CALCULATING LOSSES FROM HOUSING TENANCY FRAUD

A new, rigorous, standard formula for measuring the costs of tenancy fraud gives social housing providers the financial justification to clamp down on this widespread problem.

HELPSHEET

Introduction

PRPs (private registered providers, also known as a housing associations), along with local councils, have a moral responsibility and public duty to play their part in fighting tenancy fraud, both to improve social housing supply for those in genuine need and to reduce the burden on taxpayers.

Social housing tenancy fraud is the second-largest cause of local government fraud losses. Barriers remain to effective action by both councils and PRPs, including:

- there is no sector-wide agreement on how to measure the losses; and
- when housing supply is reduced by fraudulent tenancies, local councils, not PRPs, carry the financial burden of providing accommodation for the homeless.

In other words, PRPs have no direct financial incentive to tackle the problem of tenancy fraud.

What is housing tenancy fraud?

This is when social housing is used by someone not entitled to occupy that home. It includes:

- subletting without permission;
- providing false information on applications for housing;
- wrongful tenancy assignment and succession;
- failing to use the property as the principal home;
- abandoning it without proper process; and
- selling the keys to someone else.

This helpsheet does not consider Right-to-Buy/Right-to-Acquire, which are valued differently.

Why is tackling it important?

Social housing providers have a frontline role in delivering a vital public service, and this comes with compelling duties and responsibilities to the public purse and society at large:

- to contribute to the efficient use of scarce public resources and so reduce the burden on taxpayers;
- to exercise sound stewardship over assets. The loss of control as a result of tenancy fraud represents an average accounting book loss per property of some £37,000[1] (the average market value per property is much higher, at approximately £155,000, based on sample analysis); and
- to provide social housing accommodation for local families who have a legal right and a genuine need. Any failure of stewardship is a significant governance failure with profound ethical and public-duty consequences; when tenancy fraud occurs the housing provider is being prevented from using its assets properly to meet its true purpose.

More than 100,000 social homes in the UK are subject to some form of tenancy fraud.[2]

Why is a new standard formula needed?

Housing policy, resource efficiency and social justice are all undermined by a lack of a clear, logical and widely adopted approach to measuring losses from social housing tenancy fraud.

Previous attempts to calculate a 'fraud cost per property' have produced a wide range of estimates – from £18,000[3] to £94,000[4]. The Audit Commission had also previously suggested that councils could value each tenancy fraud using the £150,000 average replacement cost of a social housing unit.

The new formula

A single, logical, fiscally prudent way of calculating the cost of a tenancy fraud – one that can be used by local councils and PRPs alike – is needed.

The new method uses a standard formula to arrive at an average national cost to the taxpayer per detected tenancy fraud of: **£42,000**

It also enables individual councils to factor in local figures to reflect their particular circumstances and calculate the possible financial savings to them more accurately.

Footnotes

1 See the Regulator of Social Housing's **2020 global accounts of private registered providers**.

2 This figure is based on research from the *Protecting the Public Purse* report 2012.

3 The Audit Commission's estimate of the average annual cost to a council of housing one homeless family in temporary accommodation because the property they should move into is already occupied under a fraudulent tenancy. (The funding basis underlying this calculation has since changed.)

4 The National Fraud Initiative estimate is based on a combination of expert views on costs multiplied by four years.

CHARITY FRAUD AWARE

How to use this method

All social housing providers should as a minimum adopt the £42,000 figure as their measure of the true cost of these frauds to the taxpayer.

PRPs assessing the cost-benefit case for tackling tenancy fraud could go further. They could consider not just the value for their moral responsibility/public duty to take action (the approximate £42,000 cost per property to the taxpayer) but also their governance responsibility as stewards of housing assets (the £37,000 per property book value of the asset of which they have temporarily lost control).

Local councils, meanwhile, can tailor their cost calculation to local circumstances by using the formula in the table below.

Category	National Average cost	Explanation
Add: Annual average temporary accommodation cost per family for individual councils	£12,100	Individual councils can establish their own local cost for this element. This can vary considerably, exceeding £20,000 pa in some areas. (The national average figure was derived from the parliamentary briefing paper *Households in temporary accommodation*, as at 31 March 2020.)
Deduct: Individual councils (only) can remove the annual average housing benefit associated with their temporary accommodation costs	Does not apply to the national calculation	Local councils receive housing benefit payments from central government in relation to temporary accommodation costs. These could be deducted from the national figure to reach a net local cost. However, since these benefit payments are from central government they must be part of the calculation of the true cost of tenancy fraud to the national public purse.
Subtotal	£12,100	
Subtotal above multiplied by 3	£36,300	Analysis of tenancy frauds detected by housing providers reveals three years to be a prudent average duration for one of these frauds. (Typical range 3.2 to 3.5 years.)
Add: Average investigation costs	£1,300	Average cost derived from investigations by a housing provider; confirmed as prudent by a sample from other HA's and councils. Individual councils may choose to input their own data here.
Add: Average legal costs	£1,000	Average cost derived from investigations by a housing provider; confirmed as prudent by a sample of other HA's and councils. Individual councils may choose to input their own data here.
Add: Average void costs	£3,140	Average cost derived from investigations by a housing provider; confirmed as prudent by a sample of other HA's and councils. Individual councils may choose to input their own data.
Total costs	£41,740	The average cost of a detected tenancy fraud to the national public purse – **approximated to £42,000.**

CHECKLIST

BUILDING YOUR FRAUD DEFENCES

ASK YOURSELF:

- ☐ Have you performed a cost/benefit assessment (CBA) to estimate the value of tackling tenancy fraud?
- ☐ Did your CBA use the £42,000 national average cost to the taxpayer? If you are a PRP, did you consider the governance failure cost (£37,000 per property)? If you are a local council, have you thought about adapting the formula to reflect local costs (optional)?
- ☐ If you are a Council or PRP, do you have access to qualified, experienced tenancy fraud investigators? Is that resource appropriate to the risks you face and is performance being monitored?
- ☐ Is tackling tenancy fraud a clear priority for your organisation and has this been communicated to your staff?
- ☐ What are you doing to deter tenancy fraud?
- ☐ Do your tenancy audits follow best practice?
- ☐ Do you have a formal strategy for tackling tenancy fraud?
- ☐ Are local PRPs and the local council working together to tackle tenancy fraud – and are they doing it in an effective way?

OTHER RESOURCES

The **London Boroughs' Fraud Investigators' Group** provides a forum to discuss cross-boundary fraud and to disseminate best practice.

The **Tenancy Fraud Forum** provides a forum for social landlords to work together to identify and combat tenancy fraud.

Preventing Charity Fraud contains resources to help charities prevent, detect and respond to fraud.

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