Kath Scanlon Christine Whitehead October 13th, 2025

Inside London's Temporary Accommodation Crisis: Boroughs Face Massive £740m Deficit

London's boroughs are facing a deepening financial crisis driven by the growing cost of temporary accommodation (TA). A new report by LSE London for London Councils warns that the Capital's local authorities are shouldering an unfunded shortfall of more than £740 million to meet their legal duty to house homeless families, a gap equivalent to 11% of total council tax revenue.

The research shows that London accounts for 57% of all temporary accommodation households in England, with two-thirds of TA supplied by private landlords. One of the system's core problems lies in the frozen Housing Benefit (HB) subsidy, which has remained at 2011 levels despite soaring market rents. Based on data collected and analysed by LSE London, the study finds that of the £543 million spent, only a portion was offset by the government's housing benefit subsidy and other dedicated funding streams, leaving a £223 million shortfall that boroughs have had to cover from already stretched general budgets.

The consequences go far beyond council balance sheets. The report highlights that one in every 21 children in London now lives in temporary accommodation, often in poor-quality, overcrowded housing. These long stays harm children's health, wellbeing and education, and deepen inequality across the capital. Boroughs warn that without intervention, the financial pressure could push some councils to issue Section 114 notices, effectively declaring bankruptcy.

LSE's research also uncovered wider impacts:

Growing TA costs are diverting money from essential local services like libraries, youth programmes and family support. The shortage of affordable housing is forcing councils to place families far outside their home boroughs, disrupting not just the families but also communities and schools. Tight budgets have reduced councils' ability to prevent homelessness before it occurs.

Despite these pressures, boroughs are innovating. Some have started buying or repurposing properties for use as TA, ensuring better quality control and value for money. Others are exploring long-term leases or cross-borough collaborations to stabilise supply and reduce costs.

The report calls for urgent government action. Their recommendations include:

Raising the TA Housing Benefit subsidy to reflect current Local Housing Allowance (LHA) rates and allowing it to adjust with inflation. Funding a crisis support package for the boroughs most at risk of financial collapse. Providing capital investment so councils can build or buy permanent, affordable homes—reducing reliance on expensive private provision.

Councillor Grace Williams, London Councils' Executive Member for Housing and Regeneration, says, "Boroughs are doing everything they can to support homeless families, but the system is buckling under the strain. The housing benefit system has failed to keep pace with reality – and councils are paying the price. We urgently need the government to step in with emergency funding and long-term reform to prevent more families falling into homelessness and more councils facing financial collapse."

Kath Scanlon, Distinguished Policy Fellow and Deputy Director of LSE London, says, "The current system for funding temporary accommodation has developed in a piecemeal way over many years, with key decisions gradually shifting the financial burden from central government to local authorities. Nowhere has this been more damaging than in London. Our research shows that the cost of temporary accommodation has become a significant and unsustainable pressure on borough budgets, forcing councils to divert resources away from other essential services."

London's temporary accommodation system is at breaking point. Without immediate reform, boroughs will continue to spend millions plugging a gap created by outdated funding rules and an increasingly costly private rented housing market. The report makes it clear: increased investment in permanent, affordable housing is not just a social imperative but a financial necessity for the stability of local government and the well-being of thousands of London families.

Click here to read the full report

About the author

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Kath Scanlon is Distinguished Policy Fellow at LSE London. She has a wide range of research interests including comparative housing policy, comparative mortgage finance, and migration. Her research is grounded in economics but also draws on techniques and perspectives from other disciplines including geography and sociology.

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