

Counting the cost of homelessness

SOCIETIES CAN EXPECT SUBSTANTIAL AND QUANTIFIABLE GAINS FROM ALLEVIATING HOMELESSNESS, WITH SOME STUDIES SHOWING FINANCIAL COST SAVINGS IN SUPPORT SERVICES ALONE OUTWEIGHING THE COSTS OF PROVIDING STABLE HOUSING FOR HOMELESS PEOPLE.

KEY POINTS

- Providing stable housing for homeless people generated cost savings in a range of support services areas. In some cases the savings paid for most, if not all, of the housing expenditure; in other cases, the gains exceeded the costs. Any other benefits to society or to homeless people were additional.
- The most extensive Australian study to date found that the lifetime net benefit of keeping homeless young people in formal schooling totalled \$474 million (in 1994 dollar terms).
- A national study in the United States found that it costs an extra US\$3196 per person to provide mental health and substance abuse services to homeless people compared to housed clients.
- Housing the homeless also significantly increases the likelihood of employment and, hence, increased income. Individuals and society benefit through increased income (productive output) and reduced government expenditure on unemployment benefits. Further indirect benefits also arise – e.g. positive schooling effects for the children of the previously unemployed homeless people.
- The great gap, evidenced by this review, is that most existing studies do not adequately address the range and scale of the benefits arising from successful policy interventions to reduce homelessness. The research questions and methodologies adopted bias outcomes to a consideration of cost impacts (especially fiscal impacts on government agencies) and cost effectiveness. This is the major negative finding of the review – and the main challenge for future research.

CONTEXT

Homelessness is a feature of Australian society that has become an increasingly urgent policy concern. The Commonwealth's SAAP Data and Research Advisory Committee reported in 2000 that estimates put the number of people experiencing homelessness in Australia on any given night somewhere between 60,000 and 105,000 (of whom less than half experienced sleeping rough or in improvised shelters or chronic homelessness). There is an increased awareness that homelessness places additional demands and costs on a range of government and community sector resources in the housing, health, and justice systems and the

Based on a systematic review of English-language studies into the costs of homelessness by Mike Berry et al, of the AHURI RMIT-NATSEM Research Centre. This is the first Australian study to focus on reviewing the research literature on the quantitative costs of homelessness and the benefits of intervening to reduce or ameliorate it.

education sector. However, there is little shared understanding or agreement on what the quantitative impacts of homelessness actually are in countries like Australia. *How much* does it cost an economy and society to have people homeless or at risk of homelessness?

OBJECTIVES AND METHODOLOGY

The systematic review on which this bulletin is based establishes the extent to which existing evidence answers two key questions:

- What are the costs to (a) the individual (b) governments and (c) the broader community of contemporary patterns and levels of homelessness in advanced industrial countries?
- What are the costs and benefits of alternative policy interventions by government to reduce homelessness in the portfolio areas of (a) housing and homelessness services (b) health, including mental health and welfare services (c) justice and (d) education, training and unemployment?

It also identifies, for each study reviewed, (a) the soundness of the approach (b) the strengths and weaknesses (c) the main gaps in analysis and findings and (d) any biases or limitations in the data used.

The review is based on the protocols for systematic research reviews established by 'the Cochrane collaboration', an international group of medical researchers who instituted what has become a continuing review of key studies and findings in specific areas of medical research.

SELECTION OF STUDIES

The research team screened abstracts and summaries of potential studies and selected for full text review all those that met the following criteria:

- all studies that attempted to quantify and monetarise the costs of homelessness or the benefits of programs designed for its alleviation (called Type A studies)
- a sample of studies (called Type B studies) that quantified impacts in non-monetary terms, reflecting (a) a diversity of developed country studies (from the literature published in English) (b) a diversity of methodologies and (c) contemporary studies where possible.

FINDINGS

Relatively few studies attempted to put a monetary cost on homelessness. In all, only 13 of this type of study (Type A) were reviewed. In contrast, most studies quantified impacts in non-monetary terms. There were 26 of these Type B studies reviewed in detail. Most of the Australian studies were Type B.

Studies which attempted to look at the total costs of homelessness (to the individual, across education, health, and other impact areas and on the basis of lifetime costs) were rare. Most studies reviewed concentrated on the health impact area, particularly concerned with the links between homelessness and mental health clients. More than half the studies reviewed were conducted in the United States.

Each of the studies reviewed identified (and quantified) substantial gains from alleviating homelessness, although the extensive range of impact areas targeted and the diverse methodologies adopted made generalisations about outcomes difficult.

Where benefits (as well as costs) were explicitly measured, there were significant net gains; for example, the benefits to individuals and society through completed schooling and enhanced lifetime productivity clearly outweighed the costs to government of keeping homeless youth at school by providing accommodation and support.

SUPPORT SERVICE SAVINGS

Providing stable housing for homeless people generated cost savings in a range of support services. In some cases the savings paid for most, if not all of the housing expenditure. Some examples include:

- A US study calculated that the net cost of housing a homeless person was US\$996 a year. This was the cost of housing, less the savings on mental health services. Homeless people with severe mental illness used about US\$40,451 per person per year in services (1999 dollars) – but this dropped by \$16,281 per housing unit per year when they received accommodation. The cost of housing was estimated at \$17,277.
- A Canadian study found savings on housing and service (mainly criminal justice costs) in the order of 30% when housing the homeless. The homeless individuals in the study had annual service costs ranging from C\$4,000 to C\$80,000. The costs for the housed ranged from C\$12,000 to C\$24,000. Service and shelter costs for the homeless ranged

between C\$30,000 and C\$40,000, and for those housed C\$22,000 to C\$28,000.

- A 1997 Australian study calculated that the total cost of youth homelessness in Australia was \$574 million and the net benefit of successfully intervening was \$474 million (\$574 million less the cost of intervention). It was estimated that a program of placing social workers in schools to deal with issues of homelessness would only have to be 21.1% effective to break even. These figures (reported in 1994 dollars terms) are based on the lifetime costs and benefits of keeping Australian students in education and estimated the number of homeless students to be 25,000.

HOUSED VERSUS HOMELESS

Homeless people with complex health needs, especially in the mental health area, impose greater cost burdens on support services, compared to housed clients with similar needs.

A national study in the US found that homeless veterans cost, on average, US\$3196 more than housed clients when accessing mental health and substance abuse services. Another American study found that homeless patients, on average, stay four days longer in New York hospitals than low income tenants, with the average extra cost to the hospital system and/or patients put at US\$2414 (US\$4094 for psychiatric patients). Yet another US study found that annual hospital inpatient days fell by 57% for people after they moved into supported housing. Average health care costs savings per person were US\$53,400.

However, in some cases, improved housing for homeless people can increase their access to and therefore use of support services. An American study of homeless mentally ill veterans, for example, found that the cost of medical care and support increased by 35% – from US\$6414 to \$8699 per veteran per year – for those entering supported accommodation. Much of the increased cost was simply due to being able to access services which previously had been accessed little or not at all, such as case management services. In such cases, the critical question is: does increased support lead to improved health, employment prospects, family stability and so on? And what value can be placed on such benefits?

WHOLE OF SOCIETY COSTS OF HOMELESSNESS

Some of the studies reviewed recognised that costs of homelessness go beyond the homeless individuals and

the burden on government support services to include amenity losses to other residents and associated tax revenue losses to government. These costs are reflected in (measured by) depressed property values. A study in Dallas, Texas, found that the City Council lost US\$4 million in property tax income due to the concentration of homeless people and shelters in the southern region of the city.

CAVEATS

The review sought to examine existing research that was methodologically sound – i.e. relevant, consistent and robust in execution. A relevant, consistent and robust study was deemed to be one that clearly identified the impact areas and costs/benefits, systematically measured the costs/benefits across the areas and did so by drawing on accurate and complete data using standard quantitative analytical methods. In general, the studies included in this review rate as “fair or better” on these methodological criteria.

Nevertheless, a number of issues and limitations were identified in the review.

- The studies rely heavily on administrative and/or survey data. The problem with the former is that there may be significant gaps in past data capture. The problem with survey data, on the other hand, is that it is usually dependent on self-reporting, with the attendant inconsistencies, lack of verifiability and biases that this approach entails.
- The studies rely mainly on cost analysis and comparisons. This approach is generally characterised as ‘cost effectiveness’ analysis. Only one of the studies reviewed presented a conventional ‘cost benefit analysis’ where both the costs of homelessness to, for example, government service providers and the benefits to individuals or communities are included – and this study covered only a limited range of impacts.
- While most studies carefully assess the savings per client to government (and less commonly, non-government) service providers, few address the issue of increasing the access of the homeless to stable housing leading to an increase in the utilisation of support and other services – and, hence, to an increase in total fiscal costs (and, presumably, the extra benefits accruing).
- There is a dearth of studies that include the financial costs actually borne by the homeless themselves – costs that are saved when they are successfully placed in a housing program.

IMPLICATIONS

Existing research into the quantitative costs of homelessness and the benefits of reducing its incidence generally identified significant cost savings (especially to government) and net gains to the homeless arising from appropriate public policies. However, clearly, no single study has approached a comprehensive analysis of this field, encompassing impacts across and within the several domains involved.

The reason why this is the case is also clear. Homelessness is a complex social and economic condition. A full and adequate approach would require a very large national study and entail a very significant commitment of research resources. In particular, a concerted effort would need to be made to measure the benefits across the various kinds of successful interventions (eg housing, support and educational services), using the conventional economic methods for evaluating non-marketed outcomes. Appropriate sets of assumptions would need to be drawn and tested. Relevant data or proxy data would have to be gathered, again across all the impact areas including health, justice and education. Finally, for a complete social cost benefit analysis, an appropriate discount rate would need to be applied to both the estimated costs and benefits.

Given real-world resource constraints, a 'second-best' study in the Australian context would attempt to identify and evaluate the main impacts across the health, justice and education domains – benefits as well as costs – of intervening to reduce homelessness.

FURTHER INFORMATION

For further information about this review, see:

Berry et al (2003) A Systematic Review of Cost Effectiveness and Cost Benefit Studies of Homelessness

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