

The case for social housing as infrastructure



Australian Housing
and Urban Research Institute

Based on AHURI Final Report No. 315:
Social housing as infrastructure: rationale,
prioritisation and investment pathway

What this research is about

This research Inquiry considered the case for social housing as infrastructure and examined different approaches to its investment. Understood in this way, social housing can be aligned with developments in infrastructure policy more broadly, including shifts towards greater transparency and efficiency in project appraisal and funding prioritisation, as well as emerging financing, development and operating structures.

The context of this research

Since the 1990s, social housing construction levels have languished at residual levels; while Australia's total number of households expanded by 30 per cent over the two decades to 2016, social housing provision grew by just 4 per cent.

There is increasing interest in methods of calculating the benefits of social housing relative to cost, including the savings that might accrue in other areas of government expenditure, and recognising the broader social and economic contribution that social housing can make. New investment is required to ensure cities function well and that aggregate consumer demand is not adversely affected by rising housing costs, and the provision of social housing has a part to play in these efforts.

The key findings

New social housing dwellings required

Analysis of the extent and spatial distribution of need for social housing and the cost of its procurement in

88 different land and construction markets across Australia shows that over the next 20 years, 727,300 additional social housing dwellings will be required to tackle levels of homelessness and housing stress amongst lowest income quintile (Q1) households renting privately. Current-price procurement costs for these dwellings vary from \$146,000 to \$614,000 per dwelling, depending on local land values, building types and construction costs in different regions.

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Pathway to grow social housing

Australia can learn from the practices of other nation states where national housing strategies include more productive strategies to boost social housing supply.

Productive social housing systems use a combination of policy instruments to reduce the cost of land, invest strategic equity and lever efficient long-term financing. Productive social housing systems do not rely solely on demand-side subsidies, which have proved ineffective when rents are deregulated and vacancies low. The use of grants and efficient financing not only reduces long-term costs to government, but also reduces pressure on service charges and related assistance in other policy areas.

Greater transparency in comparing the cost of capital and requirement for additional recurrent subsidies is vital to help policy-makers and program designers determine the ideal mix of funding and financing that should be used to address Australia's social housing deficit.

While users of infrastructure are increasingly called on to pay for associated services through various charges, full payment can undermine

the social and economic benefits they are intended to deliver. For this reason, services such as health and education are neither delivered on a full fee-paying basis nor driven to generate surpluses or even be cost recovering. These services are intentionally subsidised to maximise the social and economic benefits they are designed to deliver. The design and use of subsidies are integral to all needs-based services, and their use must also be equitable, efficient and effective.

An infrastructure investment pathway

An 'infrastructure investment pathway' is the route capital takes to construct and operate assets and services to deliver social and economic benefits to broader society. Both funding and financing play an integral role in this pathway.

'Funding' describes the resources allocated by governments and the community to cover capital investment and operating costs.

'Financing' describes the instruments or arrangements through which these costs, especially high upfront capital costs, are spread over time as government surpluses and service charges allow. Seen in this light, financing ultimately requires funding and is not a replacement for it.

Direct investment pathway is the most cost-effective

Even with efficient financing provided by the National Housing Finance and

Investment Corporation (NHFIC), there remains a considerable funding gap. Interviewees repeatedly emphasised the importance of a publicly funded subsidy to 'fill the gap' and for government funding to supplement the finance that will be made available through the NHFIC. However, there are difficulties in advancing a case for increases in recurrent expenditure through existing budget processes.

The research examined the best way to fund and finance this gap via multi-criteria financial analysis and financial modelling. Building on the Affordable Housing Assessment Tool (AHAT) developed for the AHURI *Inquiry into increasing affordable housing supply*, project-level costings of community housing organisation (CHO)-led development from across Australia were used to test the impacts of different funding and financing scenarios.

Five pathways were modelled, to enable a comparison of the implications they have for government expenditure in terms of ongoing operating subsidies and Commonwealth Rent Assistance (CRA) payments. Each investment pathway aims to be cost-neutral after 20 years.

Modelling reveals that a needs based capital investment strategy supplemented by efficient financing is substantially more cost-effective in the short and long-term than a commercially financed model that is reliant on an operating subsidy to ensure affordable social tenancies.

Indeed, privately financed and subsidised strategies are 24 per cent more expensive in the first year alone, and these costs accumulate with each new tranche of privately financed dwellings, as shown below in Table 1.

Under privately financed models recurrent expenses continue for a considerably longer duration, fulfilling obligations to cumulative long-term financing contracts. As shown in Figure 1, a significant disadvantage of the operating subsidy model comes at the end of Year 20, when operating subsidies would still be required to be paid out on dwellings built in the later part of the program, unlike a capital grant model.

Business case frameworks for social housing projects

Policy-makers argue that cost-benefit analysis (CBA) and related business case techniques could be applied to build the case for investment in social housing. However, the following factors must be considered:

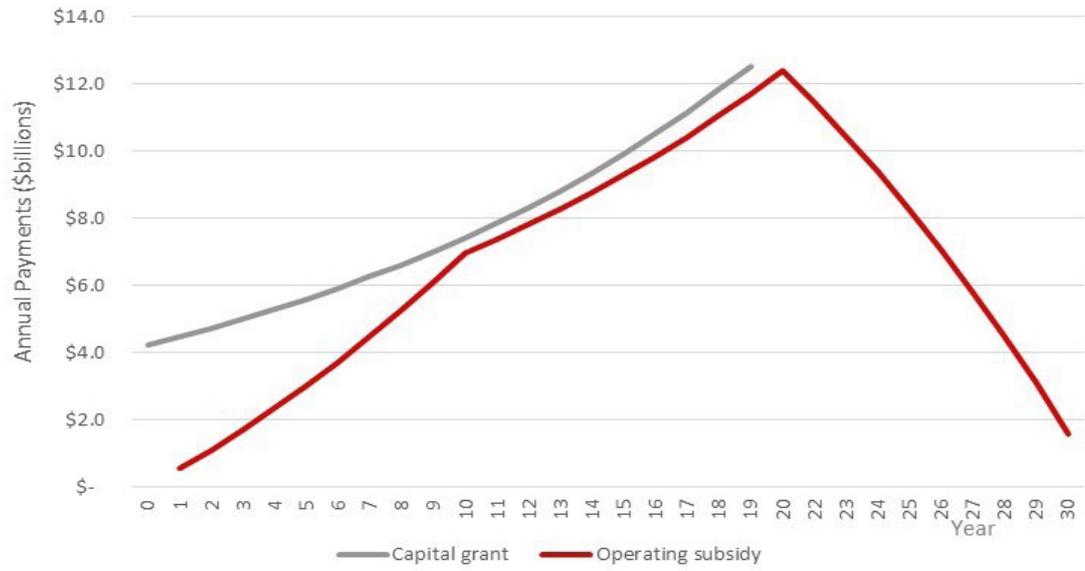
- 1 The core benefits of social housing are not easily quantified or monetised and are thus often overlooked or excluded from such assessments. The benefits attributable to social housing, such as preventing homelessness, protection from domestic violence, social inclusion, educational attainment are not measured or traded in markets. They occur over extended periods of time and are often multi-dimensional.

Table 1: Comparison of five investment pathways

Program Summary (Lifetime cost of Year 1 of program)	Scenario 1: Private financing with operating subsidy	Scenario 2: NHFIC financing with operating subsidy	Scenario 3: Upfront capital grant	Scenario 4: Upfront capital grant + NHFIC financing	Scenario 5: Larger capital grant + NHFIC, excluding cost of CRA
Total development costs (excl. GST and taxes)	\$7.0B	\$6.4B	\$5.8B	\$5.7B	\$5.4B
Total operating costs	\$2.8B	\$2.8B	\$2.8B	\$2.8B	\$2.8B
Rental income	\$3.2B	\$3.2B	\$3.2B	\$3.2B	\$3.2B
Operating/capital grants	\$5.4B	\$4.8B	\$4.2B	\$4.1B	\$5.0B
CRA payments	\$1.2B	\$1.2B	\$1.2B	\$1.2B	
Government subsidy	\$6.6B	\$6.0B	\$5.4B	\$5.3B	\$5.0B
Savings on scenario 1	-	9%	18%	20%	24%

Source: Lawson, Pawson et al. (2018).

Figure 1: Annual expenditure under capital grant vs. operating subsidy programs



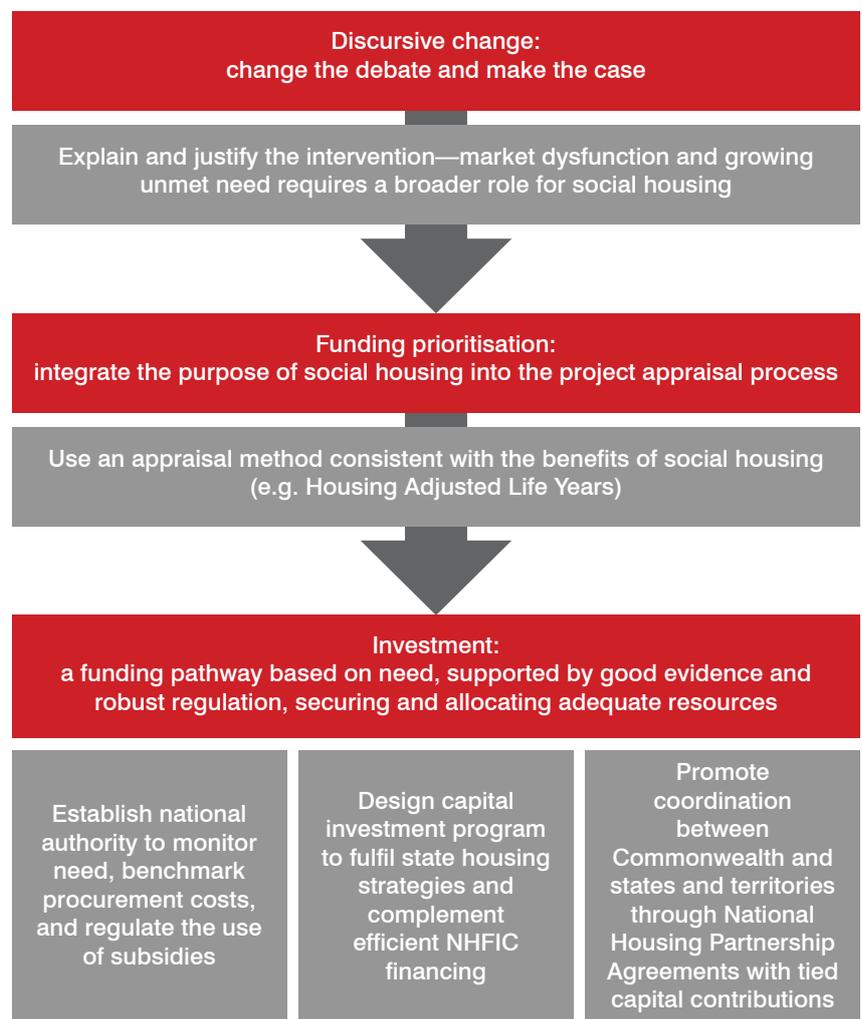
Note: All values are represented as net present value (NPV) and do not include any costs associated with CRA payments.
 Source: Lawson, Pawson et al. (2018).

2 The use of public health evaluation methodologies may provide a better basis for social housing appraisal than other approaches (for example, the housing-adjusted life years approach, adapted from Health economics).

CBA should not be seen as the only basis for infrastructure decision-making. Recent developments in the transport sector, in particular, have been made on a political rather than technically quantified basis. It is also notable that other forms of social infrastructure, such as schools and hospitals, do not rely on positive CBAs to determine investments but are based on need.

If CBA and business-case methodologies are to be relied upon for funding long-term social housing development programs, much work will need to be done to establish more suitable assessment criteria and approaches than currently exist. These will need to address the gap in expertise and resources required to develop and implement CBA applicable to social housing and provide the conceptual clarity, analytical guidance and rigor expected by decision makers. Appropriate longitudinal data also needs to be collected.

Figure 2: Foundations of a national needs-based capital (NBC) investment strategy for social housing



Source: The authors.

What this research means for policy makers

National housing authority

The Inquiry recommends the establishment of a national housing authority (NHA), operating under the guidance of a national housing strategy. The role of the NHA is elaborated in Figure 2. The NHA could establish the level of funding required for state- and local-level efforts to develop needs based capital investment programs to complement lower cost NHFIC financing. The outcome of this evidence-base, state strategies and funding negotiations, would be National Housing Partnership Agreements with state and territory governments, making use of NHFIC's investment mandate to channel more efficient finance. The NHA could also have the capacity to guide and regulate organisations that make use of government subsidies for social housing provision, such as state housing authorities and CHOs.

The authority's expertise and capacity to quantify need and procurement costs would provide an informed and transparent foundation for Australian governments to develop, advocate for and implement regional capital investment programs to complement NHHA, NHFIC, Clean Energy Finance Corporation and NDIS funding and financing.

New methodologies for appraising social housing developments

This Inquiry recommends two methodologies for the supporting appraisal of the proposed social housing development program.

- An avoided costs methodology, which is a financial assessment of net savings to government of social housing provision due to lower frequency of use of health, justice and welfare services.
- An economic analysis based on the equivalent private market rental value of social housing, predicated on the assumption that the rent represents the 'willingness to pay' (WTP) for the bundle of goods provided by the housing (including security, social inclusion, health, access to services, amenity and wellbeing).

The avoided costs and market rental value approaches are readily implemented, as they are based on available data and existing methodologies. While it is important to consider whether governments will accept the results of such analyses, the outcomes would provide assurance to funding agencies that the long-term social housing construction program represents a value proposition on the basis of budget impacts and of net benefit to society.

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Methodology

This research reviewed national and international literature; modelled demographic and financial aspects of social housing including the cost of procuring it and the impact of different funding and financing strategies on the costs to government; and interviewed policy-makers and stakeholders in industry, government and academia.

Further information

TO CITE THE AHURI RESEARCH, PLEASE REFER TO:

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