The Limitations of Cost Analysis in Relation to Homelessness

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Abstract_ *The increasing focus on cost comparisons between services can lead to misleading conclusions about their effectiveness. Whilst cost comparisons can be a useful tool both for benchmarking services and as a means of advocating for services for unpopular groups, data can be difficult to collect and to interpret in a meaningful way. Data may focus on that which is measurable rather than that which is important or effective. It may focus on hard outcomes rather than soft outcomes, and may potentially distort decisions about which services offer the best value.*

Other articles in this publication by Culhane and Flatau & Zaretzki identify a range of issues in measuring costs and effectiveness in homelessness services. This article has a focus on the shortcomings of existing approaches to measurement of costs and the risks involved in focussing too strongly on costs.

There is a need to find a better means of describing the 'softer' benefits of services to the user of the service, and to society as whole. Cost analysis should be only one of a broad range of measures of the effectiveness of services.

Keywords_ *homelessness ; effectiveness ; competition ; investment ; measurement ; social return*

Introduction: Effectiveness and Competition

In the UK, as in many other parts of Europe the voluntary (NGO) sector is increasingly being required to provide evidence of its effectiveness and value for money. Different measurement tools have been developed and new methods of measuring impact, outcomes and value are emerging, some of which are described by Flatau & Zaretzki and Culhane elsewhere in this publication.

ISSN 2030-2762 / ISSN 2030-3106 online

Certainly, in the UK the purchaser/ provider relationship is becoming much more focussed on costs and outcomes which are benchmarked, on contracts which are specified to a high level of detail, with relatively limited scope for flexibility, and on clearly defined service level agreements. Services face competition both from within the NGO sector and externally from statutory or private sector providers to deliver contracted services.

Resources are always limited, whilst the demand for services across all client groups appears to grow. For this reason, there is also an element of competition between client groups to secure an appropriate share of resources. For example, as our society ages, the pressure for resources for older people increases. In addition there is demand for resources for child protection, homelessness, mental health services and so on. Linked to this is the growing pressure on the commissioners of services to prove they are maximising the benefit they accrue from their investment within each particular client group.

Not only does this create a need to show value and effectiveness of services across different client groups, but also similar services provided for a single client group are being compared in relation to their perceived costs and effectiveness.

Political priorities are always liable to change. A client group which, at one stage, is regarded as a top priority for action can very quickly drop down the political priority list as another group emerges as the new most urgent priority.

In the political prioritisation processes it is unfortunate that there can still be elements of the 19th century concept of those who are 'deserving' of assistance and those who are 'undeserving.' It is arguable that those representing 'deserving' groups generally find it less difficult to attract funding than those providing services for unpopular 'unsexy' or 'undeserving' groups.

Return on Investment, but for whom?

One means of seeking to convince funders of the importance of investing in services for unpopular groups has been to identify a social or financial return on the investment, through some means of analysing their cost effectiveness.

Philip Mangano from the US uses the example of 'Million Dollar Murray'[1] to justify investment in people with multiple problems, on the grounds that without the interventions, Murray would cost the various health, welfare, criminal justice and other systems one million dollars. However, quantifying costs and benefits is extremely

1 Mangano, Philip 'Million Dollar Murray' in New Yorker, 13 February, 2006; see also Culhane in this Journal.

complex and brings with it its own politics (such as deciding what costs could legitimately be included and what benefits can be attributed to the intervention). It may also skew decisions on investment (for example, in this case, towards those with the most complex needs and therefore the greatest potential for saving expenditure by the state). Culhane explains the relative success of this approach in securing funding for services for 'chronic homeless' people in the USA. Significantly he also states that the case becomes less convincing for funders in relation to those people who would represent a less clear cost saving for the state.

The commissioners or funders of services understandably look for evidence both that their funding is being spent effectively and that it is being directed in the right proportions to the right kinds of services and client groups. They are most likely to focus on costs and benefits linked to budgets over which they have direct control.

So, in UK terms a health benefit may not produce a direct financial saving to a local authority funder. Indeed there may be additional expenditure for one funder which results in savings only for other statutory bodies. A net financial loss for one funder may lead to a broad social benefit (and even financial benefits for others), but be of no assistance to the funding organisation, which has to apportion a very limited budget. Culhane refers to this issue in his article elsewhere in this publication.

In measuring effectiveness and 'benefits,' it is important to consider the perspective of both the funder or commissioner of a service as well as the service user. The impact of the service on those making use of it (the service users) should lie at the heart of any assessment. In addition the measurement criteria of costs and benefits must be relevant to the aims and objectives of the service provider offering the service.

To find measures which satisfy all three interests is difficult, and to find useful comparative data across client groups and service types very complex indeed.

The complexity lies at several levels. Interventions with different client groups may be designed to achieve different outcomes. For example, an intervention to assist someone with a learning disability may be designed to prevent them having to live in an institution, as well as improving their quality of life. An intervention with someone affected by homelessness may be to assist them in stabilising their life, maintaining their tenancy or even not slipping backwards into rough sleeping.

Individuals with a combination of needs may be in contact with a range of different services (health, social services, housing, support, addictions, financial advice and so on) and it may be impossible to identify the individual impact of each intervention (which may in itself differ between individuals). Indeed it is most often the case that it is the combination of interventions rather than any single intervention which leads to the successful outcome. Indeed even the 'randomised control trials' or quasi experimental approaches outlined by Flatau & Zaretzki elsewhere in the journal would not be able to address this issue fully.

The requirement to prove the cost effectiveness of individual interventions also has an effect. In the case suggested above, that of an individual in contact with a range of services, it is likely that all the services will have a need to provide evidence that their specific intervention (linked with the others) made a difference to the outcome for the individual being assisted. This in turn can lead to a skewed or exaggerated interpretation of the impact of each individual intervention, as also identified by Culhane who suggests a tendency to 'overpromise' the cost savings in the US context.

Examples of measurement approaches in the UK

In different parts of the UK (England, Wales and Scotland) research has been undertaken, seeking to establish the costs and benefits of *Supporting People* funding (funding for housing support services) broken down by client group, and to compare the relative value of such services.

This has raised significant issues in relation to measurement of costs and benefits. The Matrix study (2005a) relating to England, for example, identified a reduction in murders and assaults among women who had experienced domestic violence and who were in receipt of housing support funding. However, as the report indicates, it is not possible to identify clearly whether it was the housing support which led to this benefit, or whether it was the fact that the women were re-housed (for example). The question raised in relation to that, is to what extent the confidence to move into a new house was influenced by the housing support (or by other interventions) and therefore how to attribute costs and benefits specifically to the housing support intervention.

The issue of data collected for one purpose, not necessarily being useful in relation to another purpose, is illustrated again in the research in Scotland on *Supporting People* costs and benefits (Tribal Consulting, 2007). Two different datasets were used, but they did not cross refer. One had been established according to the primary characteristic of the client being assisted. The other was set up according to the focus of the project that was assisting the client. The example the researchers use is of a sixty-five year-old person with a disability, who in one dataset might fall under the category 'older person', whilst in the other under 'disability' if both datasets only use one primary description of the individual.

To a large extent these problems are not unusual in any data analysis. However, in working to ascribe the cost effectiveness of interventions between client groups, the allocation between groups becomes very important. If sub sets of certain groups which appear to have a less impressive 'benefit' from investment are ascribed to another group, it can affect the perceived outcome for that client group (either positively or negatively).

Identifying costs is not simple, but it is far easier than quantifying benefits accruing from the 'investment'. Whereas costs can usually be measurable in monetary terms, even if they are difficult to identify, benefits come in both monetary terms (costs saved) but also criteria which are difficult to quantify (such as improved lifestyle for individuals and improved environment for communities)

The Matrix work in England (Matrix, 2005a) seeks to identify the impact of housing support investment on older people. It postulates five hypotheses :

- that *Supporting People* prevented or slowed down the deterioration in the ability of clients to live independently ;
- that it helped maintain the health of clients in various ways (including preventing accidental injury and reducing the overall use of medical services) ;
- that it helped older people avoid being the victims of crime ;
- that it helped prevent older people from becoming homeless ;
- and that it helped to reduce the need for personal care from other social services.

It produced baseline data for the existing use of services by older people and estimated a 5% reduction in the requirement for each service. This obviously poses some problems since the 5% reduction is not fully evidenced with hard data – in effect, 5% was a best estimate.

The report draws attention to a further issue with cost effectiveness analysis. On the basis of this assumption there are a small number of older people (41,000) who account for around half of the benefit, because they avoid moving into residential care (the cost per person averages at £356 – or about €448 – per person, whilst the benefit through avoided costs of care per person is around £9,300 / €11.696). For the remaining 840,000 persons the assumed benefit is £333 / €419 per person (less than the cost).

The greatest impact would appear to be with those closest to requiring residential care (in other words, the most frail). Culhane makes a parallel point in describing the success of arguments for investing in services for chronic homeless people in the US. The impact on the lives of the 840,000 (quality of life, length of life and so on) may be enormous, yet not result in a financial return. In fact it could be argued – simply from a cynical cost effectiveness approach, that prolonging life could have a significant negative impact on costs (such as extra years of health care or social service input) and that allowing people to become frail and to die early would produce a greater saving. This is not an approach that is being suggested, but at its most extreme it displays some of the drawbacks of focusing too much on cost analyses.

For this reason it is not straightforward to quantify the impact of particular support on certain costs. Assumptions can be made about reduced reliance on health care, for example, but the converse may turn out to be the case. A short period of intensive health intervention may be replaced by a much longer period of less intensive intervention followed eventually by intensive intervention some years later.

This also shows a further shortcoming. In gathering and comparing data for one client group against another, not only do definitions have to be carefully and consistently applied (see above), but the wide variation in impact across the group can be lost. This is especially true for people affected by homelessness, where the range and intensity of services varies enormously.

A similar study undertaken in Wales by Matrix (2005b) looked at a broader range of services and impacts, but sought to validate the suggested impacts through consultation with relevant stakeholders. There were other differences which sought to make the measurement of impact more 'real'.

As in the English study, it showed a very significant impact for women fleeing domestic violence. However, 96% of the savings were in healthcare costs and the costs of crime associated with severe acts of violence. It could be argued that here, the impact costs identified were in those areas that were relatively easy to measure.

What is difficult to quantify definitively is the benefit in terms of improved quality of life for the individuals in any of the groups.

However, the Welsh study included a very important conclusion: that there were additional benefits beyond avoided costs, and that it could "not be assumed simply because quantified savings were less than costs, that services represented poor value for money".

Important though that statement is, we still lack a robust means of assessing and describing the broader impact of services on the quality of life of the individuals being assisted, and the wider benefits to society as whole.

In relation to all these approaches it would seem relevant to apply the tests of whether they are of use to the three main stakeholders: people who use the service; people who provide the service; and people who fund the service.

If we apply the test of *does the measure meet the demands of commissioners?* The answer is largely "yes". Cost effectiveness measures give some indication, even if it is slightly flawed, of where cash invested produces the best payback.

Does it meet the needs of the service provider? The answer is "probably, to some extent". To the extent that it allows them to benchmark costs against competitors and reflect on the reasons for providing a service in a particular way, it may prove useful. On the other hand it may unduly emphasise the cost as opposed to the value of parts of the service and it may focus on those aspects of the service which are easiest to measure and quantify, rather than those which are most important.

Does it help the service user? The answer is even less clear. A positive outcome for the person using a particular service may lead to an overall financial benefit, but there are also instances where it may lead to net increased costs. Cost benchmarking, if it is used, must be only one of a series of measures employed to determine whether the desired outcome for an individual is being achieved.

The expectation of outcomes for different individuals in the same project with the same level of housing support may be very different (depending upon their individual circumstances). It is extremely important as the focus is increasingly on comparing the cost of services, that the value of a service to individual service users is not subsumed beneath the financial calculations.

The difficulties in measurement are not limited to problems of aggregating costs and benefit information at regional or national level. It is important to recognise that the basis on which data are collected at local level can be very different. Even relatively simple, apparently straightforward hard data can be defined and measured in different ways.

Data collected may not be comparable – even between similar services for the same client group. Services tend to develop and use information systems which assist them in the running and planning of their service, targeted towards their individual aims, objectives and values. It is also important to bear in mind that data collected for one purpose may present a skewed result if used for another purpose.

A small scale research study undertaken by the Scottish Council for Single Homeless (2007), sought to identify comparative data in relation to the cost of tenancy failure (in order to present hard data around the costs and benefits of homelessness prevention).

The study built on work conducted by Crisis (2003). In that study an attempt was made to identify the cost of failed tenancies for a series of anonymous case studies. Amongst the factors included in their assessment of costs were:

- loss of rental income;
- eviction costs;
- solicitors' fees.

The cost of a failed tenancy varied substantially depending upon the scenario – ranging from £3,000 to £28,500 (€3,773 to €35,842). Typically, the cost per failed tenancy was around £15,500/€19,493). The Crisis study went on to factor in less direct costs, such as health, criminal justice and police. For the typical case this added a further cost of £9,000/€11,319 (taking the total to an average of £24,500/€30,811).

The SCSH survey took only two scenarios and sought to identify the direct costs to local authorities of handling each case.

Factors included in the costing were under three headings:

- Tenancy breakdown costs (including: lost rent; rent arrears; repairs; cost of re-letting the accommodation; cost of gaining a possession order; administration costs based on cost per hour to the landlord; and costs of storing furniture).
- Accommodation costs (such as hostel accommodation and temporary accommodation).
- Support costs (housing support).

The differences in costs between local authorities was striking**,** dependent to a large extent on which factors they took into account when determining their costs. For example, the cost of forty-eight weeks in temporary accommodation varied from £74.26 per week to £356.12 per week, giving a total ranging between £3,564 and £17,094 / €4,482 and €21,498 (over forty-eight weeks). Different authorities calculated the cost of storing furniture in different ways. In one scenario the total cost in one authority was just £125/€157 while in another it was £1,800/€2,264. Re-letting and repairs costs gave a similar diverse range of responses, ranging from £445/€560 to £2,412/€3,033.

The important point is that even where hard cost indicators are identified and agreed, there are enormous variations in the way that individual services operate, or cost their operations. In fact even with the quite basic indicators identified, not all the local authorities could provide costs for each element.

There are a number of reasons for this. Partly, it reflects the fact that different organisations have different procedures to achieve the same outcome. It may also be that some costs are not made visible, but are absorbed under broader accounting categories. Overhead costs may be included in some calculations but not in others, for example. Part of it reflects the very different types of service offered (for example different kinds of temporary accommodation can attract significantly different costs. A hostel is likely to be very expensive, compared with a furnished tenancy in property owned by the local authority). It may reflect the different paths that people affected by homelessness may follow through and out of homelessness. This can vary according to geographical area, their individual needs and simply the different approaches adopted by various organisations.

What is striking about this study is that the organisations involved are local authorities with highly developed accounting systems and standard procedures. The situation becomes more complex when trying to measure costs in the NGO sector in a comparable way.

The evidence in the UK to date shows (to a certain extent) that data collected for cost benefit purposes are largely those which can be most easily measured. For example, it is easy to quantify the 'avoided cost' of a person with a learning disability not going into institutional care, but much harder to assess the value of the impact on that person's quality of life. Hard outcomes are easier to measure and evidence than 'soft' outcomes, with the danger that services providing hard outcomes appear more effective. However even hard data is not always comparable or easy to interpret.

Of course, benchmarking can be useful for both services and funders, but it can lead to misleading conclusions and unintended consequences. The most obvious of these is that services which carry out interventions that are easily measurable, with clients who are easy to help, may appear to offer the best value for money and to be most efficient.

In the context of employability, for example, services which assist people who are almost ready for employment into a job may seem to offer very good value for money (as indeed many will), whilst those assisting people who will need a significant investment of time and resources to stabilise their lives and learn basic social skills before being ready for the most basic training, may seem less efficient.

The issue of 'cherry picking', or choosing those who are easiest to help, also comes into play here. If measures are based on harder outcomes and, for example, the number of people who sustain their tenancy or find a job, there can be an incentive to helping those closest to sustainability, who may not require any intervention to reach a stable lifestyle, at the expense of those who are hardest to reach, most excluded and most in need of assistance.

The converse of this, of course is the ‘Million dollar Murray’ issue, where services can be skewed to those who can demonstrate the greatest saving to the public purse through investment, potentially at the expense of those who need assistance, but where intervention shows a less dramatic saving (or indeed no definite saving at all) to the general public purse.

Conclusions

Cost analysis can be an important factor, but there are problems in determining which costs are relevant, in ensuring that they are calculated on a fair, equitable and comparable basis (which even for basic hard data is difficult to guarantee) and in making certain that the broader context of the purpose, quality and necessity for services is understood.

Costs should not be considered in isolation and data arising from cost analysis should be considered in the context of the purpose for which it was collected.

Too much concentration on comparable cost information may restrict innovation and flexibility in services. If funders focus too much on a restricted number of cost factors the danger is that services will adjust to meet those limited cost criteria in order to win funding. There may be less scope for the innovative thinking and evolution of new types of services, which is one of the important roles of the NGO sector, and which may require different measurement criteria.

However, cost information can provide valuable benchmarks for services to raise questions as to why some apparently similar services, or elements of services, appear to be less cost effective than others. Some may simply be more expensive; others may provide services in a different way or include different elements within their costs. At the very simplest level, it is important that cost analysis does not simply reward large organisations who have reduced overheads due to economies of scale, at the expense of smaller, potentially more flexible and innovative services. Cost information should be the means of raising questions, rather than being interpreted as providing the definitive answers.

It is important that both funders and service providers should be aware of the danger that measurement tools might drive the service, rather than ethos and values together with a clear understanding of the purpose of the service. Of course, knowing how much the service costs and relating it to other services is important, but only as part of a complex matrix of measurement.

Funders and providers of services should also be aware of the problem that what we measure is usually that which is measurable, and not necessarily that which is most effective or valuable in assessing a service. In setting up systems for the evaluation of services, providers should establish measures which truly reflect the work they do as a whole.

At the core of this should be a focus on those who use the services. One danger in placing too much reliance on cost analysis is that it becomes a dialogue between the commissioner of a service and the service provider, excluding the service user.

Linked to this is the need to find more robust means of describing what services do, and what success means. This might be done in terms of progress on a journey agreed between service user and project. It might include understanding that the journey towards progress can include some backwards steps. Success in some cases may include either a service user declining, but not as badly as if the intervention had not occurred, or simply someone remaining stable. The measures of success need to be clearly understood and described, but should be seen in terms of the jointly agreed objectives of the service user and provider. Cost will inevitably form a part of this, but only as one of many factors.

Cost analysis should be used where it is appropriate, to help provide evidence that services, even those for ‘undeserving’ groups, can provide a payback and perform well in relation to others. It should be used as one of a number of internal planning tools to ascertain or at least raise questions as to whether and why a particular service is more expensive than another.

There are other measures which need to be developed in a far more convincing way. Some work has been done in describing the social return on investment, or the positive impact on society as whole. More work needs to be done to develop a robust typology which is concrete and, for example, which overcomes the need for a single funder to show a return on their investment to their own budget.

Do we need measurable and comparable data? The answer is probably “yes”, though its context and limitations need to be clearly understood by both service providers and funders of services.

Could cost analysis be misused? Yes. Could it have a negative effect on investment? Yes, because looking at cost in isolation can miss the purpose and value of services. Cost driven measures can lead to incentives for services to move on people before they are ready to succeed, or in some cases to continue to provide services when they are no longer required.

At the core of measurement of effectiveness there must be a measure of the broad impact of a service on the person who is using it, and whether it is effectively meeting their needs and aspirations. Linked to that is the impact on society, either of providing or not providing the service. In these two core areas there is a great deal of work to be done to describe them in a convincing and objective way which will be of use to service users, service providers and the funders of services, whilst avoiding the distortions of cost analysis.

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