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EXECUTIVE SUMMARY

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Executive summary

Key points

Business cases and cost-benefit analysis (CBA) are conventional features of infrastructure decision-making processes in Australia, and are used to evaluate the societal benefit of proposed projects. However, business cases and CBA have been contentious in terms of design and deployment. Funding commitments are regularly made prior to the completion of business cases and CBA, diminishing their value as a decisive part of infrastructure development decisions.

For social housing, business case and CBA processes could provide useful evidence of the wider societal benefits of social housing provision, but the nature of contemporary policy decision-making means that political will remains an important factor in investment decisions.

The development of public infrastructure appraisal methods such as CBA can be understood as a consequence of long-term infrastructure investment creating a demand for improvements in assessment and increased analytical capacity in the public and private sector, in the context of competition for funding. This indicates a degree of circularity: ongoing funding to support sector expansion is important in promoting economic analysis in the social housing sector, which is also seen as a step towards increasing industry funding.

There is a presumed association between infrastructure provision and economic productivity within appraisal processes and infrastructure agency remits. This relationship is recognised by public servants and representatives from the social housing sector, indicating that infrastructure conceptualisations may not be appropriate for arguing for housing as a welfare intervention, but more apt for proposals that generate employment outcomes, such as key-worker housing.

Therefore, the pertinent question is not whether social housing is infrastructure, but whether such a conceptualisation is the best standpoint from which to found advocacy for increased social housing investment. The answer to this question depends on the purpose of the intervention. The resources required to develop appraisal methodologies and analytical capacities underscore the importance of choosing an appropriate basis for further development of social housing business case methodologies.

Alternatives to conventional infrastructure CBA methodologies include: avoided costs financial appraisal; a public welfare conceptualisation; and the proposition that the whole of society values providing for those in need. These examples provide a stronger conceptual link to the welfare focus of the social housing.

It is also possible that adopting social housing as infrastructure as a central argument for business cases may risk diverting funding to new areas of

intervention, rather than increasing funding for providing housing for those most in need.

Key findings

Business cases and cost-benefit analysis (CBA) fall within the broad terrain of evidence-based policy development, and they are used to outline a technical rational response to the problem at hand (Weimer and Vining 2017). There are two general resourcing claims that may benefit from the application of business cases: first, fiscal competition within limited government budgets; second, in decisions about alternative options for new government economic development expenditure. The first argument applies to the contested nature of government expenditure, particularly in portfolio areas that are considered to be welfare and where extensive social need is apparent and recognised. Treasuries tend to scrutinise expenditure claims by government agencies often with a focus to minimise new expenditure and achieve savings with existing expenditure. In this context, portfolios that are able to demonstrate fiscal savings across government may be in a stronger position to argue in favour of new or transferred funding for their area, such as social housing. Project respondents from state government agencies have observed that Treasuries have positively received these arguments. The second resourcing claim relates to decisions between alternatives in relation to infrastructure investment. This might include options for investment in social housing over other types of infrastructure, or between alternative projects within the social housing sphere, according to location, dwelling type or tenure model.

The starting point for this research was the conceptualisation of social housing as infrastructure. However, a key finding is that the usefulness of this conceptual basis for social housing is questionable, depending on the intent of the proposal being appraised. Infrastructure development is presumed to be associated with productivity improvements, which may not provide a strong argument for social housing as a welfare intervention, as decades of underinvestment in social housing within Australia's housing supply has meant that it is now a provider for only those with the greatest needs, and who have limited employment prospects. An infrastructure conceptualisation of social housing implies the introduction of wider non-welfare goals, such as providing better jobs access via well located housing for key and low-paid city workers (as could be the case with a road or rail link). Such productivity based arguments may distract from solving the gross housing deficits resulting from inadequate levels of investment in this sector in recent decades.

The emerging interest in social housing appraisal methodologies—as well as the need for research to develop the underpinning data and parameters—suggests that it is an appropriate moment to consider what economic assessment approach might provide the best outcomes for the sector. Previous applications of CBA in social housing contexts are either focused on specific benefits arising from housing, or omitted the range of non-market traded benefits that accrue from social housing, such as wellbeing, security of tenure and inclusion. Assigning a price to such qualitative factors is methodologically complex and requires further technical development. The variation and exploratory nature of the relatively few examples of social housing appraisal in the existing literature reflect that the sector is subject to a more complex range of benefits, target cohorts and questions than is the case with transport infrastructure appraisal; it also suggests that fewer resources are applied to the practice and development of social housing appraisal.

Policy development options

The central question raised by this research is whether infrastructure business case methodologies are the most appropriate for application to social housing. While there are arguments for considering that social housing is a form of infrastructure akin to road and rail infrastructure, the conceptualisation of it as such is not without risk, as this implies external productivity benefits as central to its justification. External productivity improvements are central to business case development and project appraisal processes for road and rail infrastructure because user charges are typically not sufficient to recoup project direct costs. Hence appraisal additional value is generally sought by governments beyond revenue from use charges. This value is calculated using CBA. Transport appraisal has also been largely reduced to the estimation of the value of travel time savings based on prevailing wage levels as a result of project implementation. The benefits, purposes and questions that may be considered within a social housing appraisal are complex, with extensive procedural refinement required before a similarly singular factor could be arrived at. This can be seen in the benefits regularly referred to as 'intangible', the use of appraisal in social housing policy analysis as well as project and program appraisal, and the different approaches applied to social housing appraisal.

There are alternate approaches to developing business cases for social housing. The 'avoided cost' approach to social housing business cases that has begun to be used by social housing agencies offers estimates of whole-of-government fiscal savings across portfolios other than housing, as a result of social housing provision, and thus avoids the issues of monetisation of 'intangible' dimensions of housing that a CBA would typically seek to calculate. Avoided costs are not founded in infrastructure appraisal, but are included in this project because—the method has been developed within the social housing agencies and has been positively received by Treasuries. For social housing as a welfare intervention, a conceptualisation as a public health intervention—or considering the value the wider community places on providing housing for those in need—may provide better outcomes than an infrastructure conceptualisation.

The study

This research is part of a wider AHURI Inquiry into Social Housing as Infrastructure. This is the second of three reports: Project A investigates the conceptualisation of social housing as infrastructure, while Project B assesses potential social housing investment pathways. The focus of this research is to investigate the business case frameworks for treating social housing as infrastructure, including frameworks for undertaking CBA for social housing. The purpose of the research is to develop stronger analytical methodologies and evidence-based arguments for investment in social housing.

There is a large and substantial literature, and extensive practice knowledge, of techniques for the economic appraisal of the public infrastructure investment, including wider economic benefits of public infrastructure investment and the use of cost-benefit analysis to determine net social benefit. Understanding the key features of these approaches is the focus of the first part of this project, followed by an investigation of how economic appraisal and CBA might be adapted to social housing appraisal.

The overarching question addressed by this project is:

> *How can a business case approach and cost-benefit framework be established for social housing investment?*

Three questions extend this focus for the project. These are:

1. What is the conceptual and practical basis for the use of business cases and cost-benefit analysis for public infrastructure investment in Australia?

2 What is an appropriate technical framework to apply a business case and cost-benefit analysis approach to investment in social housing as public infrastructure in Australia?

3 How might a business case appraisal and cost-benefit analysis approach be adopted to appraise social housing as infrastructure investment in Australia?

The questions respond to the core Inquiry problem of conceptualising housing as a form of social investment.

The methodology for this project included three stages, undertaken in 2017 and 2018:

1 A review of existing policy, guidelines and commentary material about the preparation of business cases for major projects within the Australian infrastructure field. This included the extensive appraisal documentation prepared by Infrastructure Australia, plus Commonwealth and state transport agency and Treasury documentation.

2 A review of business cases from the past decade from a selection of major infrastructure projects in Australian major cities.

3 Fieldwork involving interviews with 18 respondents sampled from a mix of public infrastructure, housing and economic agencies, including state transport departments and infrastructure assessment bodies. A focus group was held with housing providers, property developers, housing academics, and consultants engaged in infrastructure and housing developments to test potential future approaches and methods regarding the application of CBA to social housing.

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