

Getting the Biggest Bang for the Government Buck

Jon Hall and Mike Berry

RMIT/NATSEM research centre of
Australian Housing and Urban Research Institute

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A stylized silhouette of a mountain range in shades of teal, located in the bottom right corner of the slide.

- ◆ The study → *Risk Management and Efficient Housing Assistance*
- ◆ Stage 1 → looked at the subsidy cost per tenant per year to govt. of various alternative assistance policies → for Sydney, Melbourne and Adelaide
- ◆ Stage 2 is extending the analysis to the other 5 capital cities → today I'll be reporting on 5 cities → S, M., A, B and Can.

The Policy Approaches or Options


- On-budget public housing (CSHA)
- Rent Assistance
- Subsidised home loan scheme
- Shared equity (shandy)
- Consortium bond model

Options, cont....

- An 'all options' policy → 20% division of assistance across all 5 basic options
- A 'current dual' policy option → 45% of assistance devoted to conventional pub housing and 55% RA → in 2000-01
- A 'best two policies' option → 50% of assistance delivered by the two cheapest options for each city.

Aim of the study:

...to find out which of the 8 policy options is the most cost effective for government?



Method...

- ◆ a simulation model that calculates for each of the 8 options the expected annual subsidy per assisted household cost over a 25 year period, h'holds in each case to pay 25% of income for their housing.

Main Systematic Risks

- Dwelling price inflation or decline
- Rental yields
- Income growth/loss
- Vacancy rates and defaults
- Inflation
- Interest rates
- Dwelling cost escalation
- Natural disasters

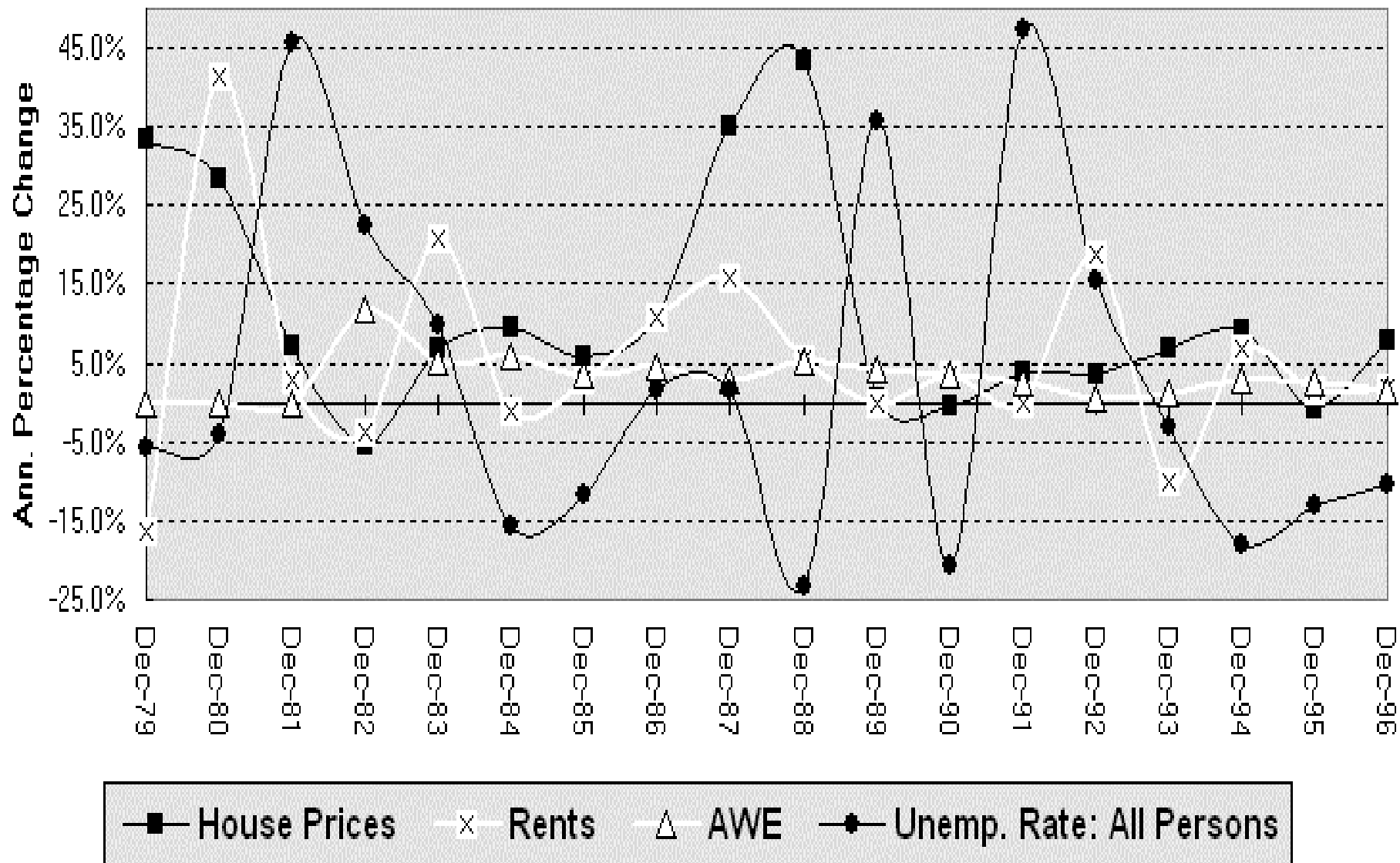
Main Unsystematic Risks

- ◆ Structural and financial risks
 - e.g. contractual risk with other agencies
- ◆ agency risk – human error within the organisation, internal fraud, poor industrial Relations

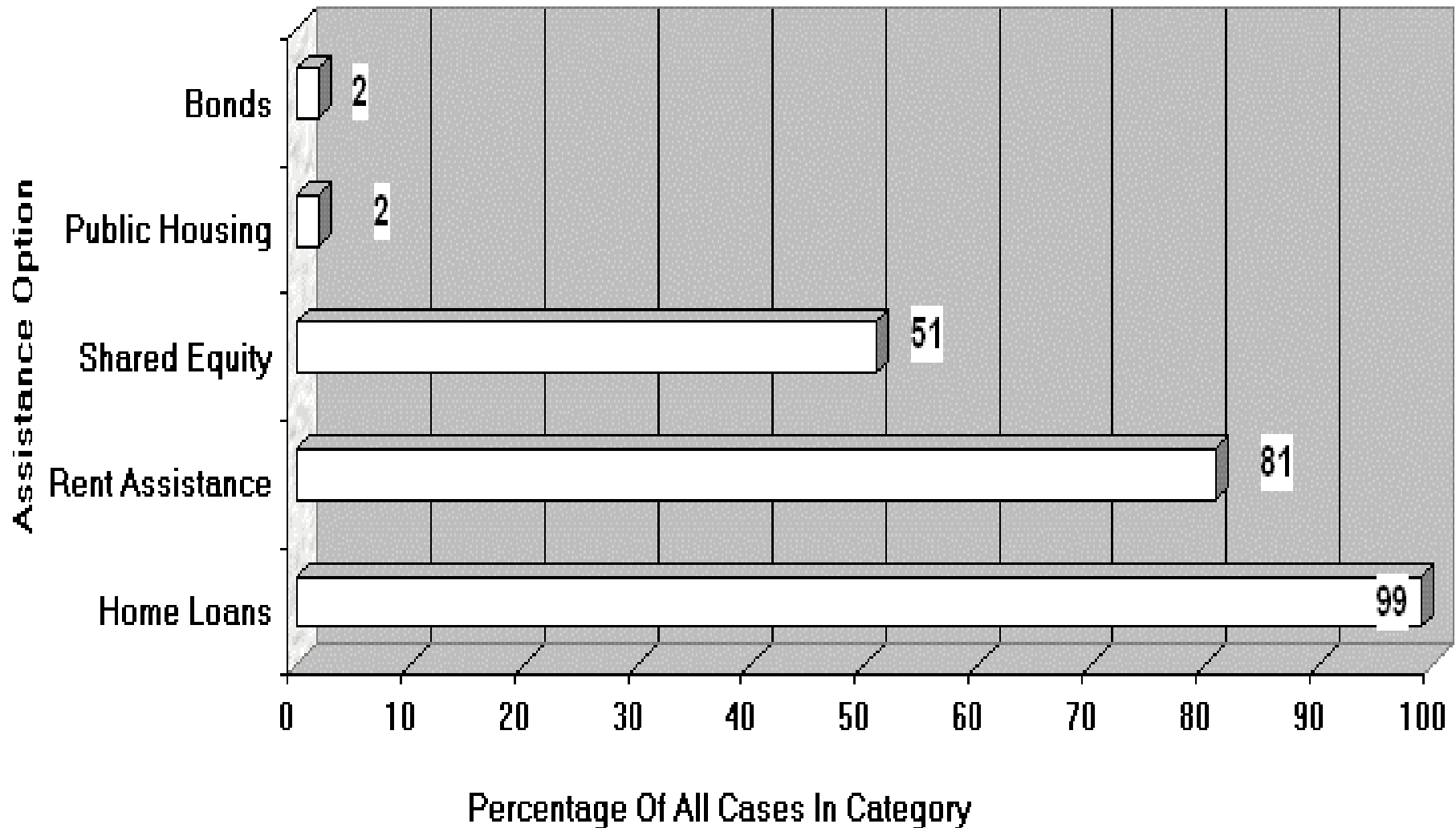
Monte Carlo Simulation

- ◆ For each city taken separately, we ran 100 future scenarios for the next 25 years – based on the probability values of the key risk variables
- ◆ The probable values of each variable reflect their past relative frequency over past 20 years
- ◆ This gives an annual cost per tenant for each of the 8 policy options for 100 possible futures for each city

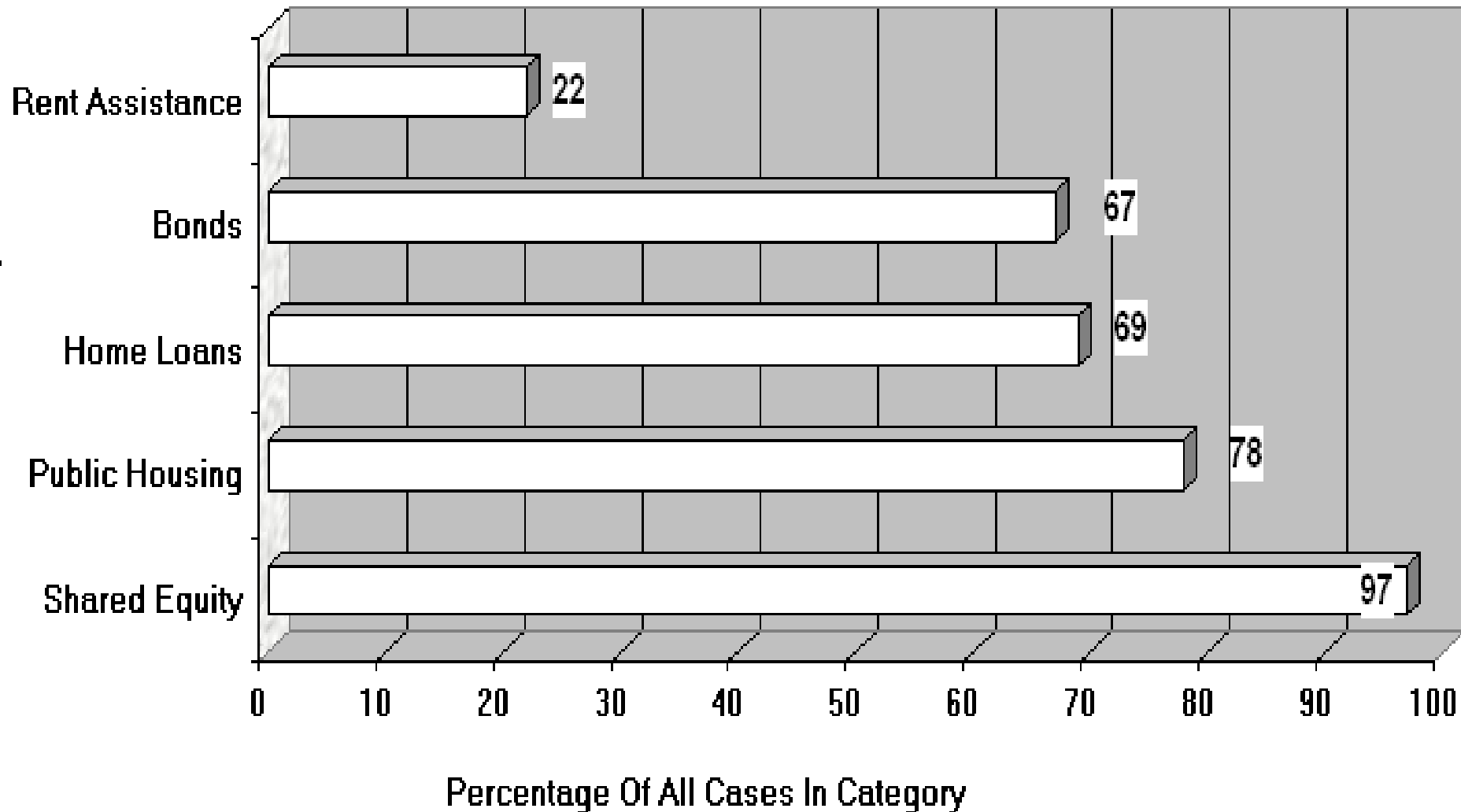
SYDNEY: ANNUAL YEAR ON YEAR PERCENTAGE CHANGE: SELECTED SYSTEMATIC RISKS



SYDNEY: REAL SUBSIDY COSTS PER TENANT YEAR: PERCENTAGE OF CASES FOR EACH OPTION WITH HIGHER REAL COSTS THAN ALL OPTIONS 'MIXED' STRATEGY



ADELAIDE: REAL SUBSIDY COSTS PER TENANT YEAR: PERCENTAGE OF CASES FOR EACH OPTION WITH HIGHER REAL COSTS THAN ALL OPTIONS 'MIXED' STRATEGY

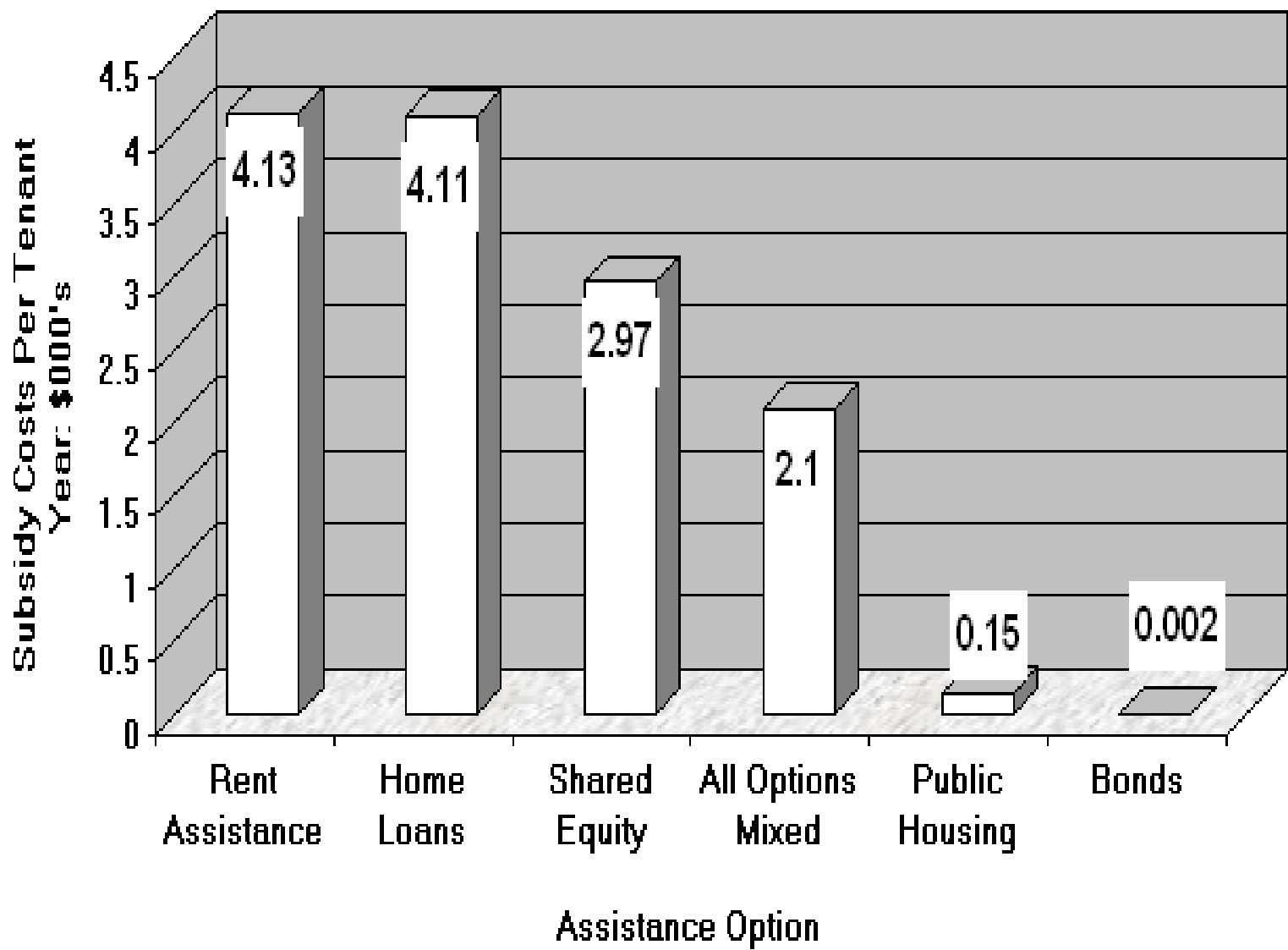


Cost Ranking of Options

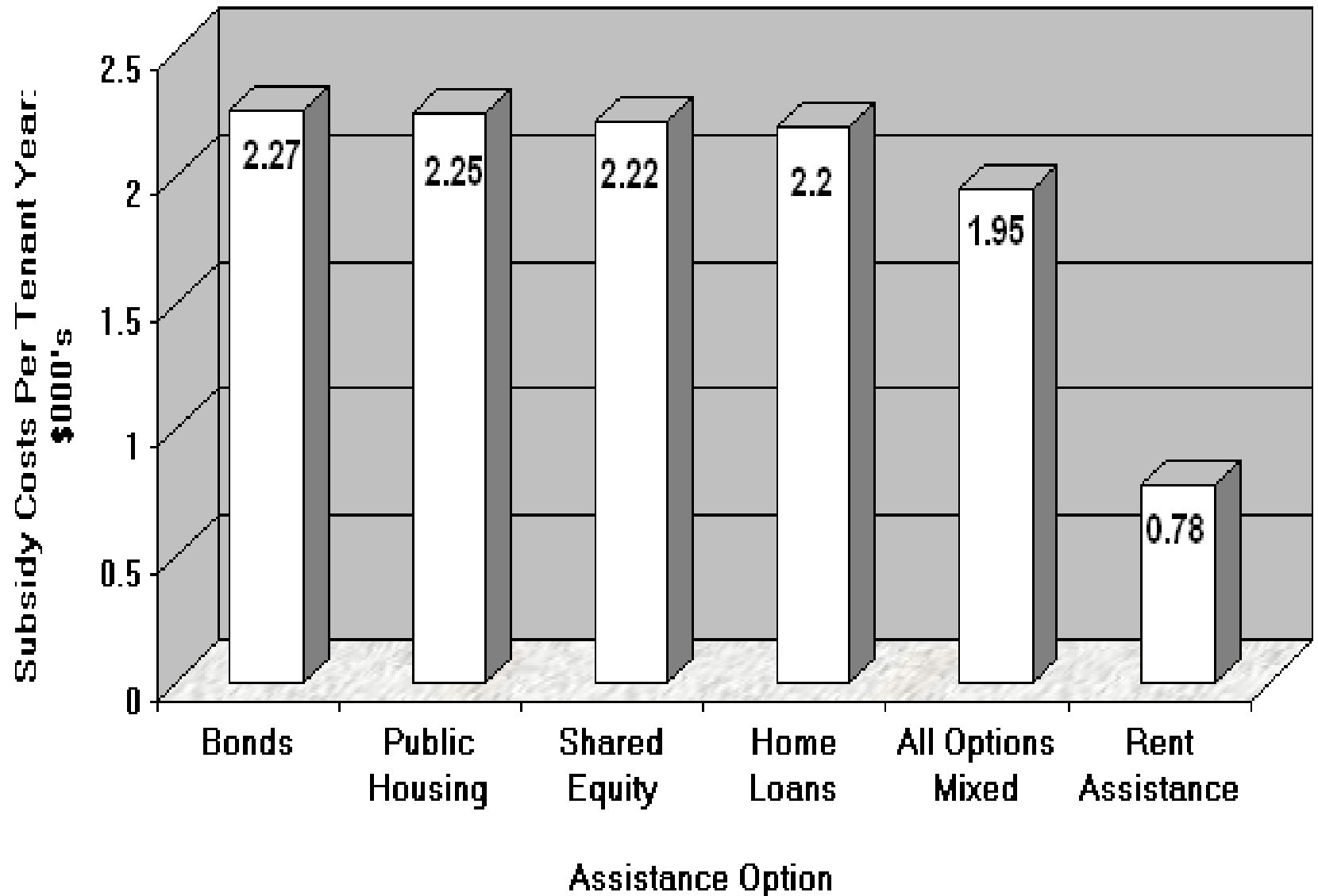
(based on probability of outcomes)

Policy Option	Adelaide	Melbourne	Sydney	Canberra	Brisbane
RA	1	5	5	4	4
'All Options'	2	3	3	3	3
Bonds	3	2	1	2	2
Home Loans	4	6	6	6	6
Pub. Housing	5	1	1	1	1
Shared eq.	6	4	4	5	5

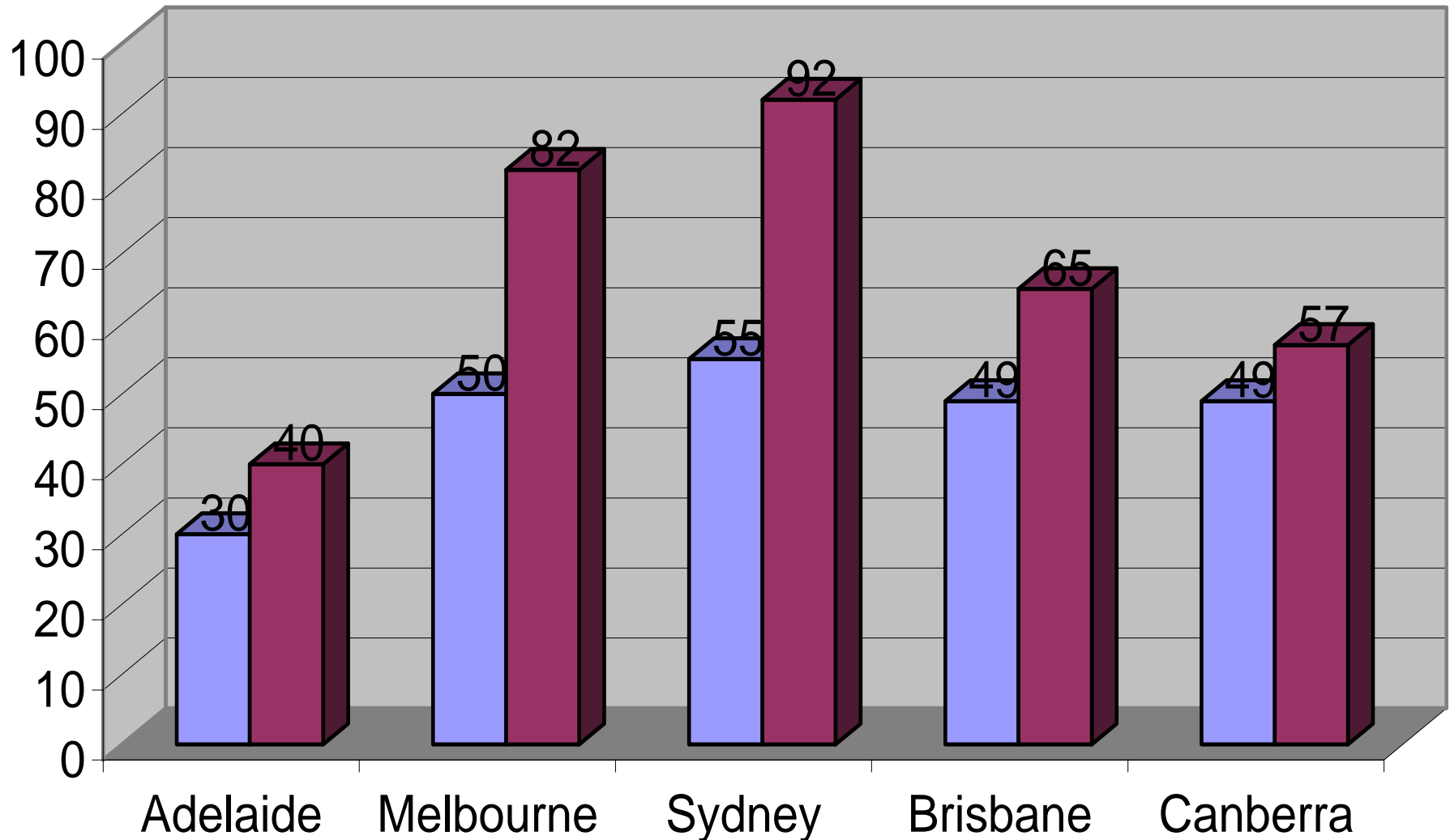
SYDNEY: MEAN REAL SUBSIDY COSTS PER TENANT YEAR: ALL ITERATIONS (Savings Positive and Negative)



ADELAIDE: MEAN REAL SUBSIDY COSTS PER TENANT YEAR: ALL ITERATIONS (Savings Positive and Negative)

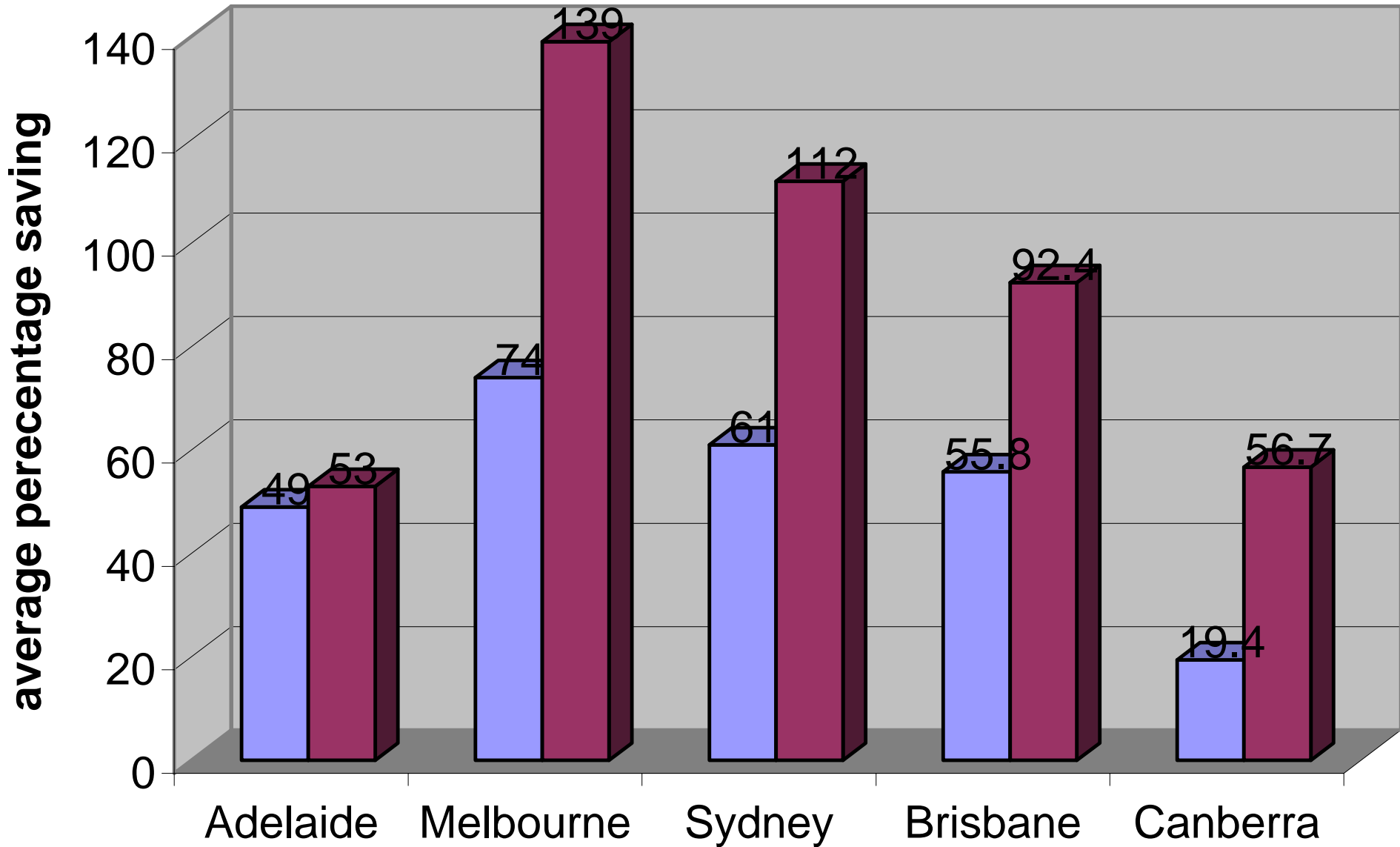


Probability of Subsidy Savings (per tenant year)



■ All options v. current dual option ■ Best 2 option v. current dual option

Average Savings in Subsidy Costs (per tenant year)



■ All options v. current dual option ■ Best 2 option v. current dual option

The Message...

- ◆ Tailoring the mix of housing assistance policies to each jurisdiction and region increases the efficiency of outcomes
- ◆ i.e. it would substantially increase the number of households in housing stress who could be supported at the 25% of income benchmark → at no extra cost to government.