An alternative model for funding asylum and temporary housing: building a more cost effective and humane system

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1. Introduction

The problem that we, and many others, want to solve is the crisis in the supply of short-term accommodation that the state needs in order to deliver on its statutory duties to provide accommodation for people in need, and the shockingly high cost to the state of this crisis.

The national government has a duty to house asylum seekers whilst they wait for a decision on their application. A lack of dispersal accommodation and rising numbers of asylum seekers has led to a situation where almost a third of asylum seekers (30,657 people in December 2025)[1] are being housed in contingency accommodation in hotels. This reliance on hotels is cripplingly expensive – costing the Home Office £2.1 billion between April 2024 and March 2025.[2]

Local authorities also have a duty to provide temporary accommodation for people experiencing homelessness. The shortage of affordable housing in England has resulted in sharply rising demand for temporary accommodation and forced many local authorities to rely heavily on nightly paid accommodation, such as hotels and B&Bs. The cost of temporary accommodation is at record levels – reported as £2.8 billion in 2024/25[3] – and is even threatening the financial viability of some local authorities.

The fact that different parts of government are tasked with procuring short-term accommodation for different cohorts of people means that they are often competing for the same accommodation at a local level. This competition, and the extremely limited coordination between public sector bodies, causes prices to rise even further.[4] The fact that most providers of temporary accommodation are motivated by profit is putting a heavy strain on some local housing markets where significant numbers of homes have been converted for temporary accommodation use.

The cost of this failure to provide appropriate short-term accommodation for those in need is not

[1] Home Office statistics published in February 2026
[2] https://asylumfacts.org.uk/costs
[3] Shelter press release, September 2025
[4] Office for Value for Money: procuring short-term residential accommodation, HM Treasury, June 2025

just financial. It is also counted in the psychological, social and health impacts on people – including thousands of children – living in poor quality temporary accommodation, often for years at a time. It is counted in the understandable anger in communities about high numbers of asylum seekers housed inappropriately; and the stress for asylum seekers of living in poor conditions or hostile situations. Indeed, the only beneficiaries of this failure are the private sector suppliers of the contingency and nightly paid accommodation that are making record profits.[5]

This paper sets out how the shortages in dispersal and temporary accommodation can – and must – be addressed simultaneously. Our proposed solution would not only significantly reduce the costs of providing short-term accommodation, but would also help to create a long-term capital resource of 10,000 new homes for the country, evenly dispersed across local authority areas, adding to the nation's supply of truly affordable housing.

This paper has had significant traction with the Home Office and Treasury since its original production in 2024. The Home Office was developing a range of pilot projects with local authority partners, which had garnered significant interest; and in June 2025, £500m was allocated to MHCLG to further test these models. Progress has stalled however, with Home Office attention diverted back to large sites, and now the re-procurement process for the current asylum accommodation contracts (with Mears, Serco and Clearsprings) beginning. To date, none of the £500m pilot fund has been disseminated.

2. Our proposed solution

We propose that the solution to this crisis in the supply of short-term accommodation is a capital subsidy programme that would repurpose government spend on asylum hotels as grants to local authorities and housing associations that would enable them to borrow in order to buy and refurbish houses that would then be let out at social rents or Local Housing Allowance (LHA) rates.

These purchased properties would be used to address the housing needs of existing social housing tenants, such as overcrowding or the need for an adapted home. In exchange the landlord will enter into a nomination agreement committing to make an equivalent number of homes available for use as accommodation for asylum seekers and others in need of temporary accommodation. After a fixed period – perhaps 10 years – all homes will ideally be simply part of social landlords' stock of general needs housing for long-term rent, available for allocation to the general population.

The model

To explore the feasibility and impact of this shift from revenue funding to capital subsidy, we have constructed a model that calculates how much capital grant subsidy local authorities and housing associations would require in order to borrow to purchase a three-bedroom home, renovate it and then rent it out at social rent levels or at LHA rates, and what the payback period would be on that subsidy. The modelling has been done individually for each local authority area across England, and

[5] BBC article, October 2025

the average costs and payback periods below are based on an equal number of properties being purchased in each local authority area.

The modelling in this paper is based on the following assumptions, and is only intended to prove concept, rather than to provide precise calculations of required grant levels:

- That the homes are purchased at the lower quartile price currently paid in that local authority.[6]
- That £20k per property is spent prior to letting to improve energy efficiency to EPC C and ensure all minimum standards in the Decent Homes Standard are met.
- That three people would be accommodated in each home made available for temporary accommodation use.
- That acquired homes are rented out at either social rent levels or at the three-bedroom LHA rate for that local authority.
- That a housing association or local authority will be able to borrow at an average rate of 5.94 per cent (the current ten-year gilt rate plus 1 per cent).
- That a 1.05 per cent allowance for voids and bad debts is sufficient - this is in line with standard housing association models.
- That £2,462 per year is sufficient to meet management, reactive and long-term maintenance costs (£484, £529 and £1449 per year respectively). This is based on actual housing association costs.
- That no allowance is needed for income or costs increasing. This assumption has made the modelling much simpler and much more conservative (i.e. it is overstating grant requirements).

We cross-checked and validated our initial modelling (carried out in 2024) in two ways. First, against a much more technically sophisticated but less accessible model developed by the Joseph Rowntree Foundation (JRF). They ran our assumptions through their model (which effectively replicated the Pro-val scheme assessment tool used by most housing associations to appraise development opportunities). The JRF model strongly validated our results at aggregate level.

Second, we checked the outputs with housing association development and finance colleagues in specific local authority areas to see whether these figures matched their experience of costs in their areas. This 'softer' cross check again proved concept, although the specific realities of individual housing markets will differ from the modelling assumptions above, for example on the costs of three-bed properties compared to lower quartile average house prices.

All figures have since been uprated using the initial methodology, but adjusting for changes in house prices, rent levels, Home Office hotel costs and interest rate changes.

[6] Please note that results are less reliable at individual local authority level as they are based on the assumption that a three-bedroom house can be purchased at average lower quartile house price. If these results are to be used to identify specific local authorities to work with, we recommend further analysis.

The results

Our results make a compelling case for a wholesale shift from revenue to capital funding to provide accommodation for asylum seekers given current high costs, and a strong long-term case for the same shift for other accommodation for homeless households.

As the table below shows, the average capital subsidy required for local authorities or housing associations to purchase a three-bedroom property to be rented out at social rent levels, and to break even on an interest only repayment basis (with an interest rate of 5.94 per cent) is £201,913.[7]

With an average per person, per year spend on asylum hotel accommodation of £52,918,[8] compared to just £1,940 for social rent, this model predicts average savings of £50,978 per person accommodated per year, or £152,933 per property per year (assuming three people accommodated per three bedroom house), compared to the current spend by the Home Office on hotels.

This means that if the current government revenue funding spent on contingency hotels were to be converted to capital subsidies for local authorities and housing associations to purchase properties which were then rented out at social rent, the average payback periods would be startlingly low. For local authorities borrowing at 5.94 per cent it would be 1.32 years, or just 16 months. At this interest rate, 94 local authorities (33 per cent) would have a payback period of less than one year.

Table 1: key results of our model, by social rent and LHA rates, assuming an interest rate on borrowing of 5.94 per cent

	Social Rent	**LHA**
Average grant required	£201,913	£109,463
Average payback period of the grant	1.32 years	0.74 years
# of councils with a payback period under 1 year	94	230
% of councils with a payback period under 1 year	33%	82%

When modelling this for LHA rates, the payback periods are shorter, but the landlord requires an income stream at LHA rent levels long term to break even. The average capital subsidy required for local authorities or housing associations to purchase a three-bedroom property rented out at LHA rates, and to break even on an interest only repayment basis (with an interest rate of 5.94 per cent) is just £109,463. Savings per person accommodated per year would be £49,119 and per property per year would be £147,356.

With these savings, the average payback period would be 0.74 years, or just nine months. More than

[7] 12 local authorities have been excluded from our social rent calculations due to their significantly higher grant requirements and therefore distorting effects. They have also been excluded from LHA calculations. These boroughs are: Kensington and Chelsea, Westminster, City of London, Camden, Hammersmith and Fulham, Islington, Richmond upon Thames, Wandsworth, Hackney, Haringey, Elmbridge and St Albans.

[8] This figure is based on a Home Office estimate that an average cost per person per night of accommodating asylum seekers in contingency hotels is £144.98, Home Affairs Committee in October 2025

four fifths of local authorities (230) would have a payback period of less than one year.

Combined with borrowing, a capital fund of £2.1bn (the amount the government spent on providing contingency hotel accommodation for asylum seekers in 2024/25) could enable the purchase and renovation of around 10,000 homes to be let at social rent levels. If done at LHA rates, a fund of £1.1bn would be sufficient. This intervention could reduce and ultimately end the use of expensive and poor-quality hotels by expanding the supply of affordable, decent alternatives.

Please note that the Treasury made available a fund of £500m to MHCLG to trial this approach at scale, but to date this funding has not been spent.

3. How could this be done?

Where would the new homes come from?

This model relies on properties being available for refurbishment or purchase. There are a variety of sources that properties could be purchased from:

- **Empty properties could be brought back into use**. Examples include properties in blocks of flats where the cost of bringing blocks up to modern standards currently exceeds the future rental yield a local authority or housing association could charge for those homes, making them uneconomic to bring back into use. A pilot between the Home Office and Newcastle City Council was planned to trial this, but appears to have stalled with the shift in priority for the Home Office back to looking at large sites.
- **Open-market purchase**. There are currently over 900,000 homes listed for sale on Rightmove. Whilst care would need to be exercised over which properties were acquired where, 10,000 homes could easily be bought across England without distorting local housing markets. As stated above, the model is based on the assumption of an equal number of homes purchased across all local authority areas in England.
- **Unsold s106**. Builders are obliged to sell a proportion of their homes for social housing to meet their planning obligations, and have been reporting it being hard to find buyers for some of these sites. Whilst there are often good reasons for these properties being unappealing purchases, this also provides an opportunity for possible bulk purchases of new properties.
- **Housing association disposals**. Housing associations are increasingly looking at the costs of retrofitting their older homes as they move towards the de-carbonisation of their housing stock. Given the high costs of retrofit for many homes, these homes are increasingly being disposed of on the open market as future rental income will not cover the future costs of retrofit and ownership.

Where would the new lending come from?

Lending (which would be taken on directly by those purchasing homes) could come from:

- New public sector debt (if councils borrowed to fund these new homes)
- Housing associations' existing lender base – a mix of bank debt, private placements and bond issues

- Private and social capital investment, if a specialist vehicle was chosen to own and manage the properties such as a joint venture between a profit-making organisation and a local authority or housing association

Who should own and manage this housing?

There is a strong case for existing providers of social housing in each local area to own and manage these homes. They already have the skills to manage tenancies and to retrofit and repair homes, as well as strong links with other local statutory, voluntary and community services. The numbers of homes being acquired will be small in relation to the number of current homes owned in most cases, so transitional housing can benefit from social landlords' efficiencies of scale. They will also be able to let sensitively as part of their existing tenancy portfolios. Finally, if the need for transitional housing for asylum seekers and refugees falls after a fixed time period of perhaps 10 years, social landlords would be able to easily convert properties they already own and manage into permanent homes as part of their general needs stock.

In this way, the proposal would increase the stock of homes available for long-term rent to households on low and modest incomes. However, it may be that the need for transitional and temporary housing for asylum seekers and other groups remains high. In this case, the government could choose to maintain their nomination rights to give them continued access to homes for use as transitional and temporary housing to meet ongoing needs.

Local authorities have access to the cheapest new finance of all potential local providers through the Public Works Loan Board (PWLB).[9] The shortest payback period for investment can be achieved by using local authority borrowing at PWLB rates to on-lend to a local housing company or a housing association to purchase homes. Alternatively, housing associations can borrow directly at slightly higher interest rates. We have assumed an average cost of the capital of 5.94 per cent (1 per cent over the 10-year gilt rate) for the purpose of modelling in this paper.

If neither of these options is possible, it is likely that this type of scheme would be very attractive to private sector investors, although care would need to be taken to ring-fence the investment of public grant funding so that homes were provided for the long term at sub-market rents as set out above. It is likely that private sector investors would charge some form of risk premium on top of their borrowing costs, so savings would be proportionately lower.

What is needed to deliver this change?

A change from a revenue spend model to a grant-funded acquisitions model requires a variety of different contributions:

- **Political will to move from a revenue model to a capital funding model**. The value for money case is compelling: this would break even in nine months compared to hotel spend if rents were set at LHA rates, and would add 10,000 homes to the nation's stock of affordable rental housing. However, the design of the capital fund needs careful consideration if it is not to be spun as 'councils buying homes for asylum seekers'. By enabling landlords to buy

[9] Borrowing available to local authorities from central government

homes for their existing tenants who need bigger or adapted properties, in exchange for nominations over an equivalent number of homes the risks of this can be mitigated. This will require careful communication.

- **Political will to push collaboration across different government departments**. Capital funding is needed to fund the gap between rental yield and purchase costs, including debt repayments. Homes England would be best placed to distribute grants, at least in the short term, as this is a role they already undertake; although MHCLG could also play this role and currently holds the £500m allocation of funding from the Treasury to test this model. Savings would accrue to Home Office budgets, and they would need to adjust contractual arrangements with their existing suppliers.
- **Organisations with financial capacity** to take on the new borrowing required to purchase these homes. This could be local authorities, housing associations, for-profit housing associations or private sector providers, including pension funds. There are opportunities to align the need to take on new debt with the government's thinking about how to make low-cost loans available for new homes, helping to address viability constraints.
- Councils or housing associations who already **deliver housing management and repairs services** would be able to manage temporary accommodation homes. They are already skilled at working with specialist support services that could be separately contracted by the Home Office as required to provide specialist support, integration and legal advice services for example.
- Local authorities currently hold the responsibility for finding temporary housing for people in their areas, and for running housing allocation waiting lists for permanent affordable housing in their areas. They would be well placed to support the Home Office to **manage allocations and occupancy** of homes in their areas. Regional mayors could be well placed to plan for where properties should be acquired in their areas.[10]
- An understanding of the change, and **willingness to be flexible to ensure effective management of temporary accommodation alongside permanent homes**. This would require close work with, for example, the Regulator of Social Housing and MHCLG to ensure regulation and rent setting were flexible enough to adjust to change in use of properties in the future.

Why isn't this happening already?

With the value for money argument strong, the main blocks to this change are:

- Political fear. The optics of buying homes to temporarily accommodate asylum seekers are politically highly sensitive, and understandably so given the depth of the housing crisis being experienced in many communities. This is why this proposal seeks to solve both issues simultaneously: delivering an increased number of affordable homes for both temporary and long-term future use, and ensuring immediate benefits to existing social housing residents who are overcrowded or need adapted homes.
- The current division of responsibilities across both central government departments and

[10] The Closer to Home report explores the case for, and conditions of, a more devolved approach to asylum accommodation and proposes a structured, low-risk Regional Integrated Accommodation Pilot to be commissioned by the Home Office and delivered through one or two combined authority regions. Report published by the Good Faith Partnership, Housing Festival and NACCOM in May 2026.

local government for sourcing short-term accommodation makes a strategic, long-term approach to this issue harder. Whilst this issue is difficult to solve, the recent Treasury VFM review of procuring short-term accommodation proposes principles for a future approach. These are: moving towards greater local delivery to support integration and outcomes, with national planning and coordination to support a longer-term approach, underpinned by new procurement models and measures to support required capacity. [11]

- Limited capacity for local councils and housing associations to take on new debt. This is a real constraint, but a solvable one either through debt structuring within the government's fiscal rules and/or seeking forms of private investment.

4. Conclusion

Whilst there are risks in acting, the current system is outrageously expensive and wasteful, and plays no part in the government's mission to deliver a decade of national renewal. In a fiscally constrained operating environment, the financial prize here alone should make this worth the time and effort to make happen.

The need to exit hotels can be used as an opportunity to begin to build a more rational, long-term approach to the provision of short-term accommodation, recognising that the need for good quality accommodation for those experiencing housing crisis will be at least medium term. And as numbers of people requiring temporary accommodation hopefully reduce in the future as other policy measures take effect, we will have created a legacy of thousands of additional affordable rental homes, available as a secure foundation for people's lives in communities across the country.

[11] Office for Value for Money (OVfM): procuring short-term residential accommodation, updated November 2025