

Return on investment for social housing in the ACT

Executive summary

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Executive summary

ACT Shelter commissioned the Australian Housing and Urban Research Institute (AHURI) to investigate whether providing direct access to planned, sustainable, long-term housing options for the homeless population, and those at risk of homelessness, in the Australian Capital Territory (ACT) is a more cost-effective strategy for the government than relying on crisis responses.

Stage 1 – Scoping the costs and benefits of affordable housing in the ACT

The first stage of the research summarised the evidence on current and future social housing need in the ACT, the effective procurement of social housing, and the non-shelter benefits arising from the provision of housing.

- Current housing policies have been generating only a small amount of new social housing. The present and previous ACT housing strategies have provided affordable housing for low-income purchasers but have not addressed adequately the housing needs of low-income renters. The resources of the ACT Government have been focused on maintaining and renewing existing public stock rather than substantially growing new affordable rental supply. Although there has been some growth in the community housing sector, it is coming off a low base.
- Present policy settings are inadequate to meet existing and future housing need in the ACT. Housing need is high, with around 12,600 households unable to enter the housing market or otherwise requiring housing assistance to avoid rental stress. This number is projected to increase into the future.

There are economic and social costs in unmet housing need, with these accruing at individual household and community levels. Social and affordable housing generally improves social and economic outcomes for its beneficiaries, including in the domains of social inclusion, education and skills, employment, health and mental health, safety and security, and empowerment. Securely housing people who are homeless or at risk of homelessness produces whole-of-government cost savings, especially in the areas of health and justice.

The cost of constructing housing in the ACT is higher than other parts of Australia, but aside from this, subsidy is needed to make community housing work. Direct government capital investments (through land, capital grants, or equity) are the cheapest way of developing social housing.

The net benefits of providing more affordable housing can be tested through cost-benefit modelling. To undertake such modelling, various data sources are needed, including the costs of services and utilisation rates. This data was collected from existing published sources (Report on Government Services (ROGS) and the Australian Institute of Health and Welfare (AIHW)) and gathered from service providers through use of surveys as part of the second stage of this project.

Stage 2 – Return on investment for social housing in the ACT

The second stage of the research aimed to establish the costs of developing and operating social housing in the ACT and to quantify housing and non-housing benefits of providing long term sustainable social housing to formerly homeless people in the ACT. This information forms the basis for developing a business case for the ACT government to procure social housing to address different levels of housing need.

To this end, the research:

- estimated the annual recurrent cost of providing public and community housing
- estimated the cost of developing new social and affordable housing by community housing providers (CHPs) and the funding gap they face
- investigated the impact of crisis responses to homelessness on of service usage among homeless persons
- measured the benefit to the ACT and Australian Governments of providing secure and affordable housing to those who are presently homeless or at risk of homelessness in terms of cost offsets achieved through reduced use of health, justice, and welfare services.

Key findings

Social housing is infrastructure that benefits society.

Social housing, which comprises public and community housing, is a key piece of social infrastructure that supports the goals of social inclusion, participation, place making, and economic productivity. Those housed in social housing often experience improvements in their health, safety, and sense of empowerment. While society benefits broadly from public investments in these forms of infrastructure, governments can also benefit through capturing savings in costs associated with health, justice, and welfare services.

Relatively little public funding of social housing goes to community housing in the ACT

In the ACT, most funding for social housing is directed towards public housing. Government funding for community housing in the ACT is generally small and focused on recurrent funding.

- The ACT government provides around \$8,400 per tenant unit per year in recurrent funding towards community housing compared to around \$12,500 for public housing (Productivity Commission 2021).
- Most capital expenditures are directed at public housing.

Public and community housing have complementary roles

Public housing and community housing serve complementary roles in the social housing system:

- Public housing provides a safety net for very low-income earners with complex needs (the lower range of income earners in the bottom income quintile (Q1)).
- Community housing provides accommodation for very low- to low-income earners (upper range of Q1 and lower range of second quintile (Q2) income earners), often with lower complexity of need.

Operating costs are relatively low in community housing

The costs of providing community housing are generally lower than public housing. Public housing costs government around \$55,300 per dwelling per year (operating plus capital costs) (Productivity Commission 2021). One estimate of the average cost to CHPs of operating existing community housing is \$46,900 per dwelling per year.

A funding gap means government support is needed

The cost of developing new community housing for long term affordable rental depends on land costs, rents charged, the size and type of the housing and the availability of subsidy from government or developer sources. Nevertheless, we find that the funding gap (i.e., annual cost of developing a unit of housing net of rental and other revenues) is relatively low for some forms of housing.

- The gap could be as low as \$19,200 per dwelling per year for affordable rental housing that also has cross subsidy from other sources (e.g., the now defunct National Rental Affordability Scheme (NRAS)) and charges rents at a discount to market rent (e.g. suitable for tenants in paid employment).
- In the absence of federal or developer cross subsidies the funding gap ranges from \$26,900 to \$51,000 per dwelling per year.
- The 'funding gap' for operating existing community housing is even lower (costs net of revenues such as rent). These range from between \$16,600 and \$28,400 per dwelling per year.

Crisis and temporary housing responses are inadequate to properly address homelessness

The case histories of people experiencing homelessness in the ACT who contributed to this study revealed the inadequacies of the present system of reliance on temporary and crisis accommodation and highlighted the importance of opening pathways to long term housing.

- Those who have complex needs (especially younger men and those with mental health or alcohol and drug issues) tended to cycle in and out of services and as a consequence were high users of justice and health services.
- Some clients (e.g., women with children) were stuck in temporary housing for long periods relying on client support funds to purchase temporary accommodation. This was often expensive and often required moving around, which undermined housing security.
- Some adults (especially men) were reliant on financial or material assistance such as rental bonds, no interest loans, emergency payments and food assistance. They were relatively light users of health and justice services and yet their case histories pointed to potential health needs.

Other research shows that the lack of long-term affordable housing is having negative repercussions, with many persons staying longer in crisis accommodation and making greater demands for accommodation costs on the Client Support Fund.

Providing more long-term social housing in the ACT has the potential to result in significant cost savings to government

- Our research estimated the median costs of health, justice, and welfare for tenants in community housing at around \$28,700 per annum and similar costs for those who were homeless at around \$44,000. This means that costs of service use for those stably housed were around \$15,300 per person per year lower than for those who were homeless. These findings are broadly consistent with other studies in Australia, which show similar quantum of benefits.
- There was a wide disparity in the cost-of-service use between service users, ranging from \$32,800 to \$213,000 over the course of a year for those experiencing persistent homelessness, and \$18,900 to \$133,800 for stably housed tenants. This shows that cost offsets are more apparent for some high needs clients.
- Our analysis assumes that cost offsets are recurrent as those who are presently homeless are always at risk of being homeless. This results in a reduction of the net recurrent cost to government of providing new housing to between \$11,600 to \$36,100 per dwelling per year.

- The benefit cost ratio is a measure of the proportion of the needed subsidy cost for new housing that could be recouped through welfare offsets. This suggests that for every dollar the government spends on a new house that is low cost, the government would recoup 57 cents through benefits in welfare offsets, while they would recoup around 30 cents in every dollar spent on higher cost housing.

Table 1: Effective recurrent costs (per dwelling per year) of new community housing net of offsets

	Cost of new housing	Cost net of revenues (gap)	Median welfare offsets	Cost net of revenues and offsets	Benefit cost ratio
Low cost	\$39,500	\$26,900	\$15,300	\$11,600	0.57
High cost	\$61,900	\$51,100	\$15,300	\$36,100	0.29

Source: Authors.

Policy development opportunities and further research

The findings from this research support the case for investing in more social housing. Presently there are around 2,500 persons on the social housing waiting list in the ACT. In 2016, there were almost 1,600 homeless persons in the ACT and around 3,100 households had an unmet need (i.e., they were homeless or experienced housing stress). This unmet need is projected to increase to 8,500 households by 2036.

Social housing is an important form of social infrastructure that provides a safety net for those most in need and offers benefits for improved health, safety, employment, wellbeing, and empowerment of its occupants, as well as productivity benefits for society more broadly.

This project quantified the benefits of social housing in relation to the forgone costs to government of health, justice and welfare support arising from housing previously homeless persons in social housing. The findings show that substantial cross government savings arise from providing people with long term stable housing as opposed to providing crisis responses.

While the costs of developing new social housing are substantial, this report shows that the net costs of investing in more social housing would be substantially defrayed by the avoided costs in health, justice and welfare costs that would occur through these investments.

Providing more social housing would enable the ACT to move from a crisis-oriented system towards more considered responses for the prevention and resolution of homelessness.

The evidence supports that direct government capital investments (through land, capital grants or equity) are the most cost-effective and appropriate ways of procuring social housing. Higher subsidies will be needed to cater for the needs of tenants with lower incomes and requiring more tenancy support or larger housing. Subsidies are likely to be lower for clients who are employed and who have less complex needs.



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