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# Summary

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## **Municipal economic effects and cost-benefit analyses of social housing policy**

Estimates based on constructed client histories

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### **Background and research questions**

The background for this study is the increasing focus in housing policy on disadvantaged groups in the housing market. Central government places a number of instruments at the disposal of local authorities, but it is the municipalities themselves which implement the policies. An effective policy for the disadvantaged requires the different agencies in the municipalities to work closely together. Social housing measures are often mentioned as a precondition for other welfare policy measures to have an effect. Working alongside NAV (The Norwegian Labour and Welfare Service) has become particularly important.

We start from current statutory minimum standards which housing services and other services to which people and households who are entitled are required to meet. The statutory basis allows for different interpretations, while work is ongoing at the same time to make help more people actually access the services to which they are entitled. The estimates in this project are based on constructed client histories, where each history progress along two different routes. When constructing the routes, we take it as read that municipalities are meeting the minimum service requirements. The question we ask is whether it would make sense economically for a municipality to raise the level and scale of different services in the area of housing policy beyond minimum requirements.

If we want to measure the economic impact of higher input in social housing, the client histories need to be credible. How likely are different social housing measures to give the results we envision in the examples? Although NIBR has been working closely with the municipalities of Fræna and Porsgrunn on the construction of the client histories for this project, the postulated connections and contexts may be open to question. The histories are intended to be realistic and are based on earlier studies and information provided by municipal officers experienced in this field of work.

The main objective of these example estimates is to clarify the use of terms in this type of calculation and help in this way to systematise the different effects. Another objective is to draw a distinction between economic profitability at the level of the municipality and society as a whole, in addition to incorporating the effects of state budgets. As we show in one of the examples, measures which might be profitable in a cost-benefit analysis might represent a burden on the municipal finances.

### **Methodology**

We use the client histories to compare outcomes of different types of housing policy. Client histories are reasonable and recognizable for the executive officers in the municipalities, and are used by us to obtain information on costs associated with housing policy.

For each of the client histories, two routes are specified. The first describes the housing career of a disadvantaged person in the housing market for whom the local authority initiates mainly short-term, ad hoc type measures. The other describes an alternative housing career for the same person, but where the local authority initiates pro-active measures in relation to housing and subsequent monitoring. The examples are chosen to illustrate the need for coordinated action by several different agencies, service providers and policy areas to realize social housing and wider welfare policy objectives.

The costs in each of the two alternatives are all estimated for a ten-year period. The income and cost differences between them in each period are estimated and discounted to obtain a present value. For a complete analysis, one should really be looking at a longer term than ten years. We have also calculated histories over a thirty-

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year span, but after the tenth year the only things to vary between the alternative routes are income support schemes and employment.

Profitability for the municipality concerns in part cost-effective solutions. This would be the case, for instance, if the cost of temporary housing exceeded the cost of a normal rental dwelling. Local authorities need, on the other hand, to have a selection of temporary housing units on hand, so the challenge will be how long to provide this housing alternative to the individual household.

It is when behavioral changes are incorporated into the examples that the results begin to be more uncertain. Would, for instance, counseling and monitoring housing situations prevent evictions from a rented dwelling? To what degree would a secure housing situation affect participation in the workforce? Earlier studies and evaluations together with the municipalities experience show that many of the measures actually give results for the clients.

### **What do the estimates show?**

The calculations performed on the six client histories produce some very different effects for the municipal economy. Some of the examples are profitable for both municipal and state budgets, as well as in cost-benefit analysis. But we also refer to examples where measures for disadvantaged people are unprofitable for the municipality and the state, and indeed in a cost-benefit analysis.

If we look at all the calculations over a thirty-year period, the society economically gains from the municipality taking steps to help five of our six household examples. But for the municipalities, it “pays” only to help three out of the six.

What is the solution for groups it doesn’t “pay” to help? The municipalities will learn which groups it doesn’t pay them to help. This could be negative and stigmatising for certain groups. Highlighting this should proceed alongside strengthening the rights of these groups to municipal services. The controlling authority should therefore be able to monitor and respond to these groups in particular more adequately.

Housing policy measures targeting disadvantaged persons in the housing market will not be enough in isolation. One thing of

crucial importance to the future of the disadvantaged is whether the local authority considers measures within the purview of other sectors, especially short-term income support schemes and measures for tackling substance abuse, psychiatric and child welfare needs. Together with a strong emphasis on entitlement allowance (kvalifiseringsstønad) and work assessment allowance (arbeidsavklaringspenger), concurrent measures within the social housing field could increase the chances of participation in the labour market at a later stage. This would apply also when the measures mainly target non-housing-related issues, such as help for newly released prisoners.

One of the main features of the analyses is the considerable economic impact for the society of whether a person is employed rather than relying on public benefits.

The estimates provide a basis for discussing the incentive structures of the different schemes and mechanisms. We have, for instance, given examples where measures which are not particularly rewarding for the local authority represent significant savings for the state, and are profitable in cost-benefit analysis as well.

### **Future research**

To increase our knowledge in this area, one alternative would be to follow a sizable number of recipients and non-recipients of housing policy measures, and using registry data to map future careers. For these analyses to work, the people in question would have to be registered as recipients of different housing assistance measures within a given historic period. Other information on these people in larger registries would need to be accessible and matched with the information recorded by the local authority. A possible approach could be to follow individuals in municipalities with a comprehensive housing policy and compare these with individuals in municipalities with poor efforts in social housing policy.

Future research on the connections between social housing measures and outcomes could reveal how far our examples are realistic. Such outcome studies have been conducted in other fields where the likelihood of certain outcomes is plotted for each of the different measures. One example is the probability that a particular job scheme will result in gainful employment for the individual. These probabilities are based on studies of a larger population.