GIVE ME SHELTER

Give Me Shelter

The long-term costs of underproviding public, social and affordable housing

Cost-benefit analysis report

Authored by SGS Economics and Planning, for Housing All Australians

June 2022

SGS Economics & Planning

HAA Housing All Australians

Housing All Australians acknowledges and pays respect to the past, present and future Traditional Custodians and Elders of this nation and the continuation of cultural, spiritual and educational practices of Aboriginal and Torres Strait Islander peoples.

Foreword

Several years ago, I was in Sydney presenting about housing with a councillor from regional NSW. He was sharing emerging stories from his municipality, including one about a local police officer. The officer and his family could only afford to buy far from the municipality where he worked; he slept in his car every night because it was too far to drive home.

Whilst the officer's particular situation may have been short-lived, it is not atypical of an issue that increasingly confronts many Australians. It also impacts their communities. Covid, ballooning house prices and unaffordable rents have seen businesses - especially in regional areas - unable to open because they can't source workers. The lack of affordable housing has now become a significant issue for business.

This was one of several stories that led to the formation of Housing All Australians. It was also the genesis to the economic study that you are about to read.

Housing All Australians is a business-led initiative dedicated to the pursuit of practical solutions to help address Australia's chronic shortage of public, social and affordable housing.

We encourage all Australian businesses to lend their voice to a national conversation: Housing all Australians - an economic platform for a prosperous country. Business needs to ensure that Australia is not only creating well-located affordable housing for its workers, but more importantly, restoring hope and confidence in the home-ownership aspirations of our younger generations. The time for waiting is over.

Housing All Australians is pleased to have partnered with SGS Economics and Planning to deliver this report. We would also like to acknowledge the experts from academia, industry, research, organisations, and independent economists who provided feedback on the methodology used in this report's development.

I would also like to thank our business partners who made this research possible. By supporting ***Give Me Shelter,*** they have demonstrated their leadership and commitment to this critical topic.

This Housing All Australians report clearly outlines the significant costs that will be incurred by Australian taxpayers as we pursue the current housing trajectory; it demonstrates the link between the increase in homelessness and its long-term economic impact on all Australians. We trust the findings of this research will help generate a national conversation and we look forward to supporting our business community in the vital work ahead.

Rob Pradolin, founder and director,
Housing All Australians

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While this feedback was gratefully received, all responsibility for the design and application of the methodology applied in this study remains with the authors, SGS Economics & Planning Pty Ltd.

Authored and Prepared by SGS Economics & Planning

Supporters of this national research project include:

SGS Economics and Planning Pty Ltd. ACN 007 437 729. www.sgsep.com.au

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Front cover photo by courtesy of Ken Spence

Key Findings

Every $1 the Australian community invests in social and affordable housing will deliver $2 in benefits.

This rate of return is comparable to, or better than, those achieved in many other major Australian infrastructure investments.

Failure to act on shelter needs will be costing the community $25 billion* per year by 2051.

The benefits of providing adequate housing are estimated at almost $110 billion*.

* In present value terms

Business needs to ensure that Australia is not only creating well-located affordable housing for its workers, but more importantly, restoring hope and confidence in the home-ownership aspirations of our younger generations.

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$25 BILLION PER YEAR

Failure to act on shelter needs will cost the community $25 billion per year by 2051.*

* In present value terms

$110 BILLION IN BENEFITS

If we invest in social and affordable housing today we'll gain $110 billion in benefits.*

* In present value terms

We will never end homelessness unless we solve the upstream supply of non-market housing.

Executive Summary

Social and affordable housing is essential infrastructure for successful communities.

Provision of social and affordable housing infrastructure is necessary to protect vulnerable households from poverty, to build productive economies with good access to essential workers, and to create better neighbourhoods characterized by diversity and inclusion.

Australia has seen decades of underinvestment in social and affordable housing

While Australia's population grew by more than 25 per cent between the 2001 and 2016 Census years, the nation's stock of occupied social housing ***shrank*** by 2.5 per cent. As a proportion of all dwellings, social housing now comprises less than 4 per cent compared with almost 6 per cent in 1996.

If nothing changes, more than 2 million Australian households on low incomes in private rentals will be in housing stress by 2051. They will be paying rents in excess of the international benchmark of 30 per cent of income, with many having to deal with much greater housing costs than this.

If this pattern of underinvestment in essential social and affordable housing is not reversed, future generations of Australians will be left with huge costs.

Serious housing stress is not only distressing and damaging for the low-income households in question, it creates major costs for the community at large.

Publicly funded health services have to attend to households where physical and mental wellbeing is under great pressure from burdensome housing costs and insecure tenure. Some people find themselves homeless, generating needs for a wide range of support services as well as temporary housing.

Severe shortages of affordable accommodation can mean that businesses cannot keep key staff as these workers may be pushed out of reasonable commuting range. This churn is costly both for the employer and employee, and labour market productivity suffers.

Education outcomes for children in lower income households forced to regularly move due to housing costs can be compromised.

Lack of secure housing and a stable home environment can foster anti-social behaviour and criminal activity, triggering expensive government interventions in the policing and justice system.

Failure to act on shelter needs across these households will be costing the wider community $25 billion ***per year*** by 2051, measured in 2021 dollars.

There are many ways of mobilising the investment required to fill this yawning infrastructure shortfall.

Additional social and affordable housing can be supplied through traditional public sector procurement. Alternatively, private capital can be attracted with government making up the difference between reasonable commercial requirements and the returns available from investments in affordable housing. Other approaches would further top up the incomes of eligible households.

In all cases, the taxpayer would be called upon to bridge the gap between an affordable rent for eligible households and the market rent or the rent required to induce supply of new affordable housing.

Investment in social and affordable housing infrastructure delivers solid economic returns.

The cost to taxpayers to bridge this gap is estimated at $55 billion in present value terms assuming that social and affordable housing support is gradually stepped up year by year to eventually meet all the projected need across Australia by 2051. Conversely, the benefits to the Australian community in health cost savings, reduced domestic violence, reduced costs of crime, enhanced human capital, improved labour market productivity and better education outcomes are estimated at almost $110 billion in present value terms.

The benefit-cost ratio for Australia in providing adequate social and affordable housing infrastructure is therefore 2:1. In other words, for every $1 invested by taxpayers to induce delivery of social and affordable housing, the Australian community gets back $2 in benefits[1].

This rate of return is comparable to, or better than, those achieved in many other major investments in infrastructure including Brisbane Metro (1.9:1), Melbourne Metro (1.5:1), Morley–Ellenbrook line Perth (1.1:1), M12 Motorway Sydney (1.8:1), Gawler Rail Line Electrification SA (1.1:1), Tasmanian Irrigation Tranche Two (1.6:1) and National Inland Rail (2.7:1).

FIGURE 1/ COMPARATIVE RATE OF RETURN

Governments would save money by investing in social and affordable housing.

The $110 billion in benefits generated by providing adequate social and affordable housing will be partly captured by state, territory and commonwealth governments in reduced outlays. This relates to savings in health, social assistance, and justice expenditures.

Over 30 years, the Commonwealth's estimated budget savings (from improved health outcomes, reduced crime and domestic violence etc.) would surpass its outlays in meeting projected social and affordable housing need. The Commonwealth is estimated to save some $3.5 billion in present value terms.

[1] The pool of households in deep housing stress is already substantial. Governments could accelerate the provision of assistance so that more households are lifted out of stress in the nearer term than what has been factored into our calculations. For the purposes of this report we have assumed a 'straight line' ramping up of assistance from where we were in 2021 to fully meeting projected need by 2051. Under an accelerated assistance scenario, both the cost of support and the value of the benefits generated would increase. However, the benefit cost ratio would be largely unchanged.

FIGURE 2/ BUDGETARY SAVINGS PER STATE AND TERRITORY (NPV OVER 30 YEARS)

All state and territory governments, except for the ACT, would also enjoy budget savings greater than their outlays on social and affordable housing provision, as shown below.

- New South Wales, + $2.2 billion
- Victoria, + $7.8 billion
- Queensland, + $5.4 billion
- Western Australia, + $6.6 billion
- Tasmania, + $0.7 billion
- South Australia, + $4.3 billion
- Australian Capital Territory, - $0.1 billion
- Northern Territory, + $0.4 billion

The ACT's close to break-even result reflects the fact that the Territory has the highest rents in the country. This makes for an outsized gap between affordable rent and market rents and, therefore, relatively large government outlays versus the fiscal savings on offer. In the context of the ACT, more traditional public sector procurement of social and affordable housing, or facilitated private investment in social and affordable housing on government land, would likely produce a positive fiscal result for that jurisdiction as well. Such strategies could also boost the fiscal outcome for NSW, which also has comparatively high market rents.

Severe shortages of affordable accommodation can mean that businesses cannot keep key staff as these workers may be pushed out of reasonable commuting range. This churn is costly both for the employer and employee, and labour market productivity suffers.

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Introduction

1

There is a significant and increasing need to address homelessness and housing stress in Australia. Following a context-setting introduction to frame the Australian housing story, this report presents the findings of a cost-benefit analysis undertaken to measure the future costs (or foregone benefits) to the community from continued failure to address the need for housing assistance.

1.1 About Housing All Australians

Housing All Australians (HAA) activates private sector-led solutions to the chronic shortage of social, public and affordable housing in Australia. Through our national reach and activities such as pop-up shelters, we support the business community to respond to community and business need.

With the findings from this study, we aim to bring Australian business together for a national conversation on the importance of housing for all as an economic platform for a prosperous country. We need to understand the economic implications that the chronic shortage of non-market driven housing is going to have on Australian society and the economy, and to articulate the strong underlying business case that exists behind mitigating that outcome.

Underinvestment in initiatives to securely house those in need increases costs to society through poorer health and employment outcomes, greater criminal behaviour and less diverse communities.

1.2 About SGS Economics and Planning Pty Ltd

Established in 1990, SGS is an urban and public policy consultancy which supports policy and investment decisions for more sustainable cities and regions.

SGS works for the public interest with its commitment to social good woven into the fabric of the company's culture. A certified Benefit Corporation (B Corp), SGS is part of a global movement of people and organisations working for a more equitable, prosperous and sustainable society.

SGS comes to this task with a depth and breadth of experience across affordable housing, policy development and development economics.

1.3 Project context

"It can no longer be said that we are, in general, affordably housed; nor can it be said that the 'housing system' is meeting the needs and aspirations of as large a proportion of Australians as it did a quarter of a century ago"

Pawson, Milligan & Yates (2020)

The existence of a housing affordability problem in Australia is generally recognised and acknowledged, not only within government housing policy circles but among commentators, industry, and the public at large (Pawson, Milligan, & Yates, 2020). However, despite receiving recognition, policy makers continue to misunderstand the nature and influence of Australia's housing system within the economy, and consequently have failed to appreciate and address the affordability crisis with any coherent long-term vision and strategy (McClennan, et al., 2021).

Affordability concerns are often voiced in the mainstream media mainly in relation to the falling rates of homeownership, particularly amongst younger cohorts (Pawson, Milligan, & Yates, 2020). However, intensifying rental affordability pressures affecting low- and moderate-income earners, and the substantial lack of social housing and affordable rental housing, arguably presents an even greater challenge to present and future communities. A series of reports published by AHURI has tracked the affordability and availability of private rental housing for low-income households in Australia (Hulse et al., 2012; Hulse et al., 2014; Hulse et al., 2019).

The COVID-19 pandemic placed Australia's housing system under the spotlight. However, rapidly rising rates of homelessness and a growing deficit of private rental housing affordable to lower income households had been in trend long before the onset of the pandemic. The number of households experiencing moderate or severe rental stress – and therefore classified as in need of housing assistance – has been increasing over time (Hulse et al., 2012; Hulse et al., 2014; Hulse et al., 2019; Martin et al., 2017). Recent governments have been stung into action to cushion the impact of economic recessions arising from the Global Financial Crisis and COVID-19 pandemic; however, there remains a significant and expanding shortfall across Australia. While affordability problems are most pronounced in capital cities, the shortfall of social and affordable housing supply is not exclusively an urban problem.

The impacts of the Covid-19 pandemic on the housing affordability crisis

The impacts of the COVID-19 global pandemic, beginning in 2020, have caused unprecedented shocks to the country's economy and housing market. Since then, the experiences of private renters across the country have been greatly impacted, with their employment, living environment, ability to pay rent and risk of eviction all being affected.

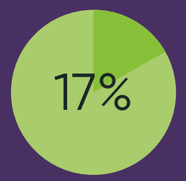
The Australian Institute of Health and Wellbeing (AIHW) (2021) found that since the beginning of the pandemic:

Just over 63 per cent of renters experienced changes to their employment, including reduced hours and/or income, reduced income and temporary lay-off.

About one-third experienced worse living circumstances including difficulty paying rent and/or bills.

About 25 per cent of renters skipped meals to save money

More than 5 per cent reported that they had received an eviction notice.



About 17 per cent reported that their rent became unaffordable.

These findings demonstrate the extent to which the pandemic has exacerbated existing patterns of disadvantage. The data in this report is reflective of pre-pandemic estimations, and as such may represent an undercount of the need for social and affordable housing across Australia's escalating housing affordability crisis.

FIGURE 3/ COVID-19 IMPACTS

1.4 Project purpose

In recognition of the continuing underinvestment in measures to address housing need across the country, Housing All Australians (HAA) partnered with SGS to research the evidence base for stronger national action on social and affordable housing.

This research has been undertaken in three stages:

- **Stage 1:** *A literature review* to examine the basis for measuring the future costs that will be avoided through adequate investment in addressing homelessness and housing stress.
- **Stage 2:** *Interviews with housing experts* across Australia seeking feedback on the proposed methodology.
- **Stage 3:** *Development of a cost-benefit analysis (CBA) and economic narrative* to accompany HAA's representations to government and stakeholders.

This report presents the findings of Stage 3.

1.5 Scope of this report

The report is structured in five parts. Following this introductory section:

- **Section 2** provides an overview of the *CBA methodology and framework.*
- **Section 3** *presents a summary of the literature on the expected impacts* from continuing underinvestment in social and affordable housing across Australia. This section includes a discussion of the approach and assumptions adopted regarding quantification and monetisation.
- **Section 4** presents the *CBA findings* including an estimate of total future costs and as a benefit-cost ratio *(BCR*) measure.
- **Section 5** provides a *summary of findings and conclusions.*

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Cost-benefit analysis framework

2

The aim of CBA is to measure and compare the marginal costs and benefits of an initiative to determine the overall impact on community welfare. In this instance, CBA will be undertaken to measure the return to the community from addressing homelessness and housing stress across Australia, and more particularly, to estimate the future costs which will be avoided through such an initiative. This section provides a general overview of CBA methodology and outlines the specific approach adopted for this study.

2.1 Economic appraisal (cost-benefit analysis)

Cost-benefit analysis (CBA) assesses the merit of investing in a project from a broader community perspective. That is, CBA contrasts an initiative's economic, social and environmental benefits with its costs. Ultimately the purpose of this form of appraisal is to determine whether the initiative under examination delivers a net community benefit, and in the context of this project, will be used to measure avoided future costs (unrealised benefits).

The relative scale of costs and benefits are illustrated via the BCR (benefit cost ratio). If the BCR is shown to be greater than one, the project is considered worth doing from a societal welfare (or economic efficiency) perspective, regardless of who pays and who benefits.

The CBA in this report has been prepared in accordance with the specifications of Government guidelines for the evaluation of public sector initiatives.

A CBA must address the full spectrum of environmental, social and business impacts of proposed initiatives to address rental stress. Positive and negative effects are quantified and monetised (expressed in dollar terms) as far as possible and then compared to arrive at a conclusion as to whether the proposal is likely to make the community better off or worse off in net terms compared with persevering with business-as-usual conditions.

The principal steps in the generic cost-benefit analysis method include:

1. Differentiating between the outcomes under a 'business as usual' or 'base case' scenario and those arising with the initiative in question (the 'project case').

2. Identifying the economic, social and environmental costs and benefits that might arise in moving from the base case to project case.

3. Quantifying and monetising these costs and benefits, where possible, over a suitable project evaluation period (in this case 30 years).

4. Generating measures of net community impact using discounted cash flow techniques over the 30-year duration of the regulation. This requires expression of future costs and benefits in present value terms using a discount rate that is reflective of the opportunity costs of resources diverted to the implementation of the reforms.

5. Supplementing this quantitative analysis with a description of costs and benefits that cannot be readily quantified and monetized.

All impacts of the proposed intervention versus the base case must be taken into account, whether or not they are "traded" effects or "externalities".

Traded effects have a price in the market. Externalities are unpriced costs and benefits sustained by third parties in any market transaction. The CBA must account for these impacts even though they are not directly mediated (bought and sold) in the market. The monetised value of these external effects needs to be imputed using a variety of techniques as advised by official CBA guidelines.

2.2 Incremental, present value, lifecycle assessment

As per the conventions of financial and economic appraisal, CBA is conducted on an incremental or 'marginal' basis. That is, the project outcomes are tested in comparison to the outcomes that would be generated under a business-as-usual scenario.

Moreover, the CBA framework accounts for the time value of money, which is an implicit judgement that it is desirable for a benefit to occur sooner rather than later. Accordingly, this cost benefit analysis has been prepared in real dollar terms, with future costs and benefits discounted back to current day dollars using a consistent real discount rate.

A discount rate of 7 per cent is applied in the analysis. This is a relatively high rate typically applied to government investments that have a full or partial commercial focus.

2.3 Distinguishing financial and cost-benefit analysis

Financial analysis is sometimes confused or conflated with CBA. Financial analysis is undertaken from the narrow perspective of an investor, buyer or seller in the market, and only tracks market-transacted costs and benefits. It also considers tax liabilities.

In contrast, this CBA is undertaken from an Australia-wide perspective, with results disaggregated by state and considers all impacts on welfare, whether priced or unpriced.

Moreover, because CBA is concerned with net effects on the community as a whole, tax impacts are typically set aside as they are simply transfers within the wider community.

GIVE ME SHELTER COST BENEFIT ANALYSIS FRAMEWORK

2.4 Limitations and critiques of cost-benefit analysis

CBA provides a usefully systematic way to consider the consequences of a proposed initiative; and for a broad range of decisions, whether a project's benefits outweigh its costs is a sufficient question to ask.

However, the limitations of CBA and its application for decision making are acknowledged. There are instances in which the results of CBA should not govern ultimate moral judgement. Often these encompass projects and initiatives which have consequences for those things that are specially valued as a society, such as life, health, safety, and human rights.

Cost-benefit questions may in fact be largely irrelevant to the outcome of moral judgment, depending on the importance we attach to the value involved.

Modern CBA practice is premised on the 'Kaldor Hicks principle', where a policy is deemed efficient (improves welfare) if the beneficiaries are notionally able to compensate those suffering costs associated with the initiative and still be better off. This provides a "values free" framework for resource allocation. Welfare gains are judged on willingness to pay for benefits and resource costs are measured at their transacted or imputed prices.

As useful as this framework is, not all costs and benefits are admissible in a CBA. This is not because they are beyond the reach of economics, but rather that they may be deemed to be unconscionable policy propositions. For example, a project known to cause death due to toxic emissions would not be deemed acceptable, regardless of the scale of benefits. The costs are not deemed to be compensable under the Kaldor Hicks principle.

Under the International Covenant on Economic, Social and Cultural Rights (ICESCR), every person has the right to an adequate standard of living (ICESCR, article 11). The right to housing is more than simply a right to shelter; it is a right to have somewhere to live that is adequate. Whether housing is adequate depends on a range of factors, including:

- legal security of tenure
- affordability
- accessibility
- habitability
- location and / or
- cultural adequacy

CBA is useful only for policy choices that are within the spectrum of acceptability based on shared values. For many, the failure to provide safe and secure housing for those who are homeless or experiencing housing stress is unconscionable.

Precedents for this approach are evident elsewhere in public policy. For example, children with a disability have equal rights to access mainstream schools, regardless of cost.

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2.5 Defining the project case and base case

The purpose of this section is to outline the approach to testing whether a notional policy to comprehensively address homelessness and housing stress across Australia would represent an efficient reform, and to effectively measure the accumulating costs (or foregone benefits) of not addressing this need. That is, to test the net community benefit of moving from the base case to the project case.

Typically, applying a CBA methodology requires knowledge of the implementation and operational details of the project. In this case, it includes identifying the targeted recipients of affordable housing and what mechanism will be used to realise these ambitions.

There are several potential means of addressing need for housing assistance, including (but not limited to):

- **General income support:** Under a general income support approach, cash payments would be provided to private renters (and to other low-income individuals who are not renters) to ensure they have an adequate standard of living. The cash payment would generally be sufficient to purchase an adequate quality and quantity of necessities, including adequate and appropriate accommodation.

- **Housing vouchers and allowance (for example rental assistance):** Housing vouchers and allowances are a form of targeted cash payments provided directly to tenants to assist with the cost of renting in the private market. Vouchers and allowances can take various forms. The amount of the cash payment would usually reflect the income and the composition of the household, but some schemes may adjust the payment according to the rent paid.

- **Social housing:** This involves government, not-for-profit or non-governmental organisation (NGO) provision of housing to eligible households at a rent which ensures affordability. The objective is to provide equitable access to affordable, secure and appropriate rental housing for low-income renters.

- **Head leasing:** Head leasing occurs where, for example, a public housing authority or community housing organisation leases properties in the private market and then sub-lets these to people on the social housing waiting list. Tenants pay a rent (based on their income), which is then passed on, together with a subsidy, to the landlord.

- **Private sector leveraging:** This approach encompasses a range of initiatives intended to stimulate the supply of social and affordable housing by the private sector. These include providing grants, tax credits or other subsidies to induce private investors to dedicate capital to affordable housing provision.

There is disputation amongst housing experts and policymakers regarding the most appropriate means of addressing identified housing need. However, the specific mechanisms used to address rental stress and the need for social and affordable housing are ultimately inconsequential to the estimation of costs which will be used to evaluate the benefit-cost ratio in the CBA methodology outlined below.

This is because, regardless of the mechanism deployed, the cost side of the equation will be given by the total subsidy required to provide secure, affordable housing. This is the difference between the rent required to induce supply of suitable housing, say market rent, and the rent which is affordable by the low income households in question.

Other important considerations framing the adopted CBA methodology include:

- At present, social housing is targeted to households most in need, including those who are homeless or experiencing violence. It is assumed that any adopted initiative will address the full need for housing assistance over the analysis period.

- Addressing the total need across Australia will result in a more diverse pool of very low income, low income, and moderate-income households provided access to secure and affordable housing.

- Not all benefit streams apply equally (or in some cases, at all) to all types of households. Addressing the experience of rental stress for some households will deliver a substantial benefit under a range of categories as compared to other household types, depending on their composition. For the purposes of this CBA, estimates of need and measurements of benefit have been broadly segmented using the following household types:

  - » People experiencing homelessness (rough sleepers and others)
  - » Very low-income households
  - » Low-income households

- Allocation of benefit streams by household type are described in further detail in Section 3.

In summary, the ***base case*** assumes the current situation where a significant number of households across Australia are unable to access secure and affordable housing. As a result, these households suffer a range of negative consequences from rental stress and/or homelessness.

The ***project case*** assumes the total need for housing across all Australian jurisdictions is addressed with the following outcomes:

- provide affordable housing for homeless persons, and

- provide affordable housing for those who would otherwise experience housing stress.

The following section further defines the marginal costs and benefits of the project case compared with the base case and outlines the method of monetisation applied.

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Scoping of marginal costs and benefits

3

Stage 1 of this project involved a comprehensive review of domestic and international literature to explore the impacts of continuing failure to address the need for housing assistance. This section draws on the literature review findings, overviewing the expected marginal costs and benefits (avoided costs) associated with moving from the base case to the project case.

3.1 Overview

The review of national and international literature reveals several primary benefit categories suitable for considerations and quantification via CBA:

- improved health outcomes
- reduced incidence of anti-social and criminal behaviours
- enhanced human capital and educational outcomes
- increased productivity due to less efficient labour markets, and
- increased community diversity, inclusion and equity

These categories represent the benefits that would be foregone because of failure to address the need for housing assistance (as expressed under the base case). For example, the project case measures the expected health cost savings achieved through addressing homelessness and housing stress. While included in the benefits side of the equation, these savings would not be realised under the base case, therefore representing accumulating future cost.

An overview of each of these categories is provided below, accompanied by a summary of methods for quantification and monetisation in the CBA analysis. Further detail regarding methods of quantification and detailed assumptions are provided in the Appendix.

Provision of social and affordable housing will require a significant capital investment. For example, the Leptos Review of the Commonwealth's National Housing Finance and Investment Corporation (NHFIC) estimated a $290 billion requirement over 20 years, based on federal government actuary estimates of future needs.

GIVE ME SHELTER SCOPING OF MARGINAL COSTS AND BENEFITS

3.2 Marginal costs

Government subsidy

Provision of social and affordable housing will require a significant capital investment. For example, the Leptos Review of the Commonwealth's National Housing Finance and Investment Corporation (NHFIC) estimated a $290 billion requirement over 20 years, based on its own assessment of future needs.

An investment of this scale could be mobilised in a variety of ways, including traditional public sector procurement, tax credit or grant schemes to support private sector investment, and supplementing the incomes of low-income households. In all cases, a subsidy is required to bridge the gap between an affordable rent and the rent required to support investment in the necessary bricks and mortar.

In this study, we adopt the difference between market rents and affordable rents for households who would otherwise be in stress as the cost of the required subsidy. This implicitly assumes that returns pegged to market rents would be sufficient for investors – government or private – to induce the required supply.

Support services

Housing programs supporting people who are homeless often encompass both housing and other support services (such as tenancy management, drug and alcohol supports, community education programs etc.). While the marginal contribution of the housing alone is not always clear, expenditures related to these services have been included in the cost side of the CBA equation, estimated at 25 per cent of the total benefit of meeting the housing needs of people experiencing homelessness based on Housing First estimates provided by Larimer et al. (2009).

3.3 Marginal benefits

Improved health outcomes

People experiencing homelessness and housing stress consume far more health services than people who have stable and affordable housing. Conversely, the ability to keep people housed is a crucial element of managing chronic conditions, ensuring positive health outcomes, and reducing public expenditure.

Reduced incidence of criminal and anti-social behaviours

Crimes trigger costs across society. Crime victims suffer psychological and material losses, while taxpayers pay for law enforcement, courts, and incarceration. Providing housing to people experiencing homelessness or who are in rental stress is likely to reduce engagement with the criminal justice system, resulting in reduced government costs of corrections and incarceration. The experience of housing stress and insecurity has also been shown to exacerbate the private and public sector costs of addressing family and domestic violence in Australia.

Enhanced human capital and employment outcomes

Human capital is the set of knowledge, skills and characteristics people accumulate throughout their lives. Poor-quality housing, overcrowding, excessive commute times and housing stress can impact human capital formation. Providing safe and secure housing supports individual health and wellbeing, including reduced stress and mental ill-health, greater career progression potential, increased ability to upskill and enhanced workforce participation.

Poor housing affordability and neighbourhood quality can affect the educational outcomes of school-aged children in several ways. Children living in households in housing stress tend to change school more. Research shows that children who change schools frequently are more likely to have below-average grades, higher rates of absenteeism and are more likely to drop out.

Conversely, affordable and stable accommodation is shown to contribute to an increased likelihood of completing school, attending tertiary institutions and enhancing lifetime earning potential.

Increased productivity due to more efficient labour markets

Low and moderate income households are critical to the labour force but increasingly struggle to find affordable housing accommodation for rent or purchase. As a result, low and moderate income households are more likely to experience housing stress and/or long commutes.

Displacement of households due to housing costs also impacts firms, who experience reductions in the size and diversity of labour markets, making it more difficult to find and retain staff with appropriate skills.

Reduced community diversity, inclusion, and equity

Community diversity is seen as important for fostering interaction and trust between different people, as well as promoting economic opportunity. Social diversity, inclusion, and equity have both intrinsic value to the hosts' community and impact the spatial sorting of households based on incomes. Housing mix, including a mix of tenure and price points, is crucial to supporting broader community diversity and preventing spatial segregation and marginalisation.

3.4 Monetisation

As noted in Section 2, the research shows that the type and value of benefits generated through the provision of housing assistance depend on the circumstances of the household being accommodated and whether 'wrap around' services are made available in conjunction with the housing.

To undertake the CBA, some broad assumptions have been made regarding the composition of households by category. These are summarised in Table 1.

It is noted that the demographic profile of households in need of social and affordable housing is much more diverse than the case studies overviewed below. These case studies are merely representative examples of households in each income grouping.

Displacement of households due to housing costs also impacts firms, who experience reductions in the size and diversity of labour markets, making it more difficult to find and retain staff with appropriate skills.

TABLE 1: ASSUMPTIONS REGARDING HOUSEHOLD CHARACTERISTICS

Household	Description	Adults	Children
Homeless (rough sleeper and other)	Unemployed individual who is rough sleeping and receiving welfare support. Transition to housing supported by additional wrap-around services.	1	0
Very-low income household	Household comprising two adults both over the age of 75 and receiving the aged care pension. Both members of the households are no longer in the labour force.	2	0
Low-moderate income household	Three-person household, comprising two adults and one child under 10. Both adults are full-time employed at modest wages. The child is attending primary school.	2	1

Source: SGS Economics and Planning (2021)

The primary benefit categories associated with each household type are summarised in Table 2.

TABLE 2: ASSUMPTIONS REGARDING MONETISED BENEFITS BY HOUSEHOLD TYPE

	Health cost savings	Reduced domestic violence	Reduced costs of crime	Enhanced human capital	Educational benefits	Labour market productivity
Homeless	✓	✓	✓	✓		
Very-low income household	✓	✓				
Low-moderate income household	✓	✓		✓	✓	✓

Source: SGS Economics and Planning (2021)

Monetised benefits by household type, as identified in the research literature, are summarised in Table 3. Broadly speaking, the benefits shown in the table are additive, though this again depends on the circumstances of individual households.

For example, only households with children would accrue the educational benefits, and only those with members of labour force age would generate the "enhanced human capital benefit".

GIVE ME SHELTER SCOPING OF MARGINAL COSTS AND BENEFITS

TABLE 3: EXTERNAL BENEFIT OF SOCIAL AND AFFORDABLE HOUSING PROVISION PER HOUSEHOLD PER ANNUM (2020) - ROUNDED

	Health cost savings	Reduced violence	Reduced crime costs	Enhanced human capital	Key worker retention	Education benefits	Total benefits
Homeless household	$8,800	$2,850	$6,400	$450	NA	NA	$18,500
Very-low income household	$1,550	$1,900	NA	NA	NA	NA	$3,400
Low-income household	$2,250	$2,850	NA	$3,870	$8,200	$360	$17,550

The contribution of each household category to total benefits was weighted based on their broad share of total need in each state (Table 4).

Source: SGS Economics & Planning Pty Ltd (2019) City of Melbourne Housing Needs Analysis[2]

TABLE 4: WEIGHTING OF HOUSEHOLDS BY STATE, 2051

	VIC	NSW	QLD	WA	TAS	SA	ACT	NT	AUS
Homeless	13%	14%	12%	11%	7%	8%	8%	47%	13%
Very-low income household	39%	42%	37%	43%	48%	50%	53%	32%	41%
Low-income household	48%	44%	51%	45%	45%	42%	39%	21%	46%

Source: SGS Economics and Planning (2021)

*Weighting based on modelling outputs from SGS' Housing Assistance Demand Model for all states and territories.

[2] https://s3.ap-southeast-2.amazonaws.com/hdp.au.prod.app.com-participate.files/2715/8318/6221/SGS_Housing_Needs_Analysis_16_July_2019_-_API_2_7.PDF .

Cost-benefit analysis

4

This section presents a discounted cash-flow analysis of the marginal costs and benefits associated with initiatives to address the need for housing assistance across Australia. This analysis provides an estimate of the costs that are expected to accumulate throughout Australia without intervention. Results are presented for state and territory jurisdictions. Fiscal implications for governments are also shown.

4.1 Parameters

The CBA has been performed using the following parameters:

- Time horizon: 30 years
- Discount rate: seven per cent real
- Timing of benefits: Evenly distributed across analysis period
- Timing of costs: Evenly distributed across analysis period
- Terminal values: Each of the benefit streams is assumed to terminate in year 30, even though most are likely to continue indefinitely. The assumption of zero terminal values makes for a conservatively low assessment of net community benefit

4.2 Projected need for housing assistance

SGS applied its Housing Assistance Demand and Supply (HADS) to project the quantum of social and affordable housing provision required in 2051 to fully meet need, that is, to effectively eliminate homelessness and housing stress amongst low-income renters. This projection takes into account official population forecasts and assumes that incomes will grow broadly in line with rents. In other words, we have not allowed for either a natural improvement or deterioration in relative affordability for lower income households over the next three decades.

The HADS model projects that if there is no change in assistance policy, more than two million lower income renter households will be in serious housing stress by 2051. The health, education, productivity and crime costs borne by the community as a result of this unmet housing need is estimated to reach $25 billion per year by 2051.

Our analysis of the costs and benefits of redressing this situation assumes that assistance will be gradually stepped up, year on year, from where the nation was in 2021 with respect to affordable housing provision, to fully meet need in 2051.

4.3 Consideration of costs and benefits

Table 5 below provides a summary of all costs and benefits and their treatment in the CBA:

TABLE 5: SUMMARY OF TREATMENT OF MARGINAL COSTS AND BENEFITS IN CBA

Cost category	Monetised	Un-monetised
Government subsidy	✓	
Support services	✓	
Benefit categories	**Monetised**	**Un-monetised**
Improved health outcomes	✓	
Reduced costs of crime	✓	
Enhanced human capital	✓	
Educational benefits	✓	
Enhanced labour market productivity	✓	
Improved community diversity, inclusion and equity		✓

Source: SGS Economics and Planning (2021)

4.4 Cost-benefit analysis

The results of the CBA are expressed via two performance measures: benefit cost ratio (BCR) and net present value (NPV). An overview of each, including guidance on interpretation, is provided in Table 6.

When the NPV of the project is positive, and the BCR is greater than 1, the CBA can be interpreted as showing that the project case under examination represents a sound investment.

TABLE 6: INTERPRETATION OF PERFORMANCE MEASURES

Performance measure	Estimation method	Decision rule
Net present value (NPV)	A number generated by deducting the present value of the stream of costs from the present value of the stream of benefits (with the present value of costs and benefits determined by using an appropriate discount rate).	• Accept options with a positive NPV • Reject options with a negative NPV • The greater the NPV, the better.
Benefit cost ratio (BCR)	Ratio of discounted present-day benefits to discounted present-day costs.	• Accept options with a BCR that exceeds 1 • Reject options with a BCR less than 1 • The greater the BCR the better.

Source: SGS Economics and Planning (2021)

Stocksy

Table 7 shows the results of the CBA examining the impact of initiatives to fully meet the need for housing assistance across Australia by 2051.

Applying the assumptions described above, the results outlined in the table indicate that addressing need for housing assistance will result in a benefit cost ratio (BCR) of 2.01, which represents a net positive economic and community outcome for Australia. The net present value (NPV) of the stream of marginal costs and benefits is estimated at $55 billion over the 30-year analysis period.

TABLE 7: CBA RESULTS - AUSTRALIA

Category	Net Present Value (NPV)
Costs	
Housing subsidy	$49,240,057,039
Supports	$5,702,355,643
Total costs	$54,942,412,682
Benefits	
Total benefits	$110,207,436,596
NPV	$55,265,023,914
BCR	2.01

Source: SGS Economics and Planning (2021)

4.5 Cost-benefit analysis results by state and territory

CBA has also been undertaken on a state and territory basis. These results are provided in Table 8.

Examining results for each state and territory reveals that addressing need in each jurisdiction will result in considerable benefit to metropolitan and regional communities across the country. Variation across states arises because of variation in rates of need, incomes, and average rental prices.

TABLE 8: CBA RESULTS (MARKET RENTS) - BY STATE AND TERRITORY

State		NPV	BCR
Victoria	State	$19,636,415,267	3.3
	Metro	$15,975,987,653	3.4
	Regional	$3,660,427,614	2.9
New South Wales	State	$9,061,712,310	1.3
	Metro	$4,691,461,447	1.2
	Regional	$4,370,250,863	1.9
Queensland	State	$14,636,094,755	2.5
	Metro	$8,901,555,979	3.0
	Regional	$5,734,538,776	2.1
Western Australia	State	$6,625,012,460	3.2
	Metro	$5,743,305,897	3.4
	Regional	$881,706,562	2.4
Tasmania	State	$741,038,146	1.8
	Metro	$425,695,472	2.0
	Regional	$315,342,675	1.7
South Australia	State	$4,295,779,355	3.4
	Metro	$3,336,139,819	3.0
	Regional	$959,639,537	6.8
Australian Capital Territory	Territory	($136,367,603)	0.9
Northern Territory	Territory	$405,339,223	1.2
	Metro	$433,978,328	1.9
	Regional	($28,639,105)	1.0

Source: SGS Economics and Planning (2021)

4.6 Sensitivity analysis

Table 9 ranks the estimated benefits by value. This shows that the largest benefits stem from improved labour productivity and health cost savings.

A conservative scenario, under which productivity benefits are excluded entirely, results in a benefit-cost ratio (BCR) of 1.37 for Australia, which still represents a significant net positive economic and community outcome.

TABLE 9: WEIGHTED AVERAGE OF BENEFITS BY DEMOGRAPHIC GROUP

Rank	Benefit category	Weighted average benefit per household assisted per year
1	Enhanced labour market productivity	$3,770
2	Health cost savings	$2,832
3	Reduced domestic violence	$2,462
4	Enhanced human capital	$1,838
5	Reduced costs of crime	$844
6	Education benefits	$168

Source: SGS Economics and Planning (2021)

TABLE 10: CBA RESULTS UNDER SENSITIVITY TESTING

Category	Net Present Value (NPV)
Costs	
Housing subsidy	$49,240,057,039
Supports	$5,702,355,643
Total costs	$54,942,412,682
Benefits	
Total benefits	$75,345,964,057
NPV	$20,403,551,375
BCR	1.37

Source: SGS Economics and Planning (2021)

4.7 Fiscal impacts

Some of the benefits shown in Table 4 on page 31 will accrue directly to governments in the form of reduced budget outlays, while others will accrue to individuals. We have outlined the segmentation between state and Federal Government, and private interests (individuals and private businesses) in Table 11.

TABLE 11: SEGMENTATION OF BENEFITS

Benefit category	Broad segmentation of benefits		
	State	Federal	Private
Health cost savings[3]	40%	40%	20%
Reduced domestic violence[4]	60%	20%	20%
Reduced costs of crime[5]	100%	0%	0%
Enhanced human capital[6]	30%	30%	40%
Educational benefits[7]	20%	20%	60%
Labour market productivity[8]	30%	30%	40%

[3] Australian Institute of Health and Welfare (2016), Australia's Health, Chapter 2.1: How does Australia's health system work? Available: https://www.aihw.gov.au/getmedia/f2ae1191-bbf2-47b6-a9d4-1b2ca65553a1/ah16-2-1-how-does-australias-health-system-work.pdf.aspx

[4] PWC (2015), A high price to pay: The economic case for preventing violence against women. Available: https://www.pwc.com.au/pdf/a-high-price-to-pay.pdf

[5] Commonwealth of Australia (2021), Australian Government Expenditure: Budget Review 2021-2021 Index. Available: https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview202021/AustralianGovernmentExpenditure

[6] Ibid

[7] Ibid

[8] Ibid

We have estimated the direct financial savings to governments if they invest in the subsidies required to meet social and affordable housing need. These savings are primarily related to:

- reduced outlays for health care
- reduced outlays in the criminal justice system
- reduced outlays in domestic violence services, and
- income tax revenue arising from enhanced human capital and increased labour market productivity.

Across 30 years, the Commonwealth's estimated budget savings (from improved health outcomes, reduced crime and domestic violence) would surpass its outlays in meeting projected social and affordable housing need. This saving is estimated at $3.5 billion in present value.

TABLE 12: ESTIMATED FISCAL IMPACTS – COMMONWEALTH GOVERNMENT

Cost category	Net Present Value (NPV)
Total government outlays	$27,471,206,341
Total savings to government budgets	$30,989,492,638
Difference (NPV)	$3,518,286,297

Source: SGS Economics and Planning (2021)

All state and territory governments, except for the ACT, would also enjoy budget savings greater than their outlays on social and affordable housing provision, as shown below.

- New South Wales, + $2.2 billion
- Victoria, + $7.8 billion
- Queensland, + $5.4 billion
- Western Australia, + $6.6 billion
- Tasmania, + $0.7 billion
- South Australia, + $4.3 billion
- Australian Capital Territory, - $0.1 billion
- Northern Territory, + $0.4 billion.

The close to break-even result for the ACT reflects the fact that the Territory has the highest rents in the country. This makes for an outsized gap between affordable rent and market rents and, therefore, relatively large government outlays versus the fiscal savings on offer. In the context of the ACT, more traditional public sector procurement of social and affordable housing, or facilitated private investment in social and affordable housing on government land, would likely produce a positive fiscal result for that jurisdiction as well. Such strategies could also boost the fiscal outcome for NSW, which also has comparatively high market rents.

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Conclusion

5

In recognition of the continuing growth in the number of people experiencing homelessness and housing stress, and the continuing underinvestment in housing assistance measured across the country, Housing All Australians (HAA) partnered with SGS to research the evidence base for stronger national action.

HAA and SGS have sought to establish the returns to the community from eliminating homelessness and housing stress.

This research employed a conventional CBA methodology to measure the future costs that will be avoided through adequate investment in social affordable housing.

A review of national and international literature reveals several primary impact categories suitable for considerations and quantification via cost-benefit analysis:

- improved health outcomes
- reduced incidence of anti-social and criminal behaviours
- enhanced human capital and educational outcomes
- increased productivity due to less efficient labour markets, and
- increased community diversity, inclusion and equity.

These categories represent the benefits that would be foregone because of failure to address homelessness and housing stress (as expressed under the base case). While included on the benefits side of the equation, these savings would not be realised under the base case, and hence represent an accumulating future cost to Australian society.

Applying the assumptions described above indicate that meeting the need for social and affordable housing will result in a benefit-cost ratio (BCR) of 2:1, which represents a net positive economic and community outcome for Australia.

6

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Appendix

7

Table 13 and Table 14 below provide a summary of methods of quantification for marginal costs and benefits described above.

- Health cost savings have been drawn from Flatau et al. (2020), Net Balance (2010) and Net Balance (2018).
- Reduced domestic violence has been drawn from Victorian Government (2018).
- Reduced costs of crime have been drawn from Flatau et al. (2020)) and Ravi & Reinhardt (2010).
- Enhanced labour market productivity has been drawn from SGS Economics and Planning (2019).
- Education benefits have been drawn from Ravi & Reinhardt (2010).

Identified through the Stage 1 Literature review, these sources have been deemed contextually relevant given their location, emphasis on certain populations, exploration of different tenure types and intervention impacts that match the scope of this study.

TABLE 13: QUANTIFICATION OF MARGINAL COSTS

Category	Relevant households	Quantification method	Additional assumptions	Data sources
Government subsidy	Homeless Very-low income Low-income	Government subsidy for each state and territory has been determined by estimating the difference between market rent and an affordable rent (based on average annual income by subject household type). Utilisation of market rents in the analysis implies an assumption that need for social and affordable housing can be met by the existing supply of housing.	None	SQM Research (2021), Weekly rents: https://sqmresearch.com.au/weekly-rents.php SQM Research (2021), Property indexes: https://sqmresearch.com.au/index_property.php
Support services	Homeless	Cost of support services for people experiencing homelessness is estimated at approximately 25 per cent of total benefits based on Housing First estimates provided by Larimer et al. (2009).	None	Larimer et al., 2009

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TABLE 14: QUANTIFICATION OF MARGINAL BENEFITS (READ WITH PAGE 51,CONTINUES PAGES 52 & 53)

Category	Relevant households	Quantification method		Additional assumptions	Data sources
Improved health outcomes	Homeless	Flatau et al. (2020) found that homeless youth experience a range of health issues to a much greater extent than the general population or other disadvantaged young people who are unemployed but not homeless. The total cost to the Australian economy of health services associated with young people experiencing homelessness is on average $8,505. The Melbourne Sustainable Society Institute (MSSI)(2017) include recommendation of adjustment upward by 25 per cent to account for the lower use of health services by younger people in general so that the figure may be applied to the general homeless population. Benefit estimated at $10,631 per person per annum.		Figures to be adjusted for inflation Adjusted to average homeless household size: 1	ABS (2021) Consumer Price Index, Australia Flatau et al. (2020
	Very low- and low-income households	Work commissioned by the Community Housing Federation of Australia and undertaken by Net Balance (2010) found a reduction in the average annual spend on health services after low-income households entered community housing of $1,872 per household per year.		Figures to be adjusted for inflation Adjusted to average household size by income range.	
Reduced domestic violence	Homeless	Equity Economics (2021) estimated the costs that would be avoided if, rather than returning to perpetrators of domestic violence, women were housed. This modelling indicates that the annual health and economic gains per survivor from avoiding domestic violence equates to $18,241.		Adjusted prevalence of DV/ violence amongst population of people experiencing homelessness (15 per cent).	Australian Institute of Criminology (2018), 'Homeless people: Their risk of victimisation', Canberra: Australian Institute of Health and Welfare Equity Economics (2021),
	Very low- and low-income households	Equity Economics (2021) estimated the costs that would be avoided if, rather than returning to perpetrators of domestic violence, women were housed. This modelling indicates that the annual health and economic gains per survivor from avoiding domestic violence equates to $18,241.		Adjusted prevalence of DV/ violence for very-low and low-income households (5 per cent).	ABS (2021) Consumer Price Index, Australia Department of Health and Human Services (2018), Family violence housing blitz: Package evaluation Family, domestic and sexual violence in Australia: Continuing the national story 2019 Equity Economics (2021),
Reduced costs of crime	Homeless No data found to support quantification of other households	Flatau et al. (2020) found that homeless youth experience a rate of exposure to the justice system to a much greater extent than the general population or other disadvantaged young people who are unemployed but not homeless. The total cost to the Australian economy of justice services associated with young people experiencing harmlessness is on average $9,363 per person per year more than for the long-term unemployed youth. The Melbourne Sustainable Society Institute (MSSI)(2017) include recommendation of adjustment downward by 25 per cent to account for the higher use of justice services by younger people in general so that the figure may be applied to the general homeless population. Benefit estimated at $7,227 per person per annum.		Figures to be adjusted for inflation Adjusted to average homeless household size: 1	ABS (2021) Consumer Price Index, Australia Flatau et al. (2020

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TABLE 14: QUANTIFICATION OF MARGINAL BENEFITS (TABLE BEGINS ON PAGE 50 & ENDS PAGE 53)

Category	Relevant households	Quantification method		Additional assumptions	Data sources
Enhanced human capital	Homeless	The annual salary was taken as the upper bound wage of a resident in the first quintile of incomes as sourced from the Australian Bureau of Statistics. The individual is assumed to be housed for two years without gaining employment and then to be in employment for an additional 30 years.		Adjusted to average homeless household size: 1	To estimate the labour force participation benefit associated with the provision of secure housing for the homeless, the MSSI (2017) assumed that 10 per cent of all tenants will access employment after they have been provided accommodation. This assumption is guided by the previous experience of SGS with community housing programs that indicated that between 8-10 per cent of tenants accessed employment after gaining housing.
	Low-income households	Ravi and Reinhardt (2010) found there to be an increase in employment rates and earning potential amongst low-income persons who were housed through a community housing program at the value of $17,784 per person per year. Average weekly earnings of a part-time worker with a Year 12 or equivalent degree is $342 (adjusted for inflation).		Adjusted for inflation: year 2021 Adjusted to average household size	Ravi and Reinhart (2010) ABS (2021) Consumer Price Index, Australia. I was assumed that 10 per cent of people accessed employment as a result of improved housing circumstances.
Enhanced labour market productivity	Low-income households	The value of worker retention will be calculated by SGS Economics and Planning (2019) by assuming that each tenancy turnover results in training and recruitment expenses for an employer. The reduction in tenancy turnover as a result of finding secure housing will be assumed as the difference between the average tenancy turnover for households in rental stress as compared with the average turnover for the general population. For calculation purposes, SGS assumes that recruitment and training costs amount to 25 per cent of annual salary of $60,000. This is in line with the recruitment bounty typically charged by employment agencies.		Recruitment costs will be capitalised to determine per annum benefit. Adjusted by the average number of full times employed persons per household.	No additional data.

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The time for waiting is over.

This report was written by SGS Economics & Planning for Housing All Australians.
For more information about this report or for media enquiries, please contact:

www.housingallaustralians.org.au/givemeshelter and
givemeshelter@housingallaustralians.org.au