim back is capped at 90% of Local Housing Allowance rates from 2011, which have not kept pace with rising rental prices and increased demand for temporary accommodation. The LGA calls for the government to uprate the temporary accommodation subsidy to address the significant and growing cost pressures faced by councils. ([local.gov.uk](https://www.local.gov.uk/about/news/temporary-accommodation-subsidy-gap-has-cost-councils-more-ps700-million-over-last-five?utm_source=openai))
4. <https://www.theguardian.com/news/2025/apr/29/in-charts-scale-england-temporary-accommodation-crisis> - The Guardian reports that in 2023-24, English councils spent over £2.1 billion on temporary accommodation, a record figure. They managed to claim just over half of it back from the Department for Work and Pensions, which has to pay councils a portion of housing benefit spending. However, the amount councils can reclaim is capped at 90% of local housing allowance rates from 2011. Real-world rent rises, coupled with a general increase in the need for accommodation, mean councils now spend almost £1 billion out of their own pockets, six times more than they did a decade ago, after taking inflation into account. ([theguardian.com](https://www.theguardian.com/news/2025/apr/29/in-charts-scale-england-temporary-accommodation-crisis?utm_source=openai))
5. <https://www.theguardian.com/society/2023/oct/27/councils-in-england-paying-17bn-a-year-to-house-people-in-temporary-homes> - The Guardian reports that councils in England are paying £1.7 billion a year to house people in temporary homes, a surge driven by a shortage of social housing and increasingly unaffordable private rents. The number of households in temporary accommodation has risen to 104,000, the highest in 25 years. The annual cost is enough to build about 100,000 new homes over five years. The Local Government Association calls for the government to increase housing benefit to make more private rented homes affordable to people on welfare and to reform housing rules to allow councils to build more social housing. ([theguardian.com](https://www.theguardian.com/society/2023/oct/27/councils-in-england-paying-17bn-a-year-to-house-people-in-temporary-homes?utm_source=openai))
6. <https://www.bbc.co.uk/news/articles/cj9l8njg2rzo> - BBC News reports that councils in England spent a record £1 billion on temporary accommodation for homeless families in the past year, more than 50% higher than the year before. This increase is driven by record numbers of families living in short-term housing, including over 150,000 children. The government has committed to delivering on its target of 1.5 million homes and preventing homelessness before it occurs by banning no-fault evictions. Experts say soaring private rents, a lack of housebuilding, and increased eviction rates have made homelessness a chronic problem. ([bbc.co.uk](https://www.bbc.co.uk/news/articles/cj9l8njg2rzo?utm_source=openai))
7. <https://www.bbc.co.uk/news/uk-england-london-68424945> - BBC News reports that councils in London are spending £90 million per month on temporary accommodation for homeless people, up by almost 40% from the previous year. Figures from the London Councils umbrella group suggest one in 50 people in the capital are homeless and living in temporary accommodation. The councils warn that more boroughs could declare effective bankruptcy without more government support. The government has committed £352 million between 2023 and 2025. ([bbc.co.uk](https://www.bbc.co.uk/news/uk-england-london-68424945?utm_source=openai))