

Conclusions and recommendations of the National Audit Office

General housing allowance – Overall reform of 2015, development of benefit expenditure, and employment of benefit recipients

The audit examined the preparation of the overall reform of general housing allowance (HE 52/2014), particularly the assessments of the impacts on central government finances made during the preparation and their outturn. Another key component of the audit was to assess the earned-income deduction, or the so-called earnings disregard, as an incentive to work and as a way of reducing structural unemployment. The earned-income deduction was introduced in connection with the reform. The audit also examined the relationship between general housing allowance and social assistance, and the compatibility of the general housing allowance and the study grant. In addition, the audit assessed the financing process of the general housing allowance and the monitoring of expenditure from the perspectives of compliance audit and financial audit.

The National Audit Office decided to launch the audit as the general housing allowance expenditure increased almost continuously throughout the 2010s, and the increase was partly due to the new Act on General Housing Allowance (938/2014), which entered into force in 2015. The parliamentary committee preparing the social security reform aims to develop housing allowances in such a manner that the need for social assistance would decrease. The audit provides information on the impacts of the general housing allowance on central government finances and on its appropriateness in relation to other income security benefits. The audit will expand the knowledge base of Parliament and the Government for the development of the general housing allowance and provide information to support the work of the Social Security Committee.

Employed people are more often eligible for the general housing allowance

On 1 September 2015, an earnings disregard of EUR 300, i.e. an earned-income deduction, was introduced in the general housing allowance. According to it, EUR 300 a month is deducted from the earned income of every adult in the household when the amount of the housing allowance is calculated. This means that it is possible to receive a general housing allowance with higher earned income than before.

Since the introduction of the earned-income deduction, the general housing allowance has become a key form of support for households with low earned income. Based on the register data of the Social Insurance Institution of Finland (Kela), the share of households receiving earned income of all households

receiving the general housing allowance (excluding student households) increased after the reform, in 2015–2019, from 24% to 39%. The introduction of the earned-income deduction increased the amount of housing allowance for households receiving earned income and brought households that were previously not eligible for the housing allowance to the scope of the allowance. In the longer term, the increase in part-time employment and the improvement in employment explain the increase in the number of earned income recipients among the recipients of general housing allowance.

The introduction of the earned-income deduction was decided in the Government's structural policy programme. The aim of the earned-income deduction is to reduce structural unemployment and lower the threshold for accepting work. An earnings disregard of the same size was introduced in unemployment security on 1 January 2014. The earnings disregards in general housing allowance and unemployment security are intended to encourage people to accept part-time and temporary work. The earned-income deduction improves the financial incentive of part-time work, i.e. increases the disposable income of those recipients of housing allowance who are employed in part-time work. Based on the exemplary calculations made in the audit, the earned-income deduction reduces the unemployment traps of particularly unemployed single parents as regards part-time employment. In the case of an unemployment trap, employment increases the disposable income by a maximum of 20%.

When assessing the incentive effects of general housing allowance, regional differences in housing costs should be taken into account. The recipients of housing allowance, especially those with lower earned income, have better incentives to work outside the Greater Helsinki Area. This is because the housing costs are lower outside the Greater Helsinki Area, and thus the primary benefits (unemployment security and general housing allowance) are more likely to be sufficient to cover the housing costs without social assistance.

A key question in the social security reform is to what extent the subsistence of households with low earned income should be supported through the housing allowance scheme and to what extent through other benefits. If the conditions for receiving housing allowance are tightened, social assistance will be needed more frequently to cover the housing costs. The use of social assistance undermines the financial incentive of work as income is taken into account more strictly in the case of social assistance, and the stricter means-testing also increases the bureaucracy of accepting work.

The overall reform of general housing allowance increased expenditure considerably more than estimated in the government proposal

In addition to the introduction of the earned-income deduction, the 2015 general housing allowance reform simplified the grant criteria, increased the maximum rents, and reduced the deductible. The earned-income deduction raised the income limits applied to the general housing allowance and increased the general housing allowance expenditure. In the government proposal, it was estimated that

the reform would increase the general housing allowance expenditure annually by a total of EUR 68 million, which did not include the expenditure effects of the earned-income deduction. The increase in expenditure was expected to be largely due to the measures agreed in the Government Programme, i.e. the increases in maximum rents and the reduced deductible. The actual structural reform of legislation was not estimated to increase the housing allowance expenditure.

In the preparatory phase, alternative assessments of the expenditure effects were also made. Based on them, the reform would increase expenditure more than estimated in the government proposal. The audit did not find out why the alternative assessments were not addressed in the government proposal.

Since the entry into force of the act, the estimates of expenditure effects have been specified and, following the reform, general housing allowance expenditure has increased more than estimated in the government proposal. Estimates of the reform's impacts on annual expenditure have varied between EUR 150 million and EUR 259 million. The estimates include the expenditure caused by the earned-income deduction. As it is difficult to assess the impacts on expenditure in the preparatory phase, the government proposal should have discussed the uncertainties associated with them and also the various calculations of the reform's expenditure effects, made in the preparatory phase.

The introduction of the earned-income deduction was a major change to the general housing allowance. Despite this, the government proposal did not disclose any objectives for its introduction. Nor did the Government assess its impacts on central government finances and on the incentives to work in compliance with the principles of good legislative drafting. The government proposal was thus submitted to Parliament as incomplete in this respect, even though in the preparatory phase, estimates had been made of the costs of introducing the earned-income deduction. The deduction was implemented based on a different model than the one decided in the Government's structural policy programme. However, the government proposal did not justify the change of models. In the model implemented, the conditions for the earned-income deduction are looser than in the model of the structural policy programme.

The audit failed to provide a clear picture of the legislative drafting process, as the preparatory material had not been filed in the Ministry of Social Affairs and Health or with the register for statute drafting projects. However, the preparatory phase of major legislative measures should be carefully documented, and the preparatory documents should be filed for later examination.

Social assistance is used to a significant extent to cover housing expenditure

The overall reform of general housing allowance improved the level of general housing allowance. However, many low-income households still need social assistance, which is intended as last-resort and temporary assistance, to cover their housing costs. In December 2021, for example, the general housing allowance covered on average only slightly more than half of the housing costs,

regardless of the size of the household or the municipality class of the area in which the dwelling was located.

At present, a little less than half of the basic social assistance expenditure is allocated to the recipients' housing costs. The price of housing complicates the achievement of the objective of the social security reform to reduce long-term need for social assistance. The earned-income deduction in general housing allowance has reduced the calculated need for social assistance for people with low earned income. In this respect, the introduction of the earned-income deduction can be regarded as positive.

The fact that income is taken into account differently in the case of general housing allowance and student financial aid makes it difficult to reconcile benefits and earned income

The risk of student benefits becoming more complex as a whole was identified when the transfer of students from the housing supplement of student financial aid to the general housing allowance was prepared in 2017. Based on the audit, the risk has been realised.

The financial incentives for students to work are good for those receiving a study grant and the general housing allowance, but income is taken very differently into account in the case of different benefits. It is fairly simple to anticipate the effects of earned income on the study grant. As students have been transferred to the scope of the general housing allowance, they must consider both the impact of their own income on the study grant and the impact of the income of the adult members in the household on the general housing allowance. In the case of the general housing allowance, the following year's calculated average income of the household is used in situations where the income of the household of the person applying for the benefit varies to a great extent. This makes it more difficult to anticipate how significant variations in income will ultimately affect the level of the general housing allowance. The average income is used in decisions on general housing allowance much more often with students than with other groups of benefit recipients.

The financing process of the general housing allowance and the monitoring of expenditure have been arranged appropriately at the Ministry of Social Affairs and Health

The financing process of the general housing allowance and the monitoring of expenditure have been organised at the Ministry of Social Affairs and Health in accordance with the valid legislation. However, Kela's monitoring of the general housing allowance expenditure is much more accurate and up to date than that of the Ministry. The Ministry could make better use of Kela's financial statements and other outturn data in the preparation of legislation and the state budget.

Kela prepares its own financial statements and annual report by the end of March, and the financial statements are adopted by the end of May. The Ministry of Social Affairs and Health, in turn, like the other central government accounting offices, prepares its own financial statements by the end of February, which means that the final central government accounts lack a group perspective regarding Kela. The difference in the date of completion and the procedure for paying the general housing allowance expenditure to Kela result in substantive differences in the financial statements of Kela and the Ministry of Social Affairs and Health.

Recommendations of the National Audit Office

The Government should

1. in the preparation of the social security reform, outline to what extent the subsistence of those receiving low earned income is supported by the general housing allowance and to what extent by other benefits.
2. in the preparation of the social security reform, strive to develop solutions that reduce the need for social assistance, which is intended as last-resort and temporary assistance, to cover housing costs.

The Ministry of Social Affairs and Health should

3. in connection with the social security reforms, ensure that the government proposals include different assessments of the reforms' impacts on central government finances, other impacts, objectives, and alternative means of implementation,
4. file the documents and other materials related to legislative drafting appropriately.
5. make more efficient and up-to-date use of Kela's financial statements and monitoring data in the planning of central government finances.