A COMPARATIVE STUDY OF HOUSING ALLOWANCES

Peter A. Kemp

A report of research carried out by the Centre for Housing Research and Urban Studies University of Glasgow, on behalf of the Department of Social Security

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Chapter 1: Aims and Methods

• There have been relatively few attempts to compare housing allowances schemes on a cross-national basis; most of the studies that have been carried out are now substantially out of date

• Housing allowances are a policy instrument that are particularly difficult to compare across different countries

• The aim of the present study was to provide an up-to-date examination of housing allowances in selected countries: Australia, Canada, Germany, the Netherlands, New Zealand, Sweden, and Britain

• The main sources of information drawn upon for the study were questionnaires completed by an official and by a policy expert in each country; because of the interest in the recent housing reform in New Zealand, instead of a questionnaire to officials, a visit was made by a research assistant who interviewed face-to-face a range of different officials and experts

• In addition, the policy experts in each country completed a ‘housing allowance matrix’ for a series of hypothetical households in certain specified circumstances, in order to provide a monetary comparison of the value of housing allowance payments in each country.

• Published reports, OECD statistics and other secondary data were also collected and analysed

Chapter 2: Housing Support and Housing Allowances

• Housing allowances are one of a range of ways in which advanced industrial nations have provided help with housing costs

• Housing allowances are an income-related, demand side subsidy in the form of direct revenue support to consumers. They usually entail cash payments which are made either to the landlord or to the tenant (home owner) but may take the form of rent rebates in which the tenant is charged a rent net of the allowance

• Although often introduced as instruments of housing policy, housing allowance schemes in some countries have been provided as part of social assistance provision

• Housing allowances have become more important policy instruments as governments have sought to shift the emphasis away from bricks and mortar subsidies and below market rents and towards the demand side and market level rents

• To some extent the increased importance of housing allowances reflects a view that the problem to be tackled is increasingly an income problem
rather than a housing one and that assistance can be better targeted if
directed only to those households that really need help

- But as housing allowance caseloads have increased, especially at times of
economic recession, many governments have expressed concern about
the rising cost of such schemes and have sought out ways in which the
costs can be trimmed

Chapter 3: Housing • Australia, Canada, Germany and New Zealand have housing markets
that are dominated by the private sector; whereas the Netherlands,
Sweden, and, to a lesser extent, Britain have more mixed housing
tenure systems in which social housing plays an important role

- Tax expenditures play an important role in all of the selected countries
in supporting the owner occupied housing market and also, except in
Britain, the private-rented sector; in Australia, Canada, Germany, and
New Zealand, tax expenditures appear to have been far more important
than direct subsidies

- All of the selected countries have provided direct subsidies to suppliers
but these appear to have been relatively much more important in the
Netherlands, Sweden, Britain and, to a lesser extent, Germany than in
the other countries; except in Britain, these direct subsidies to suppliers
have been provided to both private and social housing

- Britain, the Netherlands, New Zealand, and Sweden have significantly
cut back their direct subsidies to suppliers in recent years; Germany also
cut back its bricks and mortar subsidies in the late 1980s, but
subsequently introduced new ones in the face of its ‘new housing
shortage’

- In Australia, New Zealand and, to a lesser extent, Britain and Canada,
private-sector rents are set by the interaction of supply and demand in
the market place; in Germany, the Netherlands and especially Sweden,
market forces are important but private-sector rents are subject to loose
forms of rent regulation

- Except in Australia and New Zealand, social housing rents are set at
below market levels, though the principles governing rent setting vary
from one country to another

- In real terms, rents have increased in all of the selected countries since
1980, as have rent burdens (rent to income ratios)

- The treatment of housing costs in social assistance schemes takes three
broad approaches:

(i) in some countries (Australia, the Netherlands and New Zealand),
social assistance rates are implicitly meant to be sufficient to allow
recipients to afford at least part of their housing costs out of their
benefit payments, though recipients with high housing costs are
usually allowed to apply for additional help from separate housing allowance schemes

(ii) in other countries (Canada, Germany, Sweden, and Income Support Mortgage Interest for home owners in Britain), social assistance benefit payments are enhanced to take into account recipients’ actual housing costs

(iii) in other countries, social assistance is not intended to meet housing costs and recipients are expected to rely on separate housing allowance schemes (Housing Benefit for tenants in Britain)

Housing allowances are usually mainly either an instrument of housing policy or an income support benefit, though in practice they may have both functions; Britain, and to a lesser extent Australia, are relatively unusual in that their housing allowances schemes are primarily part of the social security system rather than a tool of housing finance

Chapter 4: Housing • Six of the seven countries operate national housing allowance schemes, the exception being Canada where schemes exist in only five of the ten provinces

• In all schemes, renter households are eligible for housing allowances; but in Australia assistance is confined to renters who are in receipt of social security benefits; and in the Canadian provinces, eligibility is confined to elderly households, except in Manitoba where families are also eligible

• Owner-occupiers are eligible for housing allowances in Quebec province in Canada (if they are elderly), in Germany, New Zealand and Sweden; they are not eligible for assistance in Australia, the Netherlands or Britain

• In Canada, Germany, Sweden and Britain (owner-occupiers only) the social assistance schemes include a component to cover all or some of recipients’ actual housing costs; in Australia, the Netherlands and New Zealand social assistance benefit rates are supposed to allow recipients to afford at least part of their housing costs

• In all of the selected countries except for Britain, housing allowances take the form of a `housing gap’ scheme in which part of the difference between a minimum rent and the actual rent (up to a rent ceiling or benefit maximum) is met by the subsidy

• The Housing Benefit scheme in Britain is more akin to the shelter component of social assistance schemes than to the housing allowances schemes in the other selected countries

• Housing allowances assume a greater significance in Sweden and especially in Britain—expressed as a percentage of the rent or of GDP—than they do in the other countries. The reasons for this are complex
but in Britain relate to the fact that social assistance makes no allowance for rent, the cost of which therefore has to be fully covered by the housing allowance scheme, while in Sweden the proportion of households receiving allowances is much higher than elsewhere

- The British housing allowance scheme provides more assistance in proportion to housing costs than do the other schemes, but entitlement goes less far up the income scale; it is therefore more tightly focused on the poorest households

**Chapter 5: Eligible Costs, Incentives and Take-up**

- The treatment of eligible costs varies between the selected countries; some countries count all of the contractual rent as eligible for benefit, while others ignore certain items; some countries include all home owner costs in housing allowances (including capital repayments) while others cover just interest payments

- All of the countries employ housing cost ceilings (though in Britain this applies only to the scheme for home owners on social assistance); in the Netherlands, an above ceiling rent disqualifies the tenant from housing allowances, but in the other countries the excess rent is simply disregarded

- Most of the countries have limits on the amount of housing allowances that may be awarded

- Only Britain and to a lesser extent the Netherlands have rules to investigate whether housing costs are excessive

- In all of the selected countries apart from Britain, recipients are required to make a minimum contribution to their housing costs; but in some countries (Canada, Germany and Sweden) social assistance schemes can cover all of the recipient’s housing costs

- The marginal rate of subsidy varies across countries; only in Britain and in the social assistance schemes in some countries is it possible for housing allowances to meet all of any increase in the recipient’s housing costs

- Work incentives are regarded as a problem in some countries but not in others; the income taper on housing allowances in Britain is much steeper than in housing allowance systems in other countries (though social assistance schemes in some countries have a 100% withdrawal rate)

- There is little evidence that stigma is a major problem in any of the selected countries; knowledge and concern about take-up rates varies across the countries

- Landlord attitudes towards housing allowances recipients also vary; but in some countries landlords are unlikely to know whether or not their tenants are receiving housing allowances
Chapter 6: Administration • In Germany, the cost of housing allowances is shared equally between central government and the states/provincial governments; in Australia, rent assistance is funded by central government but the cost of public housing rent rebates is shared nearly equally between the Commonwealth government and the states; in the other federal country, Canada, the provincial housing allowance programmes are fully funded by the provinces but the cost of the shelter component of social assistance is shared between the provinces and the central government • In the non federal countries, the cost of housing allowances is met fully by central government, except for Britain where the great majority of the cost is centrally funded but part is paid for by local authorities themselves • The rules governing housing allowance schemes in the selected countries (in Canada, within each province) are uniform rather than varying by locality • Different rules and procedures are used across the seven countries for dealing with changes in circumstances, benefit payment intervals and methods, and the period for benefit awards • In most countries, the allowance is normally or always paid to the tenant or owner-occupier, but in the Netherlands, New Zealand and Britain it is usually paid direct in the case of social housing landlords

Chapter 7: Policy Issues • Some countries have introduced changes to their housing allowances schemes, though often these did not affect the structure of the schemes, only the details of eligibility, entitlement or administration • A major, ‘nil cost’ reform of housing support, including housing allowances, has been undertaken in New Zealand; this involved the withdrawal of supply side and other subsidies, an increase in New Zealand Housing Corporation rents to market levels, and wider eligibility for and increased entitlement to the housing allowance scheme • In Britain, a significant reform of Income Support mortgage interest payments was introduced in October 1995; a reform of Housing Benefit introduced for new claimants who are renting privately in January 1996; and a further reform for young adults (under 25) living in privately rented housing is due to be introduced in October 1996 • In Sweden, housing allowances were enhanced in the early 1990s to help compensate for the increases in housing taxation when the tax system was reformed; however, a major reduction of 20 per cent in the net cost of housing allowances is now planned as part of a drive to reduce the relatively high public sector deficit
• Australia plans to follow the New Zealand example and abolish supply side subsidies and place sole reliance on a reformed housing allowance scheme
This report, which was commissioned by the Department of Social Security, sets out the findings of a study of housing allowances in selected countries. This first chapter:

- discusses the limitations and advantages of comparative research on housing allowances
- describes the aims of the research
- outlines the methods by which the research was undertaken and the countries that were included in the study
- and describes the structure of the report.

Housing allowances and Although income-related housing allowances have become important comparative research instruments of housing and social security, there have been relatively few attempts to compare schemes on a cross-national basis. Most studies have looked at the experience of a single country rather than comparing different countries.

Howenstine's (1986) study is perhaps the most comprehensive attempt to examine housing allowances across the advanced industrial nations, but is now substantially out of date. Ahren (1987, 1990a, 1990b) examined the experience of the Nordic countries in the mid to late 1980s, but is again dated, to some extent, by subsequent developments. Papa's (1992) recent study of housing finance included important information on the housing allowance schemes in seven European nations, but did not examine them in depth. Kemp (1990) reviewed the development of housing allowances in the advanced industrial nations and, drawing on the work of Holmans (1989) focused particularly on three European countries. Hills et al (1989) compared the housing finance systems, including housing allowances, in Britain and West Germany. Oxley (1987) reviewed the aims and impacts of housing allowances in a number of countries in Western Europe but is also now rather dated. Lawson and Steven's (1974) comparison of housing allowances in West Germany and France has also been dated by subsequent developments.

Perhaps one reason why the comparative literature on housing allowances is relatively limited is the difficulties of undertaking such research. As many of the authors who have attempted comparative research in social policy have pointed out, it is neither easy nor straightforward to undertake (Bolderson and Mabbert, 1991; Bradshaw et al., 1993; Eardley et al., 1996). Although these difficulties have informed and influenced the present study, there is little to gain from rehearsing them here as they have been
discussed on numerous occasions elsewhere (e.g. Higgs, 1981; Jones, 1985; Bolderson, 1988; Ginsburg, 1992; Cochrane and Clark, 1993). What might be more useful, however, is to stress the particular difficulties which, in addition to the more general problems, confront research on housing allowance schemes.

In fact, housing allowances are a policy instrument that is particularly difficult to compare across different countries (Bolderson & Mabbett, 1991). This is partly because housing allowance schemes are often quite complex and the details of them change with relative frequency, though the same is true of social assistance schemes. More importantly, housing standards and housing costs vary considerably, both between and within countries. Differences in housing costs between countries may reflect differences in the standard of accommodation provided, differences in the cost of construction, or differences in land costs, among other things. Unlike most other household commodities—for example, loaves of bread, children’s clothes, or cars—the price of comparable housing can vary very considerably within countries and not just between them.

Moreover, as discussed in Chapter 2, the cost of housing to the consumer can be reduced on either the supply side or the demand side; and there can be considerable interaction between the two. Heavy reliance on supply side subsidies or price regulation can reduce the need for housing allowance schemes; and vice versa. Variations between countries in disposable incomes, in income inequality and other factors such as unemployment, also complicate comparisons of the impact of housing allowances.

Finally, housing allowances have important interactions with social security benefits and with income taxation. Indeed, in some countries, housing allowances are designed to form part of the delivery of social assistance. The benefit rates in some social assistance schemes are set at a level that is intended to be sufficient to allow recipients to contribute towards at least some of their housing costs. In other countries an amount is added onto benefit rates which is based on all or some of recipients’ actual housing costs. Finally, in Britain (in the case of tenants) social assistance is set at a level that makes no provision for housing costs. These differences in social assistance schemes may be reflected in the design and level of assistance provided in housing allowance schemes with individual countries. These differences can also influence the cost of housing allowance schemes. For example, since the British social assistance scheme makes no provision for the housing costs of tenants, all of these costs are borne by the housing allowance scheme (Housing Benefit) whereas in the other selected countries some or all of these costs are subsumed into the cost of social assistance. Other things being equal, this will inflate the cost of housing allowances in Britain compared with the other countries.
All of this means that an international comparison of housing allowances must be undertaken with care and will inevitably be subject to qualifications about the interpretation of the findings. Furthermore, the different contexts within which housing allowance systems operate in different countries means that the transferability of policy instruments such as housing allowances may be rather limited. It is unlikely to be the case that housing allowance schemes can simply be uprooted from one country and successfully imported into another country (cf Clapham and Kintrea, 1987).

Despite these caveats, however, comparative research can still be worthwhile. For example, it can provide helpful insights into the nature and impact of housing allowance schemes. It can highlight whether issues of concern in one country are common to other advanced industrial nations or just peculiar to that country. It can suggest ways in which particular problems or issues might be tackled or ought not to be tackled. Looking at how housing allowance schemes are structured or administered elsewhere can help to question aspects of housing allowances which are taken for granted in one country but which are not in other countries. Even if comparison does not itself produce any lessons for policy or suggest ways in which housing allowances can be modified, studying how other countries provide assistance with housing costs can help policy makers and analysts to better understand the nature and limits of the scheme in their own country.

**Aims**

The aim of the present study was to provide an up-to-date examination of housing allowances in selected countries. The objective was to focus on a number of issues about housing allowances that were of particular interest to the Department of Social Security. These included the following questions:

(a) *the role and context of housing allowances*

- Are housing allowances an instrument of housing policy or part of social assistance?
- What role do housing allowances play in housing policy?
- What help is available from other sources?
- How are rents determined in social and private housing?
- What are the trends in rent levels and the factors that have affected them?

(b) *eligibility, benefit structure and entitlement*

- Who is eligible for housing allowances?
- How are housing allowances calculated?
- How much housing allowance are recipients entitled to receive?
• what components of `rent' and home owner costs are eligible for assistance?
• are there eligible rent ceilings or allowance maxima?
• how are `reasonable' rents determined?
• are recipients required to make minimum rent contributions? Is it possible for recipients to receive assistance with 100 per cent of their housing costs?
• how are housing allowances withdrawn as income rises and does this cause work disincentives?

(c) administration and subsidy
• who administers housing allowances?
• who pays for allowance expenditure?
• over what period are housing allowances paid?
• is the allowance adjusted to take into account changes of circumstances?
• by what means are housing allowances paid and how frequently?
• are housing allowances paid to the resident or to the landlord/lender?

(d) policy issues
• what are the main issues facing each country; what are the pressures for change and the problem areas?
• are any reviews under way or have any been undertaken recently?
• are scheme changes under way or due to be implemented?

Coverage An important decision which confront researchers wishing to undertake a comparative research project is which countries to select for study. One option is to draw upon a typology of countries, such as the welfare state regime classification produced by Esping-Anderson (1990), and then to select examples of countries from each type. This is the approach taken, for example, by Barlow and Duncan (1995). Esping-Anderson's classification is based on a statistical analysis of seven indices for each of the 18 OECD countries. His three fold typology-'three worlds of welfare capitalism'-comprises liberal, conservative and social democratic welfare regimes.

Such classifications can be very helpful tools for comparative purposes, but their usefulness depends upon the purpose of the comparison and the validity of the classification. The validity of Esping-Anderson's classification has been criticised. For example, Castles and Mitchell (1990) have argued that there are four worlds of welfare capitalism, not three, and that Australia is one of a number of countries which have what they call a Labourite tradition rather than a liberal capitalist tradition. Priemus (1995) has argued that Esping-Anderson is wrong to classify the Netherlands as a
social democratic welfare regime. Others have criticised the lack of a gender dimension in the construction of his typology (Lewis, 1992).

Eardley et al (1996) have argued that the welfare regime typology developed by Esping-Anderson does not fit well with their analysis of social assistance schemes. They proposed a seven fold classification of countries according to the type of social assistance scheme in operation. This perhaps suggests that, rather than seeking to classify countries according to some overarching set of criteria which apply to welfare states as a whole, it may be more helpful to take the less ambitious route of classifying countries separately for different purposes. Esping-Anderson’s analysis did not include housing, still less housing allowances, and nor does there appear to be a comparable classification of housing policy which could be used to select countries for inclusion in this study. Eardley et al’s (1996) classification of social assistance schemes was not available in time for the present study.

The countries included in the research were selected on largely pragmatic grounds. Each was for different reasons of interest to the Department of Social Security. The shortlist was drawn up following a two month review of the existing literature and other sources of information about housing allowances. The selected countries were:

- Australia
- Britain
- Canada
- Germany
- the Netherlands
- New Zealand
- Sweden.

Australia, Britain, Canada, and New Zealand are examples of Esping-Anderson’s liberal welfare regimes; Germany is defined by him as a conservative regime; and the Netherlands and Sweden are classified as social democratic regimes. In their international comparison of social assistance in the OECD countries, Eardley et al (1996) classified Australia and New Zealand as selective welfare systems; Britain, Canada and Germany as welfare states with integrated safety nets; the Netherlands as an example of a country which has a dual social assistance model; and Sweden, like the other Nordic countries, as having a residual social assistance scheme.

The report covers Britain (England, Wales and Scotland) rather than the United Kingdom (Britain and Northern Ireland). The housing allowance scheme in Northern Ireland is very similar to that which operates in Britain; most of the differences relate to the administration and subsidy arrangements rather than to the structure and scope of the schemes. While the focus is on Britain, data limitations mean that, in some cases, the data...
in the tables are for England and Wales or England rather than for Britain as a whole.

**Methods** Data collection was principally carried out by employing national informants in each of the selected countries. Two types of national informant were used: (1) government officials and (2) policy experts (most of whom were academics).

Using national informants can be a relatively quick and efficient way of collecting information from overseas countries (Bradshaw et al, 1993). By using national informants, relevant data can be provided by people who are experts in the field and who are interested in the topic; they will also be familiar with the cultural and socio-economic context of the country. Issues that are salient in other countries but not in the UK can more easily be revealed and explored using national informants. Using government officials as national informants makes it possible to obtain an understanding of the relevant issues from the perspective of those responsible for formulating policy or administering the housing allowances. Using policy experts as national informants makes it possible to obtain an independent but informed assessment of the nature and impact of housing allowance schemes in each country.

The government officials and policy experts were asked to collect material for a pro forma incorporating a standard list of topics so as to ensure both full coverage and consistency between countries. Separate but related pro forma was used for the policy experts and for the officials. The officials’ pro forma was largely confined to the details of housing allowances and to giving the views of policy makers on the scheme(s) and salient issues in their country. The policy experts’ pro forma was used to cover questions such as rent policy, rent levels, taxation, and bricks and mortar subsidies. The policy experts were also expected to provide an evaluative commentary on housing allowances and related issues in their country, based on the available research evidence.

In the case of New Zealand, the material was collected using a policy expert but not an official informant. Instead of an official informant completing the pro forma, a visit to New Zealand was undertaken by a research assistant. As well as collecting information on the standard list of topics that would be used for the officials’ pro forma, the visit was used to elicit information on the implementation of the new housing allowance scheme which was introduced in July 1993. It was felt that face-to-face interviews would be a more effective way of obtaining information about the rationale for, and impact of, the New Zealand reform. Interviews were therefore held with key officials in the New Zealand Department of Social Welfare and in Housing New Zealand Ltd (previously the New Zealand Housing Corporation) and with officials in other relevant government departments and other organisations, as well as with academics.
Documentary material and other publications and statistics were also collected during the visit.

In order to make a monetary comparison of the value of housing allowances in each country, we asked the policy experts to complete a ‘housing allowance matrix’ for a series of hypothetical households in certain, specified circumstances. This approach is adapted from a similar approach used by Bradshaw et al (1993) in their international comparison of child support and Eardley et al (1996) in their study of social assistance in OECD member countries. The value of housing allowances was calculated in national currencies and then converted into purchasing power parities (PPPs) using £ sterling as the common denominator.

As the name implies, PPPs are a way of comparing the monetary value of different currencies in terms of their purchasing power. They are based on the price of a common basket of goods. Hence unlike exchange rates, they take into account the fact that similar goods may have different prices in different countries. However, PPPs do have limitations. Apart from technical difficulties in their construction, PPPs reflect the consumption behaviour of the average household and not necessarily that of the average housing allowance recipient. In addition, since variations in the cost of housing are taken into account in PPPs, there is a danger of double counting when comparing housing costs between countries. Nevertheless, despite these weaknesses PPPs are more meaningful for making cross-national comparisons of monetary values than exchange rates (Eardley et al, 1996).

Structure of the report

Chapter 2 sets out a typology of the different forms of housing assistance that are commonly provided by governments and uses this to provide a definition of housing allowances. It also sketches out an overview of the development of housing allowances as a policy instrument in the advanced industrial nations. Chapter 3 looks at the role of housing allowances and locates them within the wider housing market and housing finance context in the selected countries. Chapter 4 describes who is eligible for housing allowances, examines the structure of the housing allowance scheme(s) in each country, looks at housing allowance entitlement, and assesses the impact of housing allowances on rent to income ratios and on disposable incomes. Chapter 5 looks at what elements of housing costs are deemed to be eligible for housing allowances and what, if any, rules are in place to prevent allowances being paid on excessive housing costs. It also examines the role of housing allowances in relation to work incentives and incentives to economise on housing costs. Chapter 6 reviews aspects of the administration and funding of housing allowances. Chapter 7 looks at the main policy issues facing each country and recent reforms. Chapter 8 then sets out the conclusions of the research.
This chapter has two functions. First, it clarifies and defines housing allowances as an instrument of policy. Second, it sketches out an overview of the use and development of housing allowances among the OECD countries generally (not just those examined in detail in this report) and the countries of eastern and central Europe.

Classification of housing All of the OECD countries provide assistance with housing costs. Housing support allowances are one of a number of ways in which help with housing costs can be provided. The ways in which such assistance is provided varies greatly between, and in some cases within, countries. Most countries employ a myriad of forms of assistance with housing costs, the coverage of which can vary considerably. However, it is possible to classify different forms of assistance with housing costs into several basic types.

Firstly, housing support can be divided into supply side and demand side instruments. Supply side instruments are sometimes referred to as `bricks and mortar` or `object` subsidies, while demand side forms of assistance are often called personal or `subject` subsidies (Oxley, 1987). Whereas supply side instruments reduce the price of housing to below what it would otherwise be, demand side subsidies help individual consumers to afford the price that they are charged for their housing.

Supply side support includes low interest or guaranteed loans, capital grants, and tax relief to housing associations and private landlords. British examples of supply side subsidies include housing association grant and the discounts to council tenants exercising the right to buy their home. Housing association grant is a capital subsidy paid to housing associations when developing new houses or rehabilitating existing ones; it currently averages at about 60 per cent of development costs. Council tenants have the right to buy their home at a discount from its assessed market value, the amount of which varies according to how long they have been a tenant. Rent controls or regulations which restrict rents to below market clearing levels are also forms of supply side intervention that are aimed at reducing the price of housing to consumers. British examples of demand side support includes Housing Benefit and Income Support mortgage interest payments.

Secondly, it is possible to distinguish between direct and indirect support. Direct support consists of transfer payments or other subsidies provided directly to assist housing. In Britain, Housing Benefit, housing association grant and house renovation grants are examples of direct subsidy. House renovation grants, which are administered by local authorities, are intended
to contribute towards the costs of improvement or major repairs on a private dwelling. \textit{Indirect} interventions mainly involve tax reliefs, such as depreciation allowances for private landlords, mortgage interest relief, and exemption from capital gains tax. Direct and indirect support may be provided either to consumers or to suppliers of housing.

Thirdly, housing support can be in the form of capital or revenue assistance. British examples of \textit{capital} subsidies include housing association grants and (in Scotland) GRO Grants for developers and private landlords. GRO Grants are grants paid by Scottish Homes—the national housing agency in Scotland—to developers producing homes for letting or sale, up to a maximum of 40 per cent of the cost of development. Hostel deficit grant and Exchequer support for council house rents under the pre-1990 financial regime are examples of \textit{revenue} subsidies. Hostel deficit grant was an annual payment by the Housing Corporation—the agency in England which is responsible for registering, supervising and making grants to housing associations—to housing associations where the charges made to hostel residents were insufficient to cover revenue expenditure (Cope, 1990).

\textit{Housing allowances} provide income related help with housing costs. The amount of assistance is determined by the household’s income, housing costs, and often also by its household composition. The fact that the amount of assistance provided by housing allowances is \textit{income-related} distinguishes it from \textit{income-tested} support in which households which have an income below a specified amount (which might vary according to household circumstances) are eligible for subsidy—for example, a low interest loan—the amount of which is not itself determined by the income of the applicant.

Housing allowances are a demand side subsidy in the form of direct revenue support to consumers. They usually entail cash payments which are made either to the landlord (lender) or to the tenant (home owner). In some countries with public housing (such as Britain and Australia) housing allowances may take the form of rent \textit{rebates} in which the tenant is charged a rent net of the allowance.

In most housing allowance schemes, applicants must have taken up a tenancy or the ownership of a home before they can apply for the subsidy because it is calculated on their actual housing costs; this is known as an \textit{ex post} housing allowance. But in the US housing voucher scheme applicants may apply for the voucher in advance of finding their accommodation because it is calculated on notional housing costs rather than their actual rent; this is referred to as an \textit{ex ante} allowance (cf Gibb, 1994).

Some countries operate \textit{differential rent} schemes—called \textit{rent geared to income} (RGI) in Canada—in which the rent is fixed in relation to individual
household income. These differential rent schemes are an income related form of assistance with housing costs and can thus be regarded as a form of implicit housing allowance. Differential rent schemes are usually confined to public housing but there are instances—such as some of the RGI housing in Canada (Fallis, 1994)—where they have been employed in privately owned housing in receipt of government subsidies. Examples of countries which operate differential rent schemes for public housing include Australia, Belgium, Canada, and the Republic of Ireland. Some local authorities in Britain used to operate differential rent schemes under the Housing Act 1930 (Malpass, 1990).

Social assistance schemes sometimes also provide help with housing costs. In the USA, for example, general welfare programmes such as Aid For Families with Dependent Children and Supplemental Security Income were spending an estimated $10 billion on housing assistance (Newman and Schnare, 1988, 1989). Likewise, the main German social assistance programme, Sozialhilfe, provides substantial help with housing costs for recipients of this benefit. While Austria has no general housing allowances scheme, social assistance in that country provides an addition for the housing costs of private renters (Eardley et al, 1996). Similarly, the social assistance scheme in Canada includes a component for shelter costs.

The development of Housing allowances have grown significantly in importance since the housing allowances 1960s. This development has mainly reflected housing policy rather than social security concerns. It has generally been accompanied by a switch from ‘bricks and mortar’ to consumer-oriented subsidies within housing. For the most part, it has involved the extension of income-related housing assistance to households other than just those receiving social assistance or pensions; and new, usually separate, schemes have often been introduced for the purpose. This section (which is based on Kemp, 1990) examines some of the reasons why housing allowances programmes have been introduced or expanded, drawing on the experience of a number of advanced industrial nations.

Following the Second World War, many countries in Western Europe and elsewhere introduced major house-building programmes in order to reduce severe housing shortages (Ball et al, 1988). These programmes tended to be based largely on subsidies to producers of housing. Both commercial and not-for-profit housing suppliers were usually included in such subsidy programmes, which often took the form of cheap or guaranteed loans, cash grants and tax reliefs. In addition, most nations in Western Europe initially maintained rent control regimes as part of a policy of containing inflation and wage demands (Harloe, 1985). While such supply side subsidies played a significant role in producing high levels of housing construction in the post-war years, the continued existence of rent regulation meant that a significant gap often developed between the rents of newly constructed dwellings and those of rent-controlled property. Below-market rents in the existing rental
stock led, in turn, to under investment in maintenance by private landlords or even outright disinvestment through the sale of former rented housing to owner-occupiers (Maclennan, 1988).

Housing allowances were often introduced originally during periods when governments were seeking to decontrol rents or move them closer to market levels (Howenstine, 1986; Oxley, 1987). They were intended to help keep rent-to-income ratios to what were regarded as reasonable levels in the face of the significant rent increases that were expected to follow decontrol, thereby avoiding the financial hardship which low income households would otherwise have experienced.

Thus in France, for example, a Housing Act of 1948 freed the rents of new construction from control and sought to raise rents in the existing private rental stock to an economic level over a period of time. A housing allowance programme, called Allocation de Logement, was introduced in the same year to provide protection for families with children (Lawson and Stevens, 1974). Similarly, in Britain the Housing Finance Act of 1972 introduced a national rent rebate and allowance scheme in order to cushion the poorest tenants from the projected rent increases in local authority housing and in private rented housing subject to controlled tenancies (Merrett, 1979). In 1981, the Australian government decided that public sector housing rents should be raised to the market level and a system of rent rebates was introduced for those for whom market rents were more than 20 per cent of income (Wood, 1990b). A major new housing allowance programme was introduced in West Germany in 1965 in order to ease the rent burden of low income households at a time when the rental housing market was being gradually decontrolled (Lawson and Stevens, 1974; Hallett, 1977). And in the Netherlands the housing allowance programme (which had been introduced on a limited scale in 1970) was substantially expanded in 1975 in order to facilitate the Dutch government’s rent harmonisation policy, the aim of which was to raise the rents on existing units and bring them closer to those on newly completed dwellings (Priemus, 1984, 1986).

The growing importance of housing allowances has also been accompanied by a general shift away from producer-oriented subsidies (although tax reliefs for providers of rented housing have tended to remain important—see Wood, 1990a). The US government, for example, virtually ended all producer subsidies in the early 1970s, at a time when it was introducing housing allowances. In France, the introduction of an additional housing allowance, Aide Personnalisée au Logement (APL), was part of a deliberate policy to shift help away from `bricks and mortar' and towards personal subsidies (Schaef, 1990). British governments since 1979 have systematically reduced the subsidies going to local authority rented housing and have relied increasingly on the income-related housing allowance scheme (Housing Benefit) to help tenants afford their rent.
This move from producer- to consumer-oriented subsidies has reflected a number of interrelated developments. Firstly, the end of large or absolute housing shortages prompted a re-evaluation of housing programmes. Many of the ‘bricks and mortar’ subsidies to producers had been introduced to stimulate house building in the face of severe post-war housing shortages. By the 1970s, as the absolute shortages were significantly reduced or eliminated, perceptions of the nature of the housing problem changed. The problem came to be seen less as one of the need to increase the supply of housing and more to do with preventing rent-to-income ratios becoming excessive. In other words, the issue was identified increasingly with problems of income rather than of housing. It followed that the appropriate policy instrument was more likely to comprise income supplements tied to housing than subsidies for those who produced housing.

Secondly, an important motive for the reduction in producer subsidies was the perceived ‘fiscal crisis’ of the welfare state in many advanced industrial nations in the 1970s and in 1980s (see O’Connor, 1973; Bacon and Eltis, 1976; Gough, 1979). The shift from Keynesian to monetarist policies, combined with an apparent need to reduce public sector borrowing and a desire to lower rates of taxation in order to increase work incentives, led to a search for ways of cutting back on welfare spending.

Housing programmes were a prime target for such reductions, not least because the impact of reduced public expenditure in this area of welfare is often less immediately apparent than in other programmes. In this context, housing allowances are a way of cushioning the poorer households from the worst effects of reduced spending on supply side support for rented housing. Moreover, for a given budget, more households can be assisted using housing allowances than by construction subsidies (Schussheim, 1989). Housing allowances thus fitted in with the growing search for greater efficiency in the use of public funds and the imperative not to ‘waste’ subsidies on households who did not really need them.

Thirdly, the increasing preference for consumer rather than producer subsidies has also reflected a renewed emphasis on markets. Markets were increasingly seen as beneficent and able to respond flexibly and effectively to changing consumer demands and tastes. At the same time, there was a growing disillusionment with public sector provision, which was perceived as inefficient and unresponsive to consumer wishes (see, for example, Department of the Environment, 1987).

While there has been a general shift in favour of income-related housing allowances in the OECD nations, not all countries have fully participated in this trend. For example, neither Italy (Ferrera, 1987) nor Spain (Vazquez, 1992) have national housing allowance schemes. Until recently, neither did Iceland (Ahren, 1990a; Turner, 1990). However, since January 1995, local authorities in Iceland have had the power to operate their own...
housing allowance schemes (Eardley et al, 1996) for privately rented apartments. In Austria there is no general system, but two different housing allowances (Mietzinsbeihilfe and Wohnbeihilfe)-which have different conditions of entitlement-do exist, but on a relatively small scale (Blaas, 1993).

In Canada there is no national housing allowance programme, although five of the ten provinces do operate their own scheme (Fallis, 1990; Steele, 1984). However, as noted above, social housing dwellings generally have rents that are geared to income and social assistance includes a shelter component.

Likewise, in Greece a general housing allowance scheme does not exist, but a scheme is available for elderly private renters who are without full social insurance pensions (Eardley et al, 1996). However, tenants may deduct 30 per cent of their annual expenditure on rent, while owner occupiers may deduct all of their mortgage interest payments, from their income for tax purposes. This is subject to a maximum deduction of 15 per cent of their annual taxable net income (Bradshaw et al, 1993; Emmanuel, 1990).

No general system of housing allowances exists in the Republic of Ireland, but local authorities employ differential rent schemes under which the amount of rent charged for a dwelling is related to the income of the occupant (Blackwell, 1990). There is a small scheme of rent allowances payable to tenants living in private rented accommodation which was rent decontrolled in 1982, but in 1992 there were only 984 recipients. Recipients of social welfare may also be eligible for rent or mortgage interest supplements if their disposable income after housing costs is less than the appropriate rate of Supplementary Welfare Allowance. The amount of the allowance is, within certain limits, at the discretion of the eight health boards which administer the supplements (Mills, 1989). In 1991 there were 9,302 tenants in receipt of rent supplements and 2,194 owner occupiers getting mortgage interest supplements (Bradshaw et al, 1993). Income-related rent schemes are also employed in subsidized housing in Belgium and in some Swiss cantons.

Finally, in the USA housing allowances and vouchers are provided on a cash-limited basis rather than as a right to which all eligible households are entitled. In fact, only about 15 per cent of eligible renters in the USA actually receive an allowance or voucher (Mayo and Barnbrock, 1985). While there has been considerable interest in the possibility of an ‘entitlement program’ in the USA, the cost has been considered prohibitive.
Since the collapse of communism in Eastern and Central Europe, a number of countries have looked to housing allowances as a policy instrument that could help them to make the transition to a market economy. These countries often operated very low rent, and consequently poorly maintained, state housing sectors. They have seen housing allowances as one way of facilitating the move towards higher rents and a more market based system of housing provision.

For example, with the re-unification of Germany, the West German housing allowance scheme was extended (in slightly modified form) to the former East Germany in 1991 (Tomann, 1992). At the same time, rents were raised across all sectors in the former East Germany by 1 DM per square metre; a second across the board rent increase of 3.8 DM per square metre was implemented in 1993, though this still left rents well below those in West Germany (Smith, 1995). Likewise, in the two republics created from the former Czechoslovakia, the cost and distributional implications of introducing a housing allowance to facilitate a shift towards market rents were simulated by policy analysts. As elsewhere in Eastern Europe, rents had been kept at a very low level under communist rule. It was felt that the economy could not continue to afford the levels of subsidy required to keep rents below operating costs; hence rents were doubled in July 1992 (Telgarsky et al, 1993).

A personal housing subsidy was introduced in Hungary in 1990, though this was based on household composition and not on income (Turner et al, 1992, appendix). The introduction of an income-related housing allowance was seen as a necessary precondition for the introduction of a new, post-communist system of housing finance in Hungary (Hegedus and Tosics, 1992a). In Poland, a housing allowance scheme was introduced in December 1994 (Maclennan, personal communication, 18.12.95).

The liberalization of rents accompanied by the introduction of housing allowances has been a common recommendation made by western economists advising Eastern European countries on the transition to a market economy (see Buckley et al, 1995). However, the cost of housing allowances has been a major obstacle to their introduction in the former communist countries (Clapham, personal communication, 19.12.95). Moreover, Hegedus and Tosics, have pointed out that the implementation of housing allowances is far from easy in the East European societies:

There are technical problems, such as the poor registration of household income and the shortcomings of the administrative system of registering: no one knows who is living where. In addition there are also serious political counter-arguments. Housing allowances are judged to be too ‘centralizing’ and thus incompatible with the new trend of local autonomy. And there are social groups—most notably among the middle class—which would have to pay much more rent while
receiving only small allowances or none at all. These strata of society would have to face a real worsening of their financial situation. (Hegedus and Tosics, 1992b:328)

Conclusion

Housing allowance schemes are one of a range of ways in which OECD countries have provided help with housing costs. Although often introduced as instruments of housing policy, housing allowance schemes in some countries have been provided as part of social assistance provision. They have become more important policy instruments as governments have sought to shift the emphasis away from bricks and mortar subsidies and below market rents and towards the demand side and market level rents. To some extent this reflects a view that the problem to be tackled is increasingly an income problem rather than a housing one and that assistance can be better targeted if directed only to those households that really need help. More recently, housing allowance schemes have been introduced in some of the former communist countries in Eastern Europe and the Soviet Union in order to facilitate a shift from very low rent, heavily subsidized rental housing towards more oriented systems of housing provision. It is clear that housing allowance schemes are likely to remain a long term feature of public policy in the advanced industrial nations.
Introduction

Housing allowance schemes may have housing policy or income support functions or both, but whichever role is more important they do not operate in isolation from either the housing market, the tax regime, or the social security system. It is important, therefore, to examine housing allowance systems within this wider context. In addition, as noted in Chapter 2, housing allowances are just one of a range of instruments that are used by governments to provide assistance with housing costs. Although the focus of this study is on housing allowances, it is important to examine these schemes within the context of the housing finance, taxation and social security systems that prevail in each country. The purpose of this chapter, therefore, is to locate housing allowances within the wider context in each country. In doing so, the chapter examines the following subjects:

- the structure of the housing market
- housing taxation and subsidies
- rent determination and rent burdens
- the treatment of housing within social assistance
- the role of housing allowances.

The coverage of these themes within a single chapter is inevitably very brief. For the European countries being considered here, fuller discussion of the housing market and housing finance systems is provided by Boelhouwer and van der Heijden (1992), McCrone and Stephens (1995) and Papa (1992). The Australian housing finance context is examined by Wood (1990). The Canadian housing market is covered at length in Miron (1993) and the housing finance system by Fallis (1990). The compendium edited by van Vliet (1990) covers all of the countries in this study other than New Zealand. New Zealand housing policy is compared with that in Sweden by Davidson (1994). The social assistance schemes in all of the selected countries are examined at length by Eardley et al (1996).

Structure of the housing Table 3.1 shows the tenure structure of the housing market in each of the selected countries for the most recent year for which the data were available. The figures for Germany refer to the former West Germany.
Table 3.1  Housing tenure in the selected countries (various years)

<table>
<thead>
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</thead>
<tbody>
<tr>
<td>Owner occupied</td>
<td>67%</td>
<td>65%</td>
<td>38%</td>
<td>47%</td>
<td>74%</td>
<td>41%</td>
<td>67%</td>
</tr>
<tr>
<td>Private rented</td>
<td>21%</td>
<td>30%</td>
<td>43%</td>
<td>17%</td>
<td>15%</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>Social rented</td>
<td>6%</td>
<td>6%</td>
<td>15%</td>
<td>36%</td>
<td>8%</td>
<td>21%</td>
<td>24%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
<td>4%</td>
<td></td>
<td>1%</td>
<td>1%</td>
<td></td>
<td></td>
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<tr>
<td>Totaltt</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

* Including co-operative housing. In 1990, 15% of housing in Sweden comprised co-operatives.

* Totals may not sum to exactly 100 due to rounding.

Source: National informants (policy experts)

In four of the countries the level of owner occupation is relatively high. In New Zealand, it accounts for about three-quarters of all households, while in Australia, Canada and Britain it represents about two-thirds of the total. At the other extreme, in Germany and Sweden, owner occupation accounts for around two-fifths of all households, while in the Netherlands it is just under half of the total. In Australia, Canada, Germany and New Zealand, private renting outnumbers social-rented housing. In the Netherlands and Britain social-rented housing outnumbers private renting. Sweden is the only country with a large amount of co-operative housing, though condominiums-dwellings in which owner occupiers or landlords own their own unit individually but collectively own the common parts—are common in most of the selected countries.

One may summarise by saying that Australia, Canada, Germany and New Zealand have housing markets dominated by the private sector, while the Netherlands, Sweden and to a lesser extent Britain have more mixed housing markets in which social rented housing plays a major role along with the private market.

It is important to note, however, that these housing tenure data should be interpreted with care. The usefulness of housing tenure as an analytical category, especially for cross-national comparative purposes, has been questioned (Barlow and Duncan, 1988). To some extent, tenure distinctions are less meaningful for comparative purposes than resource allocation and the nature of the relationship between government and housing suppliers (Oxley, 1995). The same terms can mean different things in different countries (Ruonavaara, 1993). While the differences between `private' and `social' housing are relatively clear-cut in some countries, in others they are not. In Germany especially, the term social housing is used in a very different way from in Britain. In the latter, social housing refers to local authorities and housing associations. In Germany, private-rented
housing and owner occupation where the owner has been in receipt of property subsidies are often included within the definition of social housing. For example, about a quarter of social housing dwellings in the former West Germany are privately owned (Oxley, 1995). Hence, a brief overview of the housing situation in each individual country may be more illuminating than simple housing tenure statistics.

Australia The Australian housing stock is relatively new and built at very low densities. About 80 per cent of the population lives in single detached dwellings. Throughout the postwar period, government policy has been geared towards the growth of home ownership (Wood, 1990b). Owner occupation increased as a proportion of all households after the second world war, rising from 53 per cent at the time of the 1947 census to 70 per cent in both 1981 and 1986. It then slipped back to 67 per cent in 1991. Private renting halved its share of the Australian housing stock in the two decades following the second world war, but has fluctuated at around a fifth of the total over the last three decades. Public-rented housing increased its share from two per cent in 1947 to six per cent in 1991. The remaining households live in community housing provided by the non-government sector, in boarding houses, caravans, have other arrangements or are homeless (Department of Health, Housing and Community Services, 1991: 3).

Owner occupation has been the dominant tenure in practice and in ideology for most of this century. As early as 1911, nearly half of all Australians were owner occupiers. Burke et al (1990: 726) state that most renters aspire to ownership and see renting as a transition stage before purchasing a home, however unrealistic this aspiration might be. The tenure has been vigorously encouraged by successive governments.

Public rental housing has a welfare role in Australia. Over three-quarters of all households renting public housing are in receipt of social security benefits and more than nine out of ten new lettings are to households in receipt of such benefits.

Since the 1960s when it stabilised at around a fifth of the total stock, the demand for private renting has been sustained by young and newly formed households and, in recent years, by lone parents and low income elderly households (Burke et al, 1990).

Paris summarises recent developments in Australian housing as follows:

Since the early 1970s . . . there has been a growing polarization of housing options, a cessation of the growth of home ownership, and the emergence of new housing problems: growing waiting lists for public housing, substantial youth homelessness, and a major problem of affordability facing poor private tenants. Even so, most Australians are
Canada is also claimed to have a very high standard of housing (Hulchanski, 1990). The predominant housing form is the single detached house, accounting for over half of all dwellings in 1986. Apartments accounted for just over a third of all dwellings. Eighty per cent of the stock has been built since 1940 and nearly three-fifths since 1960. Partly because the stock is relatively young, it is in comparatively good condition. In 1981 only 1.6 per cent of Canadian dwellings lacked basic amenities and only seven per cent was in need of major repairs. In 1980, only two per cent of renters were overcrowded, defined as living in dwellings with more than one person per room. However, while the standard of housing is high, "many Canadians still have great difficulty affording adequate housing appropriate to their needs" (Hulchanski, 1990: 290).

The relative balance between renting and owning in Canada has been fairly stable for many decades. In 1921, 66 per cent of Canadians were home owners, since when the total has fluctuated in the region of three-fifths to two-thirds. In 1993, 65 per cent of households were home owners and the remainder rented their home, in the great majority of cases from a private landlord.

Despite this relative stability in the size of the rented sector, the composition of the renter population has changed considerably over that period. Single people and other non-family groups, including the elderly, account for an increasing share of renter households (Miron, 1993). Families with children have increasingly looked towards owner occupation for their housing needs. Hence the privately rented sector "is now dominated by nontraditional households" (Steele, 1995: 6). Housing tenure has been increasingly polarised not just in terms of household types but also in terms of income distribution: a growing proportion of high income earners are owner-occupiers and a growing proportion of low income earners are renters (Wiktorin, 1993).

The great majority of tenants live in privately rented accommodation, which reflects Canadian governments' emphasis on the private sector. However, in 1993, approximately 600 thousand Canadian households were living in subsidized dwellings, which account for about six per cent of the total (Steele, 1995). There are four types of landlords in the social housing sector. First, there are dwellings owned by the government or by government agencies. This is referred to as public housing (public non-profit housing) and accounts for about 45 per cent of the social housing stock. Second, 25 per cent of social housing is owned by the `third sector' (private non-profit housing), which refers to dwellings owned by organisations such as a church group, labour union, ethnic association or
special purpose housing association” (Fallis, 1994: 5). Third, about 15 per cent of social housing is owned by private-sector landlords who have participated in programmes (such as those involving mortgages at below market rates) in return for regulated rents. Fourth, co-operatives account for ten per cent of the social housing stock. The remainder mainly consists of housing programmes for aboriginal Canadians (Fallis, 1994).

**Germany** The dominant philosophy underlying economic policy in Western Germany in the postwar period has been that of the *soziale Marktwirtschaft* or ‘socially responsible market economy’. In housing this has been reflected in a policy of encouraging both owner occupation and private renting. It has also involved, especially in the early postwar years, the provision of social housing. Since the 1960s and especially since the early 1980s, the emphasis of housing policy, at least rhetorically, has been on housing allowances (Ulbrich and Wullkopf, 1993).

After the war, there was a dramatic housing shortage in the former West Germany. Direct subsidies and tax reliefs were provided to owner occupation as well as to private landlords and housing associations in order to encourage new construction and eliminate the postwar housing shortage. An important element of this policy of subsidizing housing construction was that the dwellings should be aimed at the ‘broad strata of the population’ rather than as housing specifically for the poor (Haussermann, 1994).

In the second half of the 1950s, up to 40 per cent of all social housing was built by private landlords, but the percentage subsequently dropped quite sharply. Non-profit housing associations have been the main recipients of social housing subsidies. Some associations were owned by local authorities but others were sponsored by churches and trade unions (Ulbrich and Wullkopf, 1993).

Housing subsidies were given to private landlords and housing associations on the condition that they agreed to operate the dwellings as ‘social housing’ (Sozialwohnungen), originally for a period of 60 years, but this was later reduced to 30 years (Ulbrich and Wullkopf, 1993). Haussermann (1994) has argued that it would be more accurate to describe this not as social housing but as publicly subsidized housing, since the former implies an orientation to social policy that scarcely existed. The conditions which had to be met in return for subsidies included the following. In the rented sector, dwelling standards had to exceed a certain minimum, while in the owner occupied sector they were not to be in excess of a specified maximum. In addition, lettings were to be restricted to certain income groups and rents were regulated to below market levels (Tommann, 1990).

In recent years, the government has encouraged the repayment of social housing loans in order to recycle the receipts and thereby maintain a larger
social housing programme than would otherwise have been possible. Once the loan is repaid, the owner is no longer bound by the regulations governing social housing. Hence the supply of such accommodation is decreasing fairly rapidly (Ulbrich and Wullkopf, 1993). In addition, in 1989 housing associations lost their tax exempt status and thus became, in effect, private landlords (Hills et al, 1989).

Since 1989, the housing market in the former West Germany has been under pressure as a result of a sharp increase in immigration from East Germany, ethnic Germans from Eastern Europe, and asylum seekers from elsewhere. The population of the former West Germany has increased by well over two million since the Berlin Wall came down (Ulbrich and Wullkopf, 1993). This has helped to create a ‘new housing shortage’ and has increased affordability problems as rents have risen faster than earnings.

In 1990, approximately two-fifths (41%) of the dwelling stock in the former East Germany was in private ownership, a similar proportion (42%) was in the form of public-rented housing, and the remainder (17%) was owned by co-operatives. Private ownership has fallen from 91 per cent of the stock in 1950 to 41 per cent in 1990. Public housing increased from eight per cent to 42 per cent. And co-operative housing has increased from one per cent to 17 per cent over the same period (Table 3.2). Claims have been lodged by private individuals, mainly in West Germany, for the return of dwellings confiscated after the war restitution.

Much of the dwelling stock in the new Länder is in very poor condition, having been very poorly maintained. Rents are very low, but so too are incomes and savings (Tomann, 1992; Ulbrich and Wullkopf, 1993). Rents were increased across the board in 1991 and again in 1993. Nevertheless, even after the latter increase, average rents were still less than half those in the west of Germany. These rent increases led to arrears increasing as tenants found it difficult to afford the rents and service charges. By 1993, rent arrears had reached DM 340 million (Smith, 1995).

The housing allowance scheme and other social security benefits, at temporarily enhanced levels, and the tax arrangements which apply in West Germany, were extended to the East with reunification. Take-up of the housing allowance was initially low, perhaps not surprisingly given that there was no previous history of such a scheme and a lack of trained staff to administer it (cf Hallett, 1994). In 1991, only 1.5 million out of the estimated 4 million eligible households had taken up their entitlement (Dienemann, 1993; Smith, 1995). The enhanced rates of housing allowances are intended to compensate for the lower incomes in the east and the rent increases that are being made to move the housing market onto a more economically rational footing.
Table 3.2  Housing ownership in Eastern Germany 1950 to 1990

<table>
<thead>
<tr>
<th>Year</th>
<th>Private ownership</th>
<th>Cooperatives</th>
<th>Public housing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>91 %</td>
<td>2 %</td>
<td>8 %</td>
<td>100 %</td>
</tr>
<tr>
<td>1960</td>
<td>83 %</td>
<td>10 %</td>
<td>15 %</td>
<td>100 %</td>
</tr>
<tr>
<td>1971</td>
<td>62 %</td>
<td>17 %</td>
<td>28 %</td>
<td>100 %</td>
</tr>
<tr>
<td>1990</td>
<td>41 %</td>
<td></td>
<td>42 %</td>
<td>100 %</td>
</tr>
</tbody>
</table>

Source: Dienemann (1993)

The Netherlands

In the Netherlands owner occupation has been slowly rising as a proportion of the housing stock, having increased from 28 per cent in 1947 to 47 per cent in 1993. Over the same period, the privately rented sector has shrunk from 60 per cent to 17 per cent, while social-rented housing has increased from 12 per cent in 1947 to 36 per cent in 1993.

Privately rented housing is owned in roughly equal proportions by institutions and private individuals; in relative terms the decline of the sector has been concentrated among private individuals rather than institutional owners (Priemus, 1993).

Social or non-profit housing is mainly owned by housing associations, but central and local government accounted for about one seventh of this sector in 1989 (Boelhouwer and Heijden, 1992; van Weesep, 1986). Housing associations are established under the Housing Act of 1901, which is still in force, and 'approved' by central government. As well as providing homes to rent for low income earners, they also build houses for sale to owner occupiers. The allocation of their dwellings is managed by the local authorities, who also draw up the allocation criteria including income limits (Wiktorin, 1993).

In the Netherlands since the war, much new construction (including the majority of private output) has been subsidized. Indeed, until the early 1990s, the construction of most new owner occupied dwellings was subsidized (Wiktorin, 1993). As well as new construction, social housing rents are also subsidized. The 1980s witnessed considerable concern at the scale of subsidies tied up in the existing housing stock and also at the growth in the number of housing allowance recipients (Priemus, 1990). As in Britain, one dilemma facing the Dutch government has been that, if rents are raised in order to reduce property subsidies, the housing allowance bill will increase (van Weesep, 1986; Wiktorin, 1993).

Dutch housing policy entered a new phase with the publication in 1989 of the Heerma document, named after the Christian Democrat Minister for Housing. This articulated three principles for policy: (1) the decentralisation of responsibility for housing supply and finance from the
national government to the municipalities; (2) new regulation of the responsibilities of landlord and tenant, and, in particular, the ‘internal democratisation’ of housing associations, involving greater tenant participation; and (3) increased independence for housing associations, especially in respect of rent setting (Wiktorin, 1993).

New Zealand

Housing in New Zealand has long been dominated by home ownership. At the 1991 census, about three-quarters of households owned or were buying their home. A variety of different types of landlord accounted for the rental housing stock. The New Zealand Housing Corporation (HCNZ) accounted for 24 per cent of all rented dwellings, other government departments accounted for five per cent, local authorities for six per cent, private landlords for 61 per cent and the ownership of the remainder (4%) was not known.

New Zealand governments since at least the 1920s have actively pursued a policy of promoting home ownership, mainly by subsidized loans for low income wage earners (McLeay, 1992; Thorns, 1986). Support has also been provided indirectly, by use of the construction industry to achieve the goal of full employment.

The state is by far the largest single landlord in New Zealand and has been a source of new construction (built by the private sector) as well as purchasing existing accommodation. Prior to the reforms of the early 1990s (see below), as well as letting accommodation, the New Zealand Housing Corporation provided loans to low income owner-occupiers, a mediation service for disputes between private landlords and tenants and held bond money paid by tenants renting from private landlords. HCNZ charged its tenants below market rents. As with public housing in Australia, these rents were income-related such that tenants paid a rent equal to 25 per cent of their income.

Local authorities provide a limited amount of rental accommodation. In 1991, they housed one per cent of New Zealand households and accounted for six per cent of the rental housing stock. More than three-quarters of local authority housing is provided for pensioners and the remainder for the general population. In the past they were able to obtain low interest loans from the HCNZ, but this arrangement was terminated in July 1993 as part of the housing reforms. The rents are determined under a range of arrangements but are generally well below market levels and the cost of provision.

The privately rented sector has decreased in size in recent years, mainly because returns are low relative to other investments. The sector is largely owned by small scale landlords (McLeay, 1992), many of them operating on only a temporary basis. Prior to the 1993 reform of housing assistance
private tenants receiving welfare benefits were entitled to a housing allowance called Accommodation Benefit.

In the early 1990s, the New Zealand government embarked upon a wide-ranging restructuring and scaling down of the welfare state. For example, in April 1991, welfare benefits were cut across the board. The Employment Contract Act of 1991 deregulated working conditions, leaving matters affecting pay and conditions to be decided by private negotiations between employers and their employees. In February 1992, user charges were extended for health care. Fees for university education were also increased very substantially and there is a drive to privatize state assets (Randerson, 1993).

According to Boston (1992:1) these reforms represent "the most significant changes to the nature and scope of the welfare state in New Zealand since the mid to late 1930s". The rationale put forward by Ministers for these changes have included the need to cut the public sector budget deficit, the desire to increase work incentives, and the need for more efficient and equitable ways of delivering welfare. The changes also reflect a fundamental shift in the orientation of public policy away from an inclusive, universal welfare state, towards a more residual, safety net approach in which assistance is provided only to those who are unable to provide for their needs themselves (Boston, 1992). As part of this welfare state restructuring, a major reform of housing assistance was introduced (see below).

Sweden

Compared with the other selected countries, Sweden is relatively unusual in that there are four distinct housing sectors: owner occupation, private renting, social renting, and housing co-operatives. In 1990, owner occupation accounted for about two-fifths of the housing market, private renting and social renting each accounted for a fifth, while co-operatives accounted for about a seventh of the total. In the same year, just over half of the four million dwellings were single family houses while the remainder were multi-family dwellings. About nine out of ten single family units were owner occupied, while most multi-family dwellings were rented or part of a housing co-operative (Wiktorin, 1993). The housing stock in Sweden is relatively new: three-quarters of the stock was built after 1940. About a quarter of the housing in the three largest cities was built as part of the so-called Million Programme (1965 to 1974) when the aim was to construct a million dwellings over ten years (Elander, 1994).

Owner occupied homes decreased slightly as a proportion of the total housing stock, from 38 per cent in 1945 to 35 per cent in 1970, but then slowly increased to 40 per cent. Private renting has fallen from 51 per cent in 1945, while social renting has increased from two per cent and co-operative housing has risen from four per cent at the same date. Both
private and social renting have remained at about a fifth of the stock each since 1980.

Social rented housing in Sweden largely takes the form of municipal, non-profit housing companies. These companies are controlled by and operate within single municipalities. Some municipalities have more than one company, which may be in competition with each other. They range in size from a hundred or so to more than 50,000 dwellings (Wiktorin, 1993). The management boards of these companies are composed of members of the municipal council (Boelhouwer and van der Heijden, 1992).

When the foundations of postwar housing were laid down in 1946-47, the goal for social housing was ‘good dwellings for all’ (quoted in Elander, 1991: 31). Hence, in principle, social rented housing is open to all households and no income tests are used to decide upon eligibility (Wiktorin, 1993). A further key principle of Swedish housing policy since 1974 has been the goal of tenure neutrality in terms of financing and subsidies.

In the private rental sector there are a small number of very large owners and a large number of very small owners. Thus about a third of the sector is owned by landlords who have just one apartment block, while another third is owned by only one per cent of landlords. Like social housing landlords, private landlords have been eligible to receive state housing subsidies, though on slightly less generous terms. Kemeny (1993) has referred to the rental housing market as being a unitary one in the sense that the rent setting rules, security of tenure and to some extent even allocation of tenancies are the same in both the private and the social housing sectors.

There is a high level of organisation among landlords and tenants representatives in Sweden. The municipal housing companies are organised into a national umbrella organisation known as SABO, which is involved in the national rent negotiations (see below). Private sector landlords are represented by the Swedish Federation of Rented Property Owners. Tenants are also highly organised and there is an organisation of building contractors (Boelhouwer and van der Heijden, 1992).

In 1993, 68 per cent of households in Britain were home owners, 19 per cent were renting from a local authority, four per cent were renting from a non-profit housing association and ten per cent were living in privately rented accommodation.

Postwar housing policy in Britain has been highly tenure driven. Throughout much of the postwar period, new construction has been dominated by the private market for owner occupation and by local housing authorities. The housing stock, too, became increasingly polarised between owner occupation for middle to upper income groups and local
authority housing for the poor. By 1979, nine out of ten households were either owner-occupiers or tenants of their local authority.

Although there are elements of continuity throughout the postwar period, 1979 marked an important turning point in the development of housing policy. Since the war, all governments have encouraged owner occupation, but during the 1980s the pursuit of this tenure was elevated to the key goal of housing policy. Prior to 1979, all governments helped to promote new construction by local housing authorities. Conservative governments more reluctantly than Labour ones. However, since 1979 a central objective of housing policy has been to reduce the importance of council housing, by selling off dwellings under the 'right to buy' policy, by transferring stock to alternative landlords such as housing associations, and by running down new construction in this sector. Housing associations have been promoted by all governments, but since 1989 have been promoted as the main provider of new social rented housing.

The rhetoric of Conservative governments has been supportive of the private-rented market and that of Labour ones fairly antagonistic, though in practice all governments until recently have done little to encourage this tenure and much to discourage it. However, private renting has attracted new support both from the Conservative governments and from the Labour opposition since the late 1980s.

Housing taxation and This section provides an overview of the subsidies that are provided to housing subsidies in each of the selected countries, including tax reliefs and concessions. Housing taxation and subsidies are invariably complex and frequently altered and there is not space here to examine these arrangements in detail or discuss how they have altered over time except in very general terms.

Australia In Australia, the Commonwealth government acts primarily as a source of funds, while most housing programmes are administered by the State governments. The Commonwealth government shapes the general direction of housing policy via the conditions under which the funding is made available to the States. This procedure is implemented through Commonwealth State Housing Agreements (CSHAs) which are negotiated periodically. The funds are made available to the States on a matching basis and have been used primarily for public housing construction, rent rebates for public housing tenants, and concessionary loans for owner occupiers (Wood, 1990b).

Since 1978 there has been a gradual switch from bricks and mortar subsidies aimed at keeping rents in the public sector below market levels, towards market rents and personal subsidies in the form of rent rebates. Approximately 85 per cent of public tenants in Australia now receive a rent rebate. In 1993, around $1.2 billion was given in rent rebates to 350 thousand public housing tenants.
Rent assistance for private tenants is provided by the Department of Social Security and the Department of Veterans’ Affairs. In 1993, about $1.2 billion was paid in rent assistance to around 900 thousand private tenants.

A Mortgage and Rent Assistance Programme (MRAP) was introduced in 1991 and replaced the previous Mortgage and Rent Relief Programme. This scheme provided help with deposits for low income home buyers, short term help for low income home buyers in difficulty with their mortgage repayments, and short term assistance for low income tenants having difficulty in paying their rent or in gaining access to privately rented accommodation.

Subsidies to home owners take three main forms. First, home owners in Australia are exempt from tax on imputed rental income and from capital gains tax. They are not, however, eligible for relief on their mortgage interest payments. Thus, home ownership is treated as a consumption good in Australia rather than as an investment. Home owners are also exempt from the State land tax. Some elderly home owners are exempt from local property taxes. Second, various forms of help for home buyers has been provided for many years by the States. These have mainly taken the form of low interest loans. Third, various forms of schemes have operated which provide help with deposits for first time buyers.

Private landlords in Australia have been supported by preferential tax treatment compared with alternative investment assets. The rationale for this is that this helps to stimulate new construction and retention of housing within the private rental market, though this justification has been contested (Wood, 1990a). Investors in newly constructed private rental housing are eligible for depreciation allowances at 2.5 per cent per annum. In addition, all private landlords can claim tax relief on the interest payments on loans, but real capital gains are taxable. Where outgoings exceed rental income, landlords can deduct the difference from their other sources of taxable income, a procedure known as ‘negative gearing’ (Wood, 1990a).

Prior to the 1990s, housing assistance in Australia was principally focused on home ownership and public housing; assistance to private renters was limited by comparison. However, concern about the affordability problems faced by many private tenants led to greater emphasis being placed on rent assistance in the private rental sector, and the scheme has been considerably enhanced (see Chapter 4). While home ownership continues to receive by far the largest share of housing assistance, support within rental housing has shifted from supply to demand. In 1984/85, rent assistance and rent rebates accounted for approximately two-thirds of support for rental housing and production subsidies (the difference between nominal and market rents) for two-thirds. By 1990/91, the
balance had shifted considerably, such that the demand subsidies accounted for around nine-tenths of the total and supply subsidies for the remainder.

Canada As in the other selected countries, the housing taxation system in Canada provides an important source of subsidies both to owner-occupiers and to private landlords. Home owners are taxed neither on their capital gains nor on their imputed rental income from their dwelling. They are not eligible for tax relief on their mortgage interest payments nor on their property taxes.

Private landlords can deduct in full from their rental income interest payments on loans. Moreover, rental losses due to mortgage interest can be offset against their other taxable income. Realized, nominal capital gains are taxed, but at less than the rates on income tax. In addition, private landlords are eligible for the Capital Consumption Allowance, a form of depreciation allowance which, at four per cent, is well in excess of physical depreciation.

Federal governments have provided bricks and mortar subsidies to public housing and also to non-profit and co-operative housing, sharing the cost with the provincial governments. The total cost of these subsidies increased six fold between 1980 and 1993, but at the end of December 1993 the federal government announced that no new commitments would be entered into. After the federal withdrawal from funding new developments, British Columbia decided to maintain the then current funding level for new social housing. It is now the only Canadian province currently funding new social housing.

The federal government funds, on a shared basis with the provincial governments, the difference between the rental revenue and the operating costs of social housing. The amount of rental revenue is affected by the income of the tenants because the rents charged are income related: they are referred to as rent geared to income (RGI) dwellings.

Modest supply side subsidies have also been provided for private rental housing. The Residential Rehabilitation and Assistance Programme (RRAP) was introduced in 1973 to provide subsidized loans to private landlords and home owners to renovate substandard dwellings inhabited by low to moderate income households. In 1975, the federal government introduced the Assisted Rental Programme (ARP) to facilitate the construction of affordable private rental housing. ARP provided concessionary loans over a ten period. New commitments were stopped in 1978 (Fallis, 1994). Direct subsidies to private landlords have been far exceeded by the scale of subsidies to social housing, but these in turn have been "dwarfed by tax expenditure for private housing" (Steele, 1995, footnote 30).

The great bulk of housing support in Canada is therefore provided through the tax system. Housing allowances (which in Canada are often
referred to as shelter allowances) account for a very small and stable share (about 2% in 1984 and again in 1990) of direct federal housing subsidies. In 1993, housing allowances accounted for only about $70 million (Steele, 1995). In contrast, the shelter component of social assistance is a relatively large sum, accounting for $5.2 billion. Social housing programmes accounted for $4.1 billion.

Germany  
Housing taxation has played a very important role in housing policy in the former West Germany. Home owners are not taxed on their imputed rental income but also receive no mortgage interest tax relief. However, between late 1991 and the end of 1994, mortgage interest tax relief was introduced as a temporary measure for newly constructed owner occupied housing. The relief was limited to the first three years after construction (subject to a maximum amount of 12,000 DM a year). The most important subsidy to owner occupation is a depreciation allowance on taxable income for the first eight years from purchase. This is equal to six per cent of the price of the house and half the value of the land (subject to a maximum of 19,800 DM) for the first four years, after which it falls to four per cent (16,500 DM maximum) for the next four years. In 1995, the maxima were substantially reduced (to 9,000 DM and 6,000 DM respectively) for purchases of second hand dwellings. Finally, a tax credit is available for home owning families, equal to 1,000 DM for each child during each of the first eight years from purchase.

Private landlords receive favourable treatment in the German tax system, which helps in part to explain the extensive investment that has gone into the private rental sector in that country. As with other investments, operating costs can be deducted from rental income before income tax is levied. In addition, losses on rental housing can be offset against other taxable income. Like home owners, landlords are allowed to depreciate their investment. Depreciation applies to the purchase of both new and second hand dwellings. For buildings purchased more than two years after the dwelling was constructed, the depreciation rate is 2.5 per cent over forty years on dwellings built before 1925 and two per cent over fifty years on those built in 1925 or later. Since the early 1980s, higher rates of depreciation have been available on newly constructed dwellings. In 1989, in order to stimulate an increase in new construction, the rates were raised still further for dwellings built from that year. Whereas the depreciation allowance for second hand dwellings is provided at a linear rate, for newly constructed units it is provided at a declining rate, as shown in Table 3.3.
Table 3.3 Rates of depreciation allowed against tax on investment in new rented housing in Germany

<table>
<thead>
<tr>
<th>Years after construction</th>
<th>Annual rate</th>
<th>Accumulated depreciation</th>
<th>Years after construction</th>
<th>Annual rate</th>
<th>Accumulated depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Constructed before 1989</td>
<td>Constructed after 1989</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1-8</td>
<td>5%</td>
<td>40%</td>
<td>1-4</td>
<td>7%</td>
</tr>
<tr>
<td></td>
<td>9-14</td>
<td>2.5%</td>
<td>55%</td>
<td>5-10</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>15-50</td>
<td>1.25%</td>
<td>100%</td>
<td>11-16</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>17-40</td>
<td>1.25%</td>
</tr>
</tbody>
</table>

Source: national informant (policy expert)

Direct supply subsidies have been much less important than tax expenditures in the provision of new housing. Even so, in 1986, approximately one-fifth of the West German housing stock was in receipt of ‘social’ housing subsidies. Such subsidies have been made available to private and social landlords and to owner-occupiers. Thus, of the dwellings on which social housing subsidies were being received in 1986, 40 per cent were owner occupied. Of the 60 per cent that were rented, 37 per cent were owned by non-profit housing associations, 45 per cent were owned by private households, and the remaining 18 per cent were owned by a range of types of landlord (Haussermann, 1994).

The cost of social housing subsidies has been shared by the federal government and the Laender, but the detailed design of the programmes has been the responsibility of the latter. The subsidy regime has included a variety of instruments, including interest free loans, repayment holidays and revenue grants. The principle underlying social housing subsidies has been that they should be set to cover the costs not met by the rent, which is set at below market levels. The intention is that the investor should break even from year one provided the accommodation is tenanted. The rent remains fixed other than to allow for increases in certain operating costs and the reduction in the subsidy over time (Hills et al, 1989).

In 1988, in a ‘dramatic’ change of policy, the federal government announced the end of public subsidies for the construction of new rented housing. However, in the face of the ‘new housing shortage’, a new social housing programme was introduced in 1990 (Tomann, 1990; Haussermann, 1994). Although housing policy has placed a lot of emphasis on housing allowances, expenditure on them has scarcely increased since the mid-1980s in the former West Germany.

The Netherlands

The Dutch government has played a major role during the postwar period in promoting the construction of both of rented housing let by social and private landlords and of owner occupied dwellings. The details of the
supply side subsidies to housing landlords have varied over time, but in essence they have tended to cover the difference between cost rents and actual rents. Various types of subsidy have also been made available to promote building for owner occupation. The Memorandum on Housing in the Nineties, issued in 1989, heralded a shift away from property subsidies towards greater reliance on housing allowances.

A radical change in housing subsidy was introduced in 1995. As from 1 January, property subsidies for rented housing were largely abandoned, as was the annual subsidy paid on newly constructed dwellings bought by low income owner occupiers. Thus there has been a radical reduction in housing subsidies in the Netherlands, with housing allowances now being the most important financial instrument still in place.

In the Netherlands, owner occupied housing is regarded as an investment good. Imputed rental income is taxed, albeit at a low rate, though capital gains are not. The full amount of interest payments on mortgages is deductible from tax liability (Haffner, 1994).

New Zealand

New Zealand has also witnessed a radical reform of housing assistance in recent years. As in other countries, a key feature of this reform has been a shift from bricks and mortar to personal subsidies. Some of the key features of this reform (McLeay, 1992) were as follows:

- all existing housing subsidies were to be replaced by a single form of benefit to be known as the Accommodation Supplement-based on the previous Accommodation Benefit-and be delivered by the Department of Social Welfare

- HCNZ tenants were to be charged market rents, but would be eligible to apply for the new Accommodation Supplement

- owner-occupiers were to become eligible for Accommodation Supplement instead of low interest loans through the HCNZ

- state housing owned by HCNZ would be transferred to a new state owned enterprise called Housing New Zealand (HNZ)

- a new Ministry of Housing would be created, which would be responsible for policy advice and for administration of residential tenancies (the mediation and bond money services).

Thus, almost the only form of direct housing subsidy now in New Zealand is the Accommodation Supplement scheme which was introduced in July 1993. In 1994 it accounted for four-fifths of all government direct housing assistance (that is, excluding the value of tax expenditures) compared with one-fifth in 1991 and one-sixth in both 1984 and 1990.
Special Needs Grants continue to be available. These are both one-off and repayable grants which provide low income people with part of the cost of expenses such as rental deposits and removal costs.

In New Zealand, there is no tax relief on home owners’ mortgage interest payments, but nor is there taxation of capital gains or imputed rental income. In the past, low interest loans were provided by the Housing Corporation. Indeed, in the 1970s, the Housing Corporation provided about half all of all new mortgages taken out by owner-occupiers, but this had declined to about a quarter by 1984. By 1992/93, it accounted for less than one in twenty new mortgages. Homestart Loans, which were introduced in 1986, were also discontinued as part of the 1991 Budget changes. They had been designed to bridge the deposit gap for low income first time buyers, that is, the difference between their savings and the required deposit. New lending commitments ceased to be made from July 1993 when the housing reform came into operation. However, HNZ will continue to make Papakainga Housing Loans available to the Maori population in view of the particular housing problems which they face.

Sweden

Bricks and mortar subsidies in Sweden have taken the form of interest subsidies for the construction of new housing and the rehabilitation of the existing stock. For rental dwellings built by the municipal housing companies, the subsidized loan covers 100 per cent of the approved cost of construction. For co-operatives, the subsidized loan covers 99 per cent of the approved cost, while for private landlords it covers 92 per cent of the cost. For owner occupiers, it covers 95 per cent. The non-subsidized portion and any costs in excess of the approved amount have to be covered by a market loan. The subsidized portion of the costs are covered by two loans: a loan equal to 70 per cent of the approved cost has to be obtained from a mortgage bank, while the remaining subsidized share (30%, 29%, 22% and 25% respectively of the approved cost) is covered by a loan from the state (Anas et al, 1990). The amount of the interest subsidy is gradually tapered off until the market level is reached (Papa, 1992).

These interest subsidies are being phased out as part of a radical reform following the election in 1991 of a non-socialist coalition government. The new administration outlined four goals: to integrate Sweden into the European Union, to tackle the economic stagnation of the country, to increase ‘free choice’ in welfare and social care, and to lay the foundations of a more sustainable society. As part of this reform, housing policy is to be made more market oriented and cutbacks made in housing subsidies. In 1992/93, housing subsidies accounted for an estimated eight per cent of total government expenditure (Elander, 1994).
Among the changes that are being made, the interest subsidies are to be gradually reduced and completely phased out by the year 2000 or thereabouts. The interest subsidies on dwellings built between 1978 and 1992 are also to be run down. The Ministry of Housing was abolished in 1991, with responsibility for housing being divided among seven ministries. However, a year later it re-appeared in another guise, when an inter-ministerial delegation was established with the job of coordinating government housing policy (Elander, 1994).

A radical reform of the Swedish tax system was also introduced in 1990 and 1991, the stated objective of which was to increase the efficient functioning of markets. Housing was central to this reform. Income tax rates were lowered but the tax base was broadened: housing investment and property management ceased to be exempt from VAT, the property tax was increased, and the rate of mortgage interest tax relief was lowered (Schwarz, 1992; Swedish Institute, 1992).

The position now is that nominal capital gains are taxed, but imputed rental income is not. Owner-occupiers receive tax relief at a rate of 30 per cent on the first 100,000 SEK per person in mortgage interest costs and 21 per cent on interest costs above that amount (Papa, 1992).

As a result of these changes to housing and taxation, housing costs rose by about 20 per cent in real terms between 1989 and 1991 (Swedish Institute, 1992). In order to alleviate the effects of this marked reduction in housing subsidies and tax expenditures, the housing allowance scheme was enhanced, which in turn resulted in an increase in its cost (Schwarz, 1992). Housing allowances have consequently increased as a proportion of total housing subsidies, from 22 per cent in 1990 to 32 per cent in 1993.

The Social Democrats returned to power in September 1994 as part of a coalition government. The perceived need to reduce the relatively large budget deficit has led the government to propose wide ranging cuts in benefit expenditure. As part of these proposals, it is planned to reduce expenditure on housing allowances by 20 per cent (see Chapter 7).

Britain

In Britain, owner-occupiers are not taxed on either their imputed rental income or their capital gains. Mortgage interest relief has been available since income taxation was first introduced, but is no longer a tax abatement. Instead, it is provided to all buyers irrespective of whether they pay tax or not. The mortgage lender charges the borrower a reduced rate of interest and then the difference is reimbursed to the lender by the government. This scheme, which was introduced in 1983/84 for most borrowers, is known as Mortgage Interest Relief at Source (MIRAS). Since 1974 there has been a ceiling on the size of loan on which interest
relief may be obtained. This was initially set at the first £25,000 of a loan, but since 1983 it has been at £30,000. Originally, mortgage interest relief was provided at the borrower's marginal tax rate or (since 1967) at the lowest tax rate in the case of non-taxpayers. The rate of subsidy provided by MIRAS, however, has been gradually reduced in recent years. In 1993/94, MIRAS was provided at a rate of 25 per cent of mortgage interest (on the first £30,000 of a loan); in 1994/95, it was available at 20 per cent; and from 1995/96 it is available at 15 per cent.

Private landlords are taxed on their rental income, but losses may not be offset against other taxable income. However, resident landlords are eligible for tax relief on the first £65 per week of rental income. Real, realised capital gains made by private landlords are taxed. Landlords receive unlimited tax relief at their marginal tax rate on their interest repayments. There is no provision in Britain for depreciation allowances for private landlords, though there is for the owners of other investment assets. In order to encourage institutional investment in the privately rented sector, the 1995 housing white paper announced new tax incentives for approved housing investment trusts. These trusts would be companies established to own residential property to let, in which financial institutions would be able to invest without themselves having to directly own or manage the dwellings. The trusts would be exempt from capital gains tax and pay a reduced rate of corporation tax. It also announced that private developers will be allowed to apply for the capital grants that until now have only been made available to housing associations (Department of the Environment, 1995).

Housing associations in Britain are currently exempt from tax, though a proposal has been made to introduce tax for housing associations that are not charities. Those registered with the Housing Corporation—the government agency responsible for the registration, funding and monitoring of housing associations—are eligible for capital subsidies on approved construction costs or acquisition and rehabilitation costs. These subsidies have been substantially reduced since 1989/90, from around 90 per cent of approved costs to about 60 per cent. The remainder of the capital costs are covered by a loan, in most cases obtained at market rates from the private capital market. Prior to 1989/90, most loans were provided at below market rates by the Housing Corporation. Thus since 1989 there has been a shift of emphasis from bricks and mortar to personal subsidies and a privatisation of the financing of housing association construction activity. As a result of both developments, housing association

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1 The average new mortgage loan in 1993 was about £46,000 and the average house price about £67,000 (CML, 1994; Halifax Building Society, 1995).
rents have increased considerably in real terms, with knock-on consequences for the housing allowance budget.

Local authorities may receive revenue ('bricks and mortar') subsidy from central government to cover part of their operating costs, but the amount of this subsidy has been reduced considerably since 1980 and, in consequence, few authorities now receive it (Malpass, 1990). Instead, a growing number of local authorities have a negative subsidy entitlement, which is used to offset part of the cost to the government of housing allowances paid to these local authorities' tenants. The reduction in revenue subsidy has meant that local authorities have had to increase their rents in real terms in order to cover what would otherwise be a shortfall in their operating costs. In turn, the rise in rents has helped to increase the cost of housing allowances (Wilcox, 1993).

As a result of the reduction in mortgage interest relief and in bricks and mortar subsidies, housing allowances have become an increasingly important part of the total housing subsidy bill. Between 1979/80 and 1994/95, the total housing support bill (including Income Support mortgage interest payments) remained stable at £18 billion in 1994/95 prices, but the composition changed considerably. Bricks and mortar subsidies to local authorities and housing associations fell from 68 to 27 per cent of the total. Help for home owners increased very slightly from 22 to 24 per cent, but most of this increase was due to the increased cost of Income Support mortgage interest payments rather than to mortgage interest relief. Housing allowances paid to tenants in both the private and social housing sectors (known as Housing Benefit) increased from 10 per cent to 49 per cent over the same period (Department of the Environment, 1995).

Rent setting and rent This section covers three topics: how rents are determined, trends in rent burdens levels since 1980, and rent burdens.

Rent setting In Australia, rents in the private sector are market rents determined by the interaction of supply and demand. Rent controls did exist in the immediate postwar years but they have long since gone. In the public sector, the way in which rents have been determined has altered over time. In the 1950s, 1960s and much of the 1970s, public-housing rents were pooled cost rents in the sense that they were set to cover the (highly subsidized) historic cost of providing the stock. Between 1978 and 1984 there was a general trend towards charging market-related rather than cost rents. Since 1984 State Housing Authorities have been required to charge no less than (largely unsubsidized) cost rents, defined to include all operating costs, loan charges and depreciation. However, most have shifted towards charging market rents. These rents are not necessarily the rents which tenants pay, however, since all public housing tenants are eligible for rent rebates.
In Canada, where the great majority of rental housing is provided by private landlords, rent controls were introduced during the second world war by the federal government. After the war, rent controls were gradually abolished and by 1951 had ended in all provinces except Quebec, which retained a form of rent arbitration (Miron, 1994). Elsewhere in Canada, rent controls were uncommon until the 1970s (Wiktorin, 1993) and rents were set at market levels by the interaction of demand and supply. In response to housing shortages in the early 1970s, rent controls were introduced by provincial governments. By April 1976, all provinces had controls in place following a request from the federal government as part of its anti-inflation strategy; they were seen as a temporary measure to control inflation (Miron, 1994; Steele, 1995).

At present, rents are unregulated and are therefore set by the market in British Columbia, Alberta and New Brunswick. All of the other provinces operate rent controls of one sort or another. These rent control regimes vary from province to province. Most of them provide for annual rent increases and allow increases in certain costs to be passed through into the rent. Newly constructed dwellings are often exempt for a period or years. For example, in Ontario they are exempt for the first five years after construction (Crook, 1995). The question of rent controls is a matter of some controversy, but recent studies suggest that they have had relatively little impact on rental housing except in certain sub-markets (Steele, 1995). In subsidized housing, rents are income-related (rent geared to income), as in Australia and previously New Zealand.

In Germany, different principles govern the setting of rents in the private and social housing sectors. In the private sector, the legal framework for rent determination is provided by the Tenure Security Act of 1971. This framework is based on three elements: (1) security of tenure for the tenant; (2) the initial rents of new leases can be freely negotiated, that is, they are market rents as determined by supply and demand; and (3) rent increases for sitting tenants are limited to the level which comparable accommodation in the area can command (Vergleichsmiete).

There are three ways in which Vergleichsmiete can be determined: (1) by reference to at least three comparable properties in the same area commanding this rent; (2) through a rent survey (Mietspiegel) carried out by the local authorities; or through a surveyor’s report.

However, this framework applies only to unfurnished rentals; furnished dwellings are excluded. In addition, until recently over 400 thousand pre-war dwellings in Berlin remained under rent control, on which periodic rent increases based on a percentage of historic rents are granted. Landlords could pass through the rent the cost of major improvements (up to a limit of 11% of the cost), provided that the tenant agreed beforehand to the improvement. In 1992 rent decontrol on vacant
possession was introduced on these dwellings and in 1994 the controls were abolished altogether.

While the initial rents on new contracts are freely negotiable in Germany, this does not mean that they are unlimited. Since 1993, it has been an offence to charge an initial rent which is more than 20 per cent above the Vergleichsmiete (prior to 1993 this limit was 50%). However, the large gap between the rents of old contracts and market rents for new contracts and the way that Vergleichsmiete are determined, mean that there is effectively a system of loose rent control in many large cities.

For rent reviews, the Vergleichsmiete are determined by the rents on new and renewed contracts that have been set in the area during the previous four years; until recently, it was the past three years, but the period was lengthened to prevent hardship arising from the housing shortage in the early 1990s. An upper limit to rent increases is also imposed. When it was originally introduced in 1982 this upper limit was previously 30 per cent but it has recently been reduced to 20 per cent to avoid hardship. The landlord cannot unilaterally increase the rent, but instead must have the tenant’s consent. If this is not forthcoming, the landlord has to go through the courts, which can involve considerable delays. Consequently, it is common for landlords to increase the rent by an amount which is below the maximum legal limit.

In the case of rent increase disputes, the courts are increasingly showing a preference for rent surveys where these are available. Some landlords claim that the rent surveys published by local authorities are unrealistic or out of date and that this prevents them from charging sitting tenants the market rent which moving tenants would pay.

In the social rented sector in Germany, the landlord is required to charge a ‘social rent’ (Sozialmiete) which is set by the local authority when the dwelling is completed and the bricks and mortar subsidies are fixed. These initial rents are usually well below the market level, but may increase as the subsidies are withdrawn. However, there are no clearly stated criteria used by local authorities to determine social rents. In the eighties they were often between two-thirds and three-quarters of the market level—larger differences in high price areas—but in the nineties this difference widened. The rules governing rent increases due to major improvements are the same as for the private rented sector.

In the Netherlands, the legislation covering rent determination is the same for both the private- and social-rented sectors. The Rent Act for Housing law of 1979 empowers Parliament to determine, on 1 July each year, what is referred to as the rent trend, that is, the rent increase permitted for the ensuing year. In the early 1990s this trend increase was set in the region of 5.0 to 5.5 per cent. As a matter of principle, rents are freely negotiable
between landlord and tenant. But if they disagree, the matter can be referred to regional rent committees which determine the rent in accordance with the legislation. The legislation determines a maximum rent which varies according to the standard of the home, as measured by a specified points system. So long as the standard of the home bears a reasonable relation to the rent, the landlord may propose a rent increase in line with the nationally determined rent trend. If the standard of the home is low compared with the rent, the landlord is expected to propose a lower than trend rent increase or even none at all (Wiktorin, 1993).

If the dwelling falls foul of any one of 12 possible defects (again specified in the legislation) the tenant can refuse to pay any rent increase. Where a dwelling has been renovated, the rent is to be negotiated between the landlord and the tenant, subject to a minimum increase of six per cent of the pre-renovation value of the home plus the investment cost of the work undertaken. On 1 July 1993, rents exceeding a certain amount (DFL 820) were deregulated and became freely negotiable (Wiktorin, 1993).

While the rules governing rent determination are the same for the private- and social-rented sectors, there are differences between them in practice (Wiktorin, 1993; Premius, 1993). In the private-rented sector, rents are close to the maximum level, while in the social rented sector they are usually nearer to the minimum permitted under the dwelling quality points system. Rents in the social-rented sector are on average about 15 per cent lower than in the private-rented sector (Premius, 1995).

The rent levels for subsidized dwellings are based on their historic costs. As a result, rents are largely a function of when the dwellings were constructed, with the result that older dwellings tend to have much lower rents than newer dwellings. Consequently, tenant turnover is low in low rent dwellings and high in high rent ones. Low rent accommodation is often not occupied by low income households, while high rent accommodation is often not occupied by high income households. This `misallocation' of households and rents is a subject of considerable policy concern (Boelhouwer, 1994). In order to address this problem, since 1 July 1993, social housing landlords have been given more discretion than previously to relate rents to dwelling standards. Social landlords may increase total rent income in line with the rent trend but can vary the rent increase charged to any one dwelling (Wiktorin, 1993).

In New Zealand, private-sector rents are determined by market forces. Rent controls do not exist, but the Residential Tenancies Act 1987 does provide for rent appeals to be held by a Tenancy Tribunal where the tenant believes that the rent has been increased above the market level in the local area. Local authority rents are subsidized and are often below both market levels and the cost of provision; however, they are now being edged closer to market levels.
Prior to the New Zealand housing reforms announced in the 1991 Budget, Housing Corporation rents were being subsidized by the difference between actual rents and market rents. The move towards market rents was introduced on a phased basis over a four year period and was due to be completed by July 1995. At July 1993, the average rent being charged on HNZ dwellings was $87 but the average market rent for these dwellings was $139. By July 1994, the average rent charged had increased to $134, while the average market rent for the properties was $143. Thus the average rent charged increased by 54 per cent while market rents increased by three per cent over this one year period. As a result, between 1993 and 1994, the average rent charged increased from 63 per cent to 94 per cent of the average market rent for the properties.

In Sweden, there is in principle, if not exactly in practice, a unitary system of rent determination which applies to both the private- and the social-rented sectors. Anas et al provide a succinct summary of this approach:

Rents are regulated by a so-called `use-value system' where the rents for dwellings owned by the municipal nonprofit housing companies are used as a yardstick for privately owned rental housing. Furthermore, the municipal housing stock is priced according to the principle that it should not generate a profit, which in practice means a cost-related rent setting system. (Anas et al 1991:51)

The social housing sector is thus a price leader for the private-rented sector in Sweden. This `use-value' or `utility-value' rent system was introduced in 1978. Previously, rent controls had been in operation since the war, though they had been gradually relaxed from 1956 (Wiktorin, 1993). The essence of this system is that, if there is a dispute between the landlord and the tenant over the rent to be paid, then the rent shall be determined at a level that is comparable to that for dwellings in the locality which have a similar utility value. Although the economic basis underlying the system is not entirely clear, it appears to be an attempt to set rents at a level which reflects the long run equilibrium (Wiktorin, 1993). To that extent, it bears some similarity with the principles underlying the system of `fair rents' introduced under the Rent Act 1965 in Britain, though the operational basis of the two systems is very different.

In Britain, different principles apply in the private, housing association and local authority sectors. Within both the private and housing association sectors, different systems apply depending upon whether the tenancy was started before or after January 1989.

There are no statutory regulations or laws governing the setting of rents in the local authority sector other than that they must be `reasonable', though the Department of the Environment does publish guidelines for annual
rent increases in local authority housing which are discussed below. Except for between 1980 and 1990 it has not been permissible for local housing authorities to make a surplus on their dwelling stock. Since 1955, local authority rents have been based on historic costs across the stock as a whole (Malpass, 1990). The rental income is set to cover operating costs for items such as management, maintenance and loan charges, but not for depreciation, across the entire stock. Thus costs and bricks and mortar subsidies are ‘pooled’ across each authority’s stock. The rents for individual dwellings do not therefore reflect the costs of producing that dwelling. Instead, relative rents across the stock are determined by different methods in different local authorities. For example, some are related to the capital values of the dwellings. Others are based on a points system in which different dwelling attributes are allocated a set number of points, and the total required rental income is then distributed across the stock in line with the total number of points awarded to each dwelling. However, one criticism that is levelled against the local authority rent systems is that the rent structure is relatively ‘flat’ and that rent levels do not vary sufficiently to reflect the value of the dwellings (Maclennan, 1986).

Under the present financial regime, local authorities are given guideline rent increases each April by central government. Although local authorities can increase their rents by less or more than these guidelines, the level of bricks and mortar subsidy which they receive assumes that these guidelines have been followed. Indirectly, therefore, central government is able to influence the general level of rents in the local authority sector (Malpass, 1990).

In the private sector, rent controls in one form or another and covering a greater or lesser proportion of the stock, have been in place since 1915. The Housing Act 1988 deregulated rents on new contracts as from January 1989. On new contracts, therefore, rents are set by the interaction of supply and demand in the marketplace. Pre January 1989 contracts are subject to a rent regulation system that was introduced by the 1965 Rent Act. Regulated tenancies give the tenant strong security of tenure and the landlord or the tenant the right to ask for a regulated (‘fair’) rent to be set by the rent officer service. A survey carried out in 1993/94 found that only 11 per cent of regulated tenants had a fair rent (Carey, 1995). In 1988, the corresponding figure was 26 per cent (Dodd, 1990). The majority of private-sector rents are therefore set by the market.

The economic principle behind the determination of fair rents is obtuse, but can very loosely be defined as the long run equilibrium level minus a discount to reflect the level of excess demand in the local area. In practice, the process of fair rent determination appears to be somewhat circular in that rent officers set them using evidence from fair rents on comparable dwellings in the area (Doling and Davies, 1984). Landlords (or tenants) can apply for rents to be re-determined after two years.
Housing association rents on contracts taken out before January 1989 can also be set as regulated fair rents by the rent officer, and in the great majority of cases appear to be so determined. As with the private-rented sector, lettings taken out since January 1989 have been deregulated. Unlike private landlords, housing associations rents are not expected to be set at market levels. The advice from the Housing Corporation is that rents should be set at a level that is affordable to working people whose income is above that which would entitle them to Housing Benefit. In practice, associations employ a variety of methods to set their rents. They are not cost rents, however, as many associations have accumulated surpluses since the new financial regime was introduced in 1989/90. Concern has been expressed, and recent research has confirmed (Whitehead et al, 1995) that, in some areas for some housing associations and on some sizes of dwelling, housing association rents have approached market levels, partly but not entirely because of reductions in bricks and mortar subsidies. In some cases, mainly in rural areas, rents approach market levels in situations where the costs of construction are high, the housing association has insufficient stock elsewhere across which to pool these costs, and market rents are relatively low.

As a result of the different rent setting and subsidy regimes, both in the past and more recently, average rents vary considerably between the three main tenures and also within the privately rented sector. In 1993/94, the average monthly (unrebated) rent paid by tenants in the social housing sector in England was £152 (Green and Hansbro, 1995). Seven out of ten (71%) social housing tenants were paying less than £173 a month in (unrebated) rent. Within the social sector, the average for local authority housing (by far the largest rental tenure) was £147 and for housing associations it was £178. For private unfurnished tenants, the average monthly rent in England was £225 in 1993/94. Thus the average local authority rent was only about two-thirds (65%) of the average for private unfurnished tenants. Within the privately rented sector, the average rent in 1993/94 for deregulated tenancies (furnished and unfurnished) was £316 per month, while for regulated tenancies it was considerably lower at £134 (Carey, 1995).

Table 3.4 shows trends in real rents in the selected countries since 1980. In the case of Australia the data relates to private-sector rents only and for Britain it refers just to local authority rents; in both cases, these represent the largest rental housing tenures in the two countries. The data are based on nominal rents adjusted to real rents using the consumer price index in each country and then converted into an index with 1980 as the base year. Thus the table shows the percentage change in real rents since the base year. In none of the countries are the data adjusted for changes in dwelling quality or mix of properties. The likely effect of this deficiency is to overestimate real increases in rents, though probably not to a significant extent.
In real terms, rents increased in all of the selected countries except Canada where rents fell by six per cent (but see below). The extreme country here is Britain where local authority rents more than doubled between 1980 and 1993, though this increase was from a relatively low base2. The next largest increases were in the Netherlands and Sweden, where rents increased by about two-fifths over the same period. The increases in Germany and Australia were relatively small.

Table 3.4 Index of real rents 1980 to 1993

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Canada</th>
<th>Germany</th>
<th>Netherlands</th>
<th>New Zealand</th>
<th>Sweden</th>
<th>Britain</th>
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<tr>
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<td>115</td>
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<tr>
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<tr>
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<td>144</td>
<td>144</td>
<td>144</td>
<td>206</td>
</tr>
</tbody>
</table>

Source: national informants (policy experts)

Note: the Australian data is for private rents only; the British data is for local authority rents in England; the German data is for post-war dwellings in West Germany

Not surprisingly, the precise time profile of these increases and the reasons for them differed between the various countries. In Australia, private rents grew slightly faster than the consumer price index as a whole in the late 1980s but then fell back slightly in the early 1990s. The latter occurred during a sharp recession and fall in real earnings. Public-sector rents increased in real terms because of a shift by State Housing Authorities towards market rents (from which tenants then receive an income related rent rebate).

In Canada, although the rent index—which is based on the rent component of the consumer price index—shows a six per cent fall in real terms, it is apparently a widely held view that the index is biased

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2 By comparison, registered (‘fair’) rents on private unfurnished dwellings increased by 70 per cent; gross payments on unfurnished accommodation across the private-rented sector as a whole in England increased by 271 per cent.
downwards because of the way in which the rents of new dwellings are treated (Fallis, 1980; Loyns, 1972; Steele, 1995). Micro data from household surveys carried out by Statistics Canada show that the mean monthly rent of both unsubsidized and subsidized dwellings increased by 72 per cent in real terms between 1980 and 1993.

The data for Germany in Table 3.5 are for all contracts made on postwar dwellings in West Germany. However, the increase in real rents for pre-war dwellings was noticeably higher than for postwar dwellings (16% compared with 3%). Greater still were the increases in the average rents for new contracts: these were 46 per cent on pre-war dwellings and 29 per cent on postwar dwellings. Over the period from 1980 to 1993, the gap between the rents on all contracts and on new contracts widened considerably. In 1980 the difference was about 2 DM per square metre, but by 1993 it was about 4 DM, in 1985 prices. Much of this increase in the rents on new contracts occurred at the end of the 1980s and the early 1990s; this was partly due to an increase in real disposable incomes and also to the sharp increase in immigration following the fall of the iron curtain in 1989.

Table 3.5 Index of real rents in West Germany, 1980-1993

<table>
<thead>
<tr>
<th>Year</th>
<th>All contracts</th>
<th>New contracts</th>
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<tr>
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<td>1985</td>
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<tr>
<td>1993</td>
<td>116</td>
<td>103</td>
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</tbody>
</table>

In the Netherlands, the increase in rents was to a large extent due to the Dutch government’s policy to reduce bricks and mortar subsidies and to increase rents towards market levels. Nominal rents increased much faster than both the consumer price index and average earnings.

In Sweden, rents increased only a little faster than inflation during the period up to around 1990. Thereafter, rents increased very sharply in real terms. Three of the most important reasons for this increase are the tax reform of 1991, the cut in bricks and mortar subsidies in 1992/93, and the shift away from the use value system of rent setting (see above) towards market rents.

In Britain, local authority rents increased by almost a third (32%) between 1980 and 1981; this reflected the introduction of a revised subsidy system, part of which involved guideline rent increases set by the government and reduced bricks and mortar subsidies. Rents increased in real terms (by 8%) in the following year and then remained relatively flat until the late 1980s when they began to increase rapidly, especially after the introduction of a
new subsidy regime in 1990, which again involved reduced bricks and mortar subsidies. Housing association rents also increased sharply in real terms in the 1980s as bricks and mortar subsidies were gradually reduced. Private-sector rents moved broadly in line with inflation from 1986 to 1989 and then increased sharply in real terms following rent deregulation.

Thus in Britain rents across all sectors of the housing market have increased in real terms since 1989. Between 1989 and 1993, local authority rents increased by 33 per cent, housing association regulated fair rents by 17 per cent, housing association assured rents by 50 per cent, private regulated fair rents by 30 per cent and private market rents by 34 per cent.

Table 3.6 shows average expenditure on gross `rent`-including and excluding utility (fuel and power) costs-as a percentage of total consumption for the years 1980, 1985, 1990 and 1992 (the last year for which the data were available). In the case of owner-occupiers, `rent` is an estimate of the imputed rent of the dwelling, that is, the amount for which the owner would have been able to let the accommodation in the rental market had they chosen to do so. The data are thus average expenditure on housing (inclusive and inclusive of utility costs) across all tenures.

These data are extracted from the national accounts for these countries, as published by OECD. For some countries in some years, some or all of the data are missing. In the case of Canada, no information is provided in the national accounts for gross rent excluding fuel and power, largely because these items are normally included in the payments that renters make to their landlords. The figure given in the table is therefore an estimate, calculated by netting off from the inclusive rent the average difference for each of the years between the inclusive and the exclusive rents for the other countries.

It should be noted that, even where the information is fully available, there are problems with using national accounts to compare across countries (see Menkveld, 1993). These difficulties mainly arise from marginal differences in the way that the data are compiled and especially from the calculation of `imputed rent` for the housing expenditures of owner-occupiers. Despite these qualifications, the data can shed useful light on the share of expenditure that is allocated to housing, both within countries over time and, more tentatively, across countries at any one time.
Table 3.6  Percentage of final consumption expenditure of resident households in all tenures on gross rent, and on gross rent, fuel and power, by country

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<td>New Zealand</td>
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<td>Sweden</td>
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<td>Britain</td>
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Note: Gross rent includes estimates for owner-occupiers’ imputed rents.

Looking first at trends over time in what for ease of exposition we can refer to as the rent burden, there has been an increase in all of the countries, although more so in some than in others. The biggest increases appear to have been in Canada and in Sweden. In the former the exclusive rent share went up by six percentage points, from an estimated 15 per cent to an estimated 21 per cent of final consumption expenditure. However, it seems likely that the big increase in Canada reflects the way in which imputed rents are calculated in that country. The increase in the rent burden among renters was probably much smaller than is indicated by the national accounts data. In Sweden, expenditure on rent increased by seven percentage points, from 19 per cent in 1980 to 26 per cent in 1992. These increased rent burdens reflect the real increases in rents discussed above and the relationship between increases in rents and household expenditures more generally (which in turn relate to changes in incomes).

Germany is an intermediate case: expenditure on rent increased by three percentage points, from 14 to 17 percent of total final expenditure over the period from 1980 to 1992. In both Australia and Britain, the increase in expenditure was only one per cent over this period. In the Netherlands, expenditure increased by two percentage points between 1985 and 1992. In New Zealand, the increase was of three percentage points between 1985 and 1990.

The small increase in the rent burden for Britain highlights the limitations of the national accounts data. The increase in the rent burden in the national accounts data (which relates to rent expenditure as a percentage of total consumption expenditure) may have been dampened by the inclusion of data on imputed rents for owner-occupiers, who form the largest tenure...
category. As a percentage of average earnings, the average local authority rent in England increased from 6.9% in 1980 to 9.5% in 1985 to 10.0% in 1990 and 11.4% in 1992. Housing association and private rents also increased as a percentage of average earnings over this period, especially after 1988 (Wilcox, 1995).

Comparing the countries in 1990, the Netherlands and Britain were relatively low rent burden countries; Australia and Germany were in an intermediate position; while Canada, New Zealand and Sweden were relatively high rent burden countries. However, by 1992, the position had changed somewhat, such that Sweden was spending well above the other countries. About a quarter of domestic expenditure in Sweden in that year was on gross rents. Britain and the Netherlands remained as relatively low rent countries, Canada was moderately high, and Australia and Germany were medium rent countries. (The effect of housing allowances on rent expenditure is explored in Chapter 4).

These figures are determined, of course, by the relationship between the numerator (rent) and the denominator (total expenditure). If total household expenditure increases in line with rents, the rent burden will remain the same even if rents increase in real terms. The rent burden figures also say nothing about the absolute level of rents. For example, it is possible for a high income country to have a lower rent burden but a higher absolute rent than a low income country with a high rent burden.

Table 3.7 shows the average monthly rent for three different sizes of dwelling in the largest rented housing tenure in the largest cities in each of the selected countries in 1993, expressed in pounds sterling at purchasing power parity.

It is important to note some limitations of these data. First, using the most predominant tenure for the comparison means that private-sector rents in some countries (Australia, Canada, Germany, and New Zealand) are being compared with social housing rents in others (the Netherlands, Sweden and Britain). However, the alternative would be to compare a minority tenure in some countries with a majority one in others. For example, only 17 per cent of tenants in Canada rent their home from a social housing landlord, whereas in Britain 71 per cent do so and in the Netherlands 68 per cent do. In Australia 78 per cent of tenants rent from a private landlord, as do 74 per cent in Germany, but in Britain only 29 per cent and in the Netherlands only 32 per cent do the same. On balance, it seems more useful to compare the predominant rented housing sectors in order to examine the rent burden across the selected countries than to compare the same tenure which in some countries might cover most tenants but in others only a minority of them.
A second drawback of the data in Table 3.7 is that it refers to the largest city in each country, except that in the Netherlands it refers to the average for the three largest cities and in Britain it refers to the average for local authorities in the South East (the most expensive region in Britain) including London. The cities were: Sydney (Australia); Winnipeg (Manitoba province in Canada); Berlin (Germany) excluding East Berlin; Amsterdam, Rotterdam and The Hague (the Netherlands); Auckland (New Zealand); and Stockholm (Sweden). Winnipeg was selected by the overseas informant (policy expert) because it is the largest city in Manitoba, the only Canadian province to have a housing allowance scheme that is not confined to the elderly.

As noted in Chapter 1, rents vary significantly not just between but also within countries. Hence the data in the table are affected by the choice of location. Selecting locations on some other criteria (for example the capital city or, more arbitrarily, a `medium size or medium price city) would not produce a 'better' comparison, just a different one. However, while this limitation lessens the robustness of the comparison, it does not altogether invalidate it; it simply reflects one of the difficulties of undertaking cross-national housing research.

Table 3.7 Average monthly rents, 1993 (kPPP)

<table>
<thead>
<tr>
<th></th>
<th>One bedroom dwelling</th>
<th>Two bedroom dwelling</th>
<th>Three bedroom dwelling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>283</td>
<td>364</td>
<td>455</td>
</tr>
<tr>
<td>Canada (Manitoba)</td>
<td>214</td>
<td>257</td>
<td>285</td>
</tr>
<tr>
<td>Germany</td>
<td>89</td>
<td>236</td>
<td>300</td>
</tr>
<tr>
<td>Netherlands</td>
<td>39</td>
<td>187</td>
<td>183</td>
</tr>
<tr>
<td>New Zealand</td>
<td>253</td>
<td>332</td>
<td>427</td>
</tr>
<tr>
<td>Sweden</td>
<td>250</td>
<td>313</td>
<td>371</td>
</tr>
<tr>
<td>Britain</td>
<td>70</td>
<td>193</td>
<td>210</td>
</tr>
</tbody>
</table>

Source: national informants (policy experts)

Note: see text for an explanation of what tenures and locations these average rents refer to

Bearing these two limitations in mind, Table 3.7 shows that there is considerable variation between the countries in these rents. For example, the average rent for a two bedroom dwelling ranged from £187 in the Netherlands to £364 in Australia. For all three dwelling sizes, the Netherlands and Britain had the lowest rents in 1993. Likewise, for all three dwelling sizes, Australia, New Zealand and Sweden had the highest rents in that year. Germany and Canada (Winnipeg in Manitoba province) had rents in the middle of the range. It should be noted that the average rent for Winnipeg is lower than for Toronto or Vancouver, though it is similar to that for Montreal. Rents in Toronto and Vancouver are closer to
those for Australia, New Zealand and Sweden. The British rent data are for local authority rents, for reasons discussed above, which is one reason why the figure is relatively low.

Table 3.8 Average rent as a percentage of the gross earnings of an average production worker in 1993

<table>
<thead>
<tr>
<th>Country</th>
<th>One bedroom dwelling</th>
<th>Two bedroom dwelling</th>
<th>Three bedroom dwelling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>24%</td>
<td>31%</td>
<td>39%</td>
</tr>
<tr>
<td>Canada (Manitoba)</td>
<td>6%</td>
<td>9%</td>
<td>23%</td>
</tr>
<tr>
<td>Germany</td>
<td>5%</td>
<td>8%</td>
<td>23%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0%</td>
<td>4%</td>
<td>14%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>23%</td>
<td>29%</td>
<td>39%</td>
</tr>
<tr>
<td>Sweden</td>
<td>27%</td>
<td>33%</td>
<td>40%</td>
</tr>
<tr>
<td>Britain</td>
<td>4%</td>
<td>6%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: OECD (1994) and national informants (policy experts)

Note: the rent data is taken from Table 3.7. See accompanying text for an explanation of what tenures and locations the average rent data refer to

Table 3.8 shows the average rent for each of these three property sizes as a percentage of the gross earnings of an average production worker in each country. Since rents increase with property size, the average gross rent burden also increases in this way. These figures confirm that the Netherlands and Britain had relatively low rent burdens in 1993. Australia, New Zealand and Sweden had relatively high rent burdens, with Germany having an intermediate position. If rents for Toronto and Vancouver had been used instead of Manitoba, the percentage of gross earnings spent on rent would be much higher than is indicated by the table. For two bedroom dwellings, the figures would be 29% for Toronto and 28% for Vancouver. This would put Canada in the high rent burden group.

Table 3.9 shows the monthly earnings of an average production worker, before and after deducting the average gross rent for a two bedroom dwelling, in 1993 in pounds sterling at purchasing power parity. The data take no account of differences between countries in taxation and receipt of social security benefits and hence in disposable incomes. Bearing this qualification in mind, the data show a rather different pattern from the rent burden figures. The Netherlands had the lowest rent and the highest gross earnings; and hence the lowest rent burden and highest earnings after housing costs. While Britain had low rents and low rent burdens, it had a middling level of gross earnings after housing costs. Sweden, by contrast, had the lowest gross earnings, highest rents, the highest rent burdens and the lowest gross earnings after housing costs. The countries with the
highest gross earnings after housing costs were the Netherlands, Canada and Germany.

Table 3.9 Monthly gross earnings of an average production worker before and after the average gross rent of a two bedroom dwelling in 1993 (PPPs)

<table>
<thead>
<tr>
<th>Country</th>
<th>Gross earnings</th>
<th>Gross earnings less rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>1181</td>
<td>817</td>
</tr>
<tr>
<td>Canada (Manitoba)</td>
<td>327</td>
<td>070</td>
</tr>
<tr>
<td>Germany</td>
<td>294</td>
<td>058</td>
</tr>
<tr>
<td>Netherlands</td>
<td>350</td>
<td>163</td>
</tr>
<tr>
<td>New Zealand1</td>
<td>1082</td>
<td>750</td>
</tr>
<tr>
<td>Sweden</td>
<td>939</td>
<td>626</td>
</tr>
<tr>
<td>Britain</td>
<td>180</td>
<td>987</td>
</tr>
</tbody>
</table>

Note: the rent data is taken from Table 3.7. See text for an explanation of what tenures and locations the average rent data refer to.

As well as housing allowance schemes, income-related help with housing costs is sometimes provided within social assistance schemes, though the distinction between the two is not always clear-cut. Three basic approaches appear to be used towards housing costs in social assistance schemes. First, in some countries, social assistance rates are implicitly meant to be sufficient to allow recipients to afford at least part of their housing costs out of their benefit payments. Where this is the case, recipients with high housing costs are usually allowed to apply for the help with the housing allowance scheme. Second, in other countries, social assistance benefit payments are enhanced to take into account recipients’ actual housing costs. And third, in other countries, social assistance is not intended to meet housing costs and recipients are expected to rely on separate housing allowance schemes.

The Netherlands is an example of the first approach. Social assistance is meant to cover housing costs. Tenants can apply for the housing allowance scheme in the same way as tenants who are not on social assistance. However, owner-occupiers without sufficient income can in some circumstances get an amount included in their social assistance.

Australia and New Zealand also employ the first approach. In Australia, the social assistance benefits, allowances and pensions are meant to cover housing costs, but a rent assistance scheme is available to private tenants who are in receipt of social assistance. Owner-occupiers receiving social assistance do not obtain specific help with their housing costs. Public tenants who are getting social assistance receive no specific help with their
rent through the social assistance scheme but are eligible for a rent rebate. In New Zealand, social assistance is implicitly meant to cover housing costs. Tenants, home owners and boarders can apply for the Accommodation Supplement scheme to help them with their housing costs.

Canada and Germany are examples of the second approach. In most provinces in Canada, shelter costs, irrespective of tenure, are included in social assistance payments; in most cases the amount provided is equal to actual housing costs up to a provincial ceiling. However, in Quebec recipients without children receive only a flat amount. In Germany, recipients of social assistance receive a supplement to their benefit payments equal to 100 per cent of housing costs, provided they are not considered to be unreasonable.

Sweden and Britain employ a combination of the second and third approaches. In Sweden, social assistance recipients can have all of their housing costs met as a supplement to their benefit, provided the amount is considered to be reasonable. In the case of home owners, this covers only the interest on mortgage loans and not the capital repayments. Pensioners are eligible to receive the municipal housing supplement, which is a separate housing allowance scheme.

In Britain, social assistance meets certain housing costs of home owners but not those of tenants (tenants receive help through a separate housing allowance scheme). For home owners receiving social assistance (Income Support) aged 60 or more, benefit is enhanced by the full amount of their mortgage interest payments, provided these are not excessive, on the first £100,000 of a mortgage loan. For other home owners on social assistance, benefit is enhanced by 50 per cent of the interest on the first £100,000 of a mortgage during the first sixteen weeks of a claim, after which all of the interest is met. This arrangement was amended in October 1995 (see chapter 5).

The role of housing allowances The fact that social assistance schemes sometimes provide help with housing costs highlights the fact that housing allowances can have either housing policy or social security objectives. In practice, however, schemes invariably have both functions, though one or the other is usually dominant. Table 3.10 sets out the primary role of housing allowances and whether they are mainly seen as an instrument of housing policy or of social security in each of the selected countries. The table also shows the role of housing in social assistance schemes where an amount for actual housing costs (even if subject to a ceiling) is added into benefit payments.
Table 3.10 The role of housing allowances

<table>
<thead>
<tr>
<th>Housing allowance scheme</th>
<th>Aims of scheme</th>
<th>Housing policy or social security instrument?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Australia</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent assistance</td>
<td>Supplementary income</td>
<td>Income support</td>
</tr>
<tr>
<td>Rent rebates</td>
<td>Affordability</td>
<td>Housing policy</td>
</tr>
<tr>
<td><strong>Canada</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shelter allowances</td>
<td>Affordability</td>
<td>Housing policy</td>
</tr>
<tr>
<td>Housing component of social assistance</td>
<td>Reduce demand for social housing</td>
<td></td>
</tr>
<tr>
<td><strong>Germany</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wohngeld</td>
<td>Affordability of adequate housing</td>
<td>Housing policy but increasingly income support</td>
</tr>
<tr>
<td>Housing component of Sozialhilfe</td>
<td>Supplementary income</td>
<td>Income support</td>
</tr>
<tr>
<td><strong>Netherlands</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IHS</td>
<td>Affordability</td>
<td>Housing policy</td>
</tr>
<tr>
<td>Adequacy of housing</td>
<td>Housing opportunity</td>
<td></td>
</tr>
<tr>
<td><strong>New Zealand</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accommodation supplement</td>
<td>Affordability</td>
<td>Housing policy</td>
</tr>
<tr>
<td><strong>Sweden</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing allowances for non-pensioners</td>
<td>Affordability</td>
<td>Housing policy</td>
</tr>
<tr>
<td>Housing adequacy</td>
<td>Housing adequacy</td>
<td></td>
</tr>
<tr>
<td>Supplementary income</td>
<td>Income support</td>
<td></td>
</tr>
<tr>
<td>Pensioner housing allowance supplement</td>
<td>Supplementary income</td>
<td></td>
</tr>
<tr>
<td><strong>Britain</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing Benefit</td>
<td>Minimum income</td>
<td>Income support</td>
</tr>
<tr>
<td>ISMI</td>
<td>Minimum income</td>
<td>Income support</td>
</tr>
</tbody>
</table>

In Australia, housing allowances take the form of rent assistance, provided by the Department of Social Security and Department of Veterans Affairs, for private tenants in receipt of social security benefits, pensions and allowances. Implicit rent rebates are also provided via income-related rents to tenants of public housing. While the DSS acknowledges that rent assistance has an explicit housing policy role, the objectives of the scheme are social security rather than housing ones:

Rent assistance is provided as a component of the core social security programs for [social security clients]. Accordingly, rent assistance is designed to support the primary objective of these programs—adequate income support for clients and their dependents—by providing supplementary assistance to meet the additional cost of private rental
housing. This is similar to the function of other supplementary payments made within the social security system. (DSS 1993:6)

In contrast, rent rebates are seen as an instrument of housing policy. The aim of public housing can broadly be interpreted as being to provide affordable housing to people in need. Given the shift away from bricks and mortar subsidies towards notional market rents, the implicit rent rebates can be seen as the principal means by which public housing is made affordable to tenants.

In Canada the basic aim of housing allowances is to make housing more affordable to people who are neither receiving social assistance nor living in subsidized (rent geared to income) housing (Steele, 1995). Affordability is recognised as one of the three major housing problems (the others are adequacy and suitability). An affordability problem is widely defined as existing where a household’s rent to income ratio is greater than 30 per cent. Housing allowances are thus designed to contribute to the solution of affordability problems. A secondary aim of Canadian housing allowances is to reduce the demand for social housing and hence the pressure to build more social housing (Steele, 1985a, 1984b, 1995). Housing allowances fit in with the Canadian emphasis on welfare through the market. The housing assistance provided to social security recipients is seen as a part of the welfare system and not as an instrument of housing policy.

The key aim of housing allowances in Germany is to ensure that the cost of adequate housing is in a reasonable relationship with household income. In line with this aim, housing allowances have traditionally been seen as an instrument of housing policy. However, since the late 1980s, housing allowances have come to be seen as part of social assistance rather than a housing subsidy. The housing addition provided to social assistance recipients has always been seen as part of the income support system.

In the Netherlands, housing allowances are very much viewed as a housing policy instrument rather than as part of the social security system. The Dutch scheme has two main goals: to ensure that rent burdens are not excessive for low income tenants and to ensure that low income tenants can obtain accommodation of a certain standard and have a broad range of housing opportunities.

In New Zealand, the accommodation supplement is viewed as an instrument of housing policy. According to an official in the Social Policy Agency: “The aim of the Accommodation Supplement is to direct accommodation assistance to those who need it most, and to encourage those who are able to take care of their own needs to do so” (Kuila, 1993: 47).
In Sweden, the aim of the housing allowances for non-pensioners is to give "economically weak households the possibility to live in housing of good quality and enough space". A longer term aim is to ensure that housing allowances allow families to be able to afford accommodation sufficiently large as to allow every child to have its own room. The inclusion of the 'fixed amount' for children in the calculation of housing allowance entitlement (see below) means that the scheme now also has an income support function. The aim of the pensioner housing allowances scheme is to supplement the general pensions system. Hence in Sweden, housing allowances for non-pensioners has both a housing consumption and an income support role, while the housing supplement for pensioners primarily has an income support function.

In Britain, the aim of the Housing Benefit scheme has been defined as "to help people on low incomes to pay rent for accommodation which is reasonably priced and appropriate to the size of household" (DSS, personal communication, 23.2.96). Implicitly, the scheme is primarily an income support payment. It is administered by local authorities on behalf of the Department of Social Security, which has responsibility for policy. The scheme ensures that households have a net income after housing costs that is no less than the social assistance benefit rates. Moreover, Housing Benefit does not go very far above social assistance (Income Support) levels (Hills, 1991) Even so, it is recognised in Britain that Housing Benefit has an important role in housing policy. Likewise, Income Support Mortgage Interest payments to home owners are regarded as part of the social security system rather than an instrument of housing policy, though again it is recognised that they have implications for the housing market.

Thus in most of the selected countries housing allowances are primarily seen as an explicit instrument of housing policy. Britain is relatively unusual in that the housing allowance scheme in that country is designed as part of the social security system and is effectively an income support scheme; this is by definition also true of the mortgage interest payments made to recipients of Income Support. Australia is also a partial exception in respect of rent assistance but not in relation to rent rebates. However, in countries where social assistance includes a variable component tied to individual housing costs, then this is regarded as an income support.

Summary

Australia, Canada, Germany and New Zealand have housing markets that are dominated by the private sector; whereas the Netherlands, Sweden, and, to a lesser extent, Britain have more mixed housing tenure systems in which social rented housing plays an important role. Tax expenditures play an important role in all of the selected countries in supporting the owner occupied housing market and also, except in Britain, the private rented sector; in Australia, Canada, Germany, and
New Zealand, tax expenditures appear to have been far more important than direct subsidies

- all of the selected countries have provided direct subsidies to suppliers but these appear to have been relatively much more important in the Netherlands, Sweden, Britain and, to a lesser extent, Germany than in the other countries; except in Britain, these direct subsidies to suppliers have been provided to both private and social housing

- the Netherlands, New Zealand, Sweden have significantly cut back their direct subsidies to suppliers in recent years; Germany also cut back its bricks and mortar subsidies in the late 1980s, but subsequently introduced new ones in the face of its ‘new housing shortage’

in Australia and New Zealand private-sector rents are set by the interaction of supply and demand in the market place; in Britain and Canada private rents are largely set by the market, though parts of the stock remain subject to rent control; in Germany, the Netherlands and especially Sweden, market forces are important but private-sector rents are subject to forms of loose rent regulation

- except in Australia and New Zealand, social housing rents are set at below market levels, though the principles governing rent setting vary from one country to another

- in real terms, rents have increased in all of the selected countries since 1980, as have rent to income ratios

- the treatment of housing costs in social assistance schemes takes three broad approaches:

  (i) in some countries, social assistance rates are meant to be sufficient to allow recipients to afford their housing costs out of their benefit payments, though recipients with high housing costs are usually allowed to apply for additional help from separate housing allowance schemes

  (ii) in other countries, social assistance benefit payments are enhanced to take into account recipients’ actual housing costs

  (iii) in other countries, social assistance is not intended to meet housing costs and recipients are expected to rely on separate housing allowance schemes

- housing allowances are usually mainly either an instrument of housing policy or an income support benefit, though in practice they may have both functions; Britain, and to a lesser extent Australia, are relatively unusual in that their housing allowance scheme is primarily part of the social security system rather than a tool of housing finance.
This chapter provides an overview of the housing allowance systems in each of the seven selected countries. In particular, the chapter:

- describes who is eligible for housing allowances
- examines the structure of the housing allowance schemes in place
- looks at entitlements to housing allowances
- analyses the impact of housing allowances on rent burdens and disposable incomes.

Eligibility

In Australia, Rent Assistance is confined to private tenants who are receiving income support payments from the Department of Social Security (DSS) or the Department of Veterans’ Affairs (DVA). This includes recipients of pension, disability, sickness, and unemployment benefits and allowances, and those receiving the various family and lone parent payments. Rent Assistance is paid as a supplement to the other income support payments which DSS and DVA clients are receiving.

When Rent Assistance was first introduced in 1958 it was a paid only to pensioners (Wood, 1990b). Since then, eligibility has been gradually widened to include virtually all categories of social security clients. For example, eligibility was extended to the unemployed in 1986 and to low income families receiving benefits in 1987 (DSS, 1993).

Low income childless couples and single people living in the private rental housing market who are neither long term sick, disabled, nor unemployed are therefore ineligible for Rent Assistance. Students are not generally eligible for Rent Assistance either, except (since January 1995) those receiving the homeless rate of AUSTUDY (the student allowance paid by the Department of Employment, Education and Training).

The rationale for excluding students from Rent Assistance is that the student allowance has a much higher income test than applies to income support paid by the DSS. There is an expectation that students will supplement their AUSTUDY income with part-time or casual earnings. Homeless students were recently made eligible for Rent Assistance in recognition of the difficulty of continuing with education while accommodation is unstable and of the reduced likelihood that homeless students will be able to gain employment of any kind to supplement their AUSTUDY award.
Public tenants are not eligible for Rent Assistance because they already get housing assistance in the form of subsidized rents: they receive rent rebates via the income-related rent which they are charged. In most cases public housing rent rebates are much more generous than Rent Assistance provided through the social security system.

Owner-occupiers in Australia are ineligible for Rent Assistance, although as explained in Chapter 3, they are eligible for the Mortgage and Rent Relief Scheme which provides short-term, emergency assistance. The rationale for excluding home buyers from housing assistance is that they are building up equity in their property, and that the government should not subsidize this through the social security system.

**Canada**

In Canada, only five of the provinces provide what are generally referred to as shelter allowance programmes. These are: British Columbia, Manitoba, Quebec, Nova Scotia, and New Brunswick. The discussion in this report is confined to British Columbia, Manitoba and Quebec, as little information is available about either Nova Scotia or New Brunswick.

In all three of these provinces, elderly recipients are eligible for assistance. However, the age at which people become eligible varies between the provinces: in British Columbia it is 60 years of age, in Manitoba it is 55, and in Quebec it is 57. In Manitoba, families with children under 18 are also eligible for shelter allowances, but in British Columbia and Quebec help is confined to the elderly. In Quebec, home owners as well as private tenants are eligible for shelter allowances, but in British Columbia and Manitoba the scheme is confined to private renters. In all three provinces, tenants living in public (subsidized) rented housing are excluded from eligibility.

In British Columbia, the scheme is called SAFER (Shelter Aid for Elderly Renters). In Manitoba, the scheme for elderly persons is also called SAFER (Shelter Allowances for Elderly Renters), while the scheme for families is referred to as SAFFR (Shelter Allowances for Family Renters). In Quebec, the scheme is called Logirente.

In all three of these provinces social insurance recipients (Guaranteed Income Supplement, Unemployment Insurance benefits) are eligible for shelter allowances. Welfare recipients—that is, those receiving help under the Canada Assistance Plan (Family Benefits Assistance or General Welfare Assistance) are not eligible for shelter allowances. Instead, they receive an amount for housing costs in their benefit cheque. This is calculated as actual housing costs up to a maximum (Steele, 1995). However, in Ontario, in the rare cases where a welfare recipient has a rent that is less than a basic amount, she receives that basic amount in her welfare cheque, and consequently receives an amount that is more than her actual rent.
In Germany, households are eligible to apply for housing allowances (Wohngeld) irrespective of the type of housing tenure in which they live. Hence owner-occupiers, private tenants and social housing tenants are all eligible.

However, several categories of household are not eligible to apply for Wohngeld: (i) foreigners and stateless persons who are in Germany without a permit; (ii) households in which at least one member has had to pay property tax during the year of application for Wohngeld; (iii) households with a flat of their own who are defined as belonging to another household; (iv) single persons who are conscripts, for the duration of their national service; and (v) households consisting only of students or apprentices who are undergoing training under the education grant or retraining legislation and who can claim benefits for doing so.

Recipients of social assistance (Sozialhilfe) receive help with their housing costs and are also expected to apply for Wohngeld. They receive a flat rate amount of housing allowances, which is expressed as a percentage of their rent, which is then netted off against their Sozialhilfe entitlement. In effect, Sozialhilfe is similar to the old Supplementary Benefit scheme in Britain prior to 1982/83, in which the claimant’s needs (including all of their housing costs) were compared with their resources, and benefit met the shortfall.

In the Netherlands, only tenants are eligible for the housing allowance scheme (Individuele huursubsidie-IHS). The scheme applies to tenants in privately rented and social-rented housing. Owner-occupiers are not eligible for help; they receive help from mortgage interest tax relief, which is unlimited, and hence are not perceived as needing additional assistance in the form of housing allowances.

As a general rule, no special provision is made for housing costs in either the social assistance or the social insurance schemes, though benefit levels are meant to be sufficient to allow recipients to pay them. However, social assistance and social insurance recipients are eligible to apply for IHS. In addition, in special cases, an extra payment may be made in social assistance when households have to meet costs (not necessarily housing costs) which temporarily exceed their normal cost of living.

In New Zealand, households in all tenures are eligible to apply for their Accommodation Supplement (AS). Both welfare recipients and non-recipients are eligible for AS. Prior to the 1993 reform-when the scheme was called Accommodation Benefit-low income home owners who were not in receipt of social security were not eligible to apply for housing allowances but could get low interest loans from the New Zealand Housing Corporation. Social assistance benefits are supposed to be adequate to cover some housing costs.
In Sweden, all types of household are eligible to apply for housing allowances. This includes home owners, renters in social and private housing, and households living in housing co-operatives.

Households without children where at least one person is aged 28 or older ceased to be eligible for housing allowances from 1 January 1996. This group was included within eligibility for housing allowances for the first time in 1974; they were then excluded from 1986 and re-included from 1991/92.

As in Germany, recipients of social assistance can have all of their housing costs taken into account in calculating the help to which they are entitled; this applies whatever the tenure of the recipient.

In Britain, only households who pay rent are eligible to apply for housing allowances. Home buyers are not eligible, but those who are in receipt of social assistance (Income Support) receive help with their mortgage interest costs. Apart from home owners, Income Support in Britain does not include a component to cover housing costs.

There are some exclusions from housing allowances among renter households. Tenants living with close relatives are not eligible. Most students were removed from eligibility in 1990; the exceptions are certain students in vulnerable groups, including disabled students and those with dependent children. The rationale for excluding students is that the social security system is not the appropriate means of support for students, who should instead receive their financial support through the education maintenance system, which provides a mix of grant and repayable loan.

The structure of assistance In Australia, Rent Assistance is payable to Department of Social Security and Department of Veterans Affairs clients living in privately rented accommodation whose rent is above minimum threshold levels. It is paid at a rate of 75 per cent of the rent above the threshold level, up to specified maximum levels of assistance. The formula for calculating Rent Assistance is:

\[
RA = \min \left[75 \times (R_{\text{min}}); \max \text{ rebate}\right] \text{ if } R > R_{\text{min}}
\]

where

\[
\text{RA} = \text{Rent Assistance entitlement}
\]
\[
R = \text{rent paid}
\]
\[
R_{\text{min}} = \text{minimum rent threshold}
\]

Expressed in words, this formula means that an applicant’s Rent Assistance entitlement is equal to three-quarters of the difference between their rent and the relevant minimum rent threshold, subject to the condition that...
their rent is in excess of the threshold; and subject also to a maximum amount of Rent Assistance.

Table 4.1 Minimum weekly rent thresholds and maximum weekly benefit amounts in the Australian Rent Assistance scheme, as at June 1993

<table>
<thead>
<tr>
<th>Type of household</th>
<th>Rent threshold</th>
<th>Maximum benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>single people, no children</td>
<td>£14 ($30)</td>
<td>£16 ($33.60)</td>
</tr>
<tr>
<td>lone parents, 1 to 2 children</td>
<td>£19 ($40)</td>
<td>£17 ($36.90)</td>
</tr>
<tr>
<td>lone parents, 3 or more children</td>
<td>£19 ($40)</td>
<td>£20 ($42.10)</td>
</tr>
<tr>
<td>couples, no children</td>
<td>£23 ($50)</td>
<td>£15 ($31.60)</td>
</tr>
<tr>
<td>couples, 1 to 2 children</td>
<td>£28 ($60)</td>
<td>£17 ($36.90)</td>
</tr>
<tr>
<td>couples, 3 or more children</td>
<td>£28 ($60)</td>
<td>£20 ($42.10)</td>
</tr>
</tbody>
</table>

The minimum rent thresholds and the maximum rates of assistance vary by family type and by the presence and number of children. They are both uprated twice yearly in line with the consumer price index. The minimum levels as at June 1993 are shown in Table 4.1. The figures have been converted into pounds sterling at PPPs and rounded to the nearest L1.

In the public sector, the states operate `differential rent' schemes in which the rent that tenants are charged is income related. Thus, public housing tenants receive an implicit *rent rebate*, which varies inversely with income and directly with the notional rental value of the dwelling occupied.

The actual rent payable is based on 20 to 25 per cent of income for most households—though in some States pensioner households are charged a rent of 18 per cent of income—up to a maximum. Until recently, many States employed `market-related rents' as the maximum rent, but most now use market rents or are moving towards this.

While the rent actually paid varies by income, it does not vary by size or type of household (though of course the notional rent does vary by size and location of the dwelling). Once accepted for rehousing, tenants are allocated to what is deemed to be appropriate housing for their household size and composition. They are not required to move when their household circumstances—such as income or household size-change, though they can apply for a transfer if they wish to do so.

Canada All five Canada provinces with a shelter allowance programme use the same general formula for calculating benefit entitlement. In each case, the benefit payable is a percentage of the gap between the eligible rent and the minimum rent contribution. The minimum rent contribution is as a set proportion of gross income. The eligible rent is the actual rent, up to a
maximum allowable rent level (Steele, 1995), which varies according to the number of people in the household.

In Quebec, 75 percent of the gap between the minimum rent and the eligible rent is subsidised by the shelter allowance (Logirente). The minimum rent or household contribution rate is 30 per cent of income. Thus, if the rent is below the maximum allowable, the formula for calculating Logirente is as follows:

\[ L = 0.75 (R - 0.3Y) \quad \text{if} \quad (R - 0.3Y) > 0 \]

If the rent is equal to or greater than the maximum allowable rent, the Quebec formula is:

\[ L = 0.75 (R_{\text{max}} - 0.3Y) \quad \text{if} \quad (R - 0.3Y) > 0 \]

where

- \( L \) = shelter allowance entitlement
- \( R \) = rent
- 0.3Y = 30% of gross income
- \( R_{\text{max}} \) = maximum allowable rent

Expressed in words, this formula means that Logirente entitlement is equal to three-quarters of the difference between an applicant's rent and 30 per cent of their income; if the applicant's rent is more than the maximum allowable rent, then entitlement is equal to three-quarters of the difference between the maximum allowable rent and 30 per cent of their income.

In British Columbia, the formula is the same as that in Quebec except that, instead of a flat rate percentage of 75 per cent, there is a variable percentage. The latter ranges from 90 per cent for the lowest income recipients and gradually declines to a low of 35 per cent for the highest income recipients.

In Manitoba the formula also includes a variable percentage for the gap which the shelter allowance covers between the eligible rent and the minimum rent; this varies from 90 per cent for the recipients with the lowest incomes and falls to 60 per cent for the highest income recipients. The minimum rent (or affordability ratio) also varies, from 25 per cent for recipients with the lowest incomes, rising to 27.5 per cent for those with the highest incomes.

Thus the British Columbia and Manitoba schemes are more progressive than the Quebec scheme as the percentage of the gap which they meet varies inversely with income, whereas in the latter it is invariant with income.
The Manitoba scheme is more generous than the other two schemes as it requires households to make a lower minimum contribution to the rent at all eligible income levels. Other things being equal, since the income at which entitlement ceases is determined by the affordability ratio—that is, $R/aY$ (or $R_{\text{max}}/aY$)—it also goes further up the income scale in Manitoba than in the other two provinces.

**Germany**

In Germany, housing allowance (Wohngeld) entitlement is calculated using a rather complex formula which has three parameters: size of household, disposable income, and eligible housing costs. This formula is then translated into tables for different sizes of household, which show how much allowance a household is entitled to receive for different levels of income and housing costs. The tables group income and rent in bands, so that within each income band and each housing cost band, households are entitled to the same amount of allowance. As a result, entitlement increases or decreases in steps rather than as a continuous function of income and rent.

The allowance is designed to ensure that the housing costs burden (rent to income ratio) net of Wohngeld is in the range of 15 to 25 per cent of disposable income. For those with housing costs above the relevant ceiling (above which costs are disregarded), the actual housing costs burden will be above this range.

In the former East Germany, the housing scheme which has been in operation since 1991 is basically the same as that in the former West Germany, but has more generous rules, the purpose of which is to help cushion recipients from the relatively large increases in rents in the transition from a low rent and low wage economy.

Since 1991 tenants who are recipients of the social assistance scheme, Sozialhilfe, have been required to apply for what is known as flat rate housing allowances. The remainder of their eligible housing costs are met by Sozialhilfe.

**The Netherlands**

The Dutch housing allowance scheme is based on the precept that tenants should not have to pay more than a certain proportion of their income in rent; and that the higher the income, the larger the proportion of it the tenant should be expected to pay.

The level of housing allowance to which recipients are entitled in the Dutch scheme is defined by tables. The scheme incorporates a minimum rent contribution, known as the standard rent, which is calculated as a percentage of household income. This minimum contribution or standard rent increases as income band rises: the higher the income band, therefore, the larger the share of that income the household is expected to contribute towards the rent.
The proportion of the difference between the minimum rent contribution and the actual rent that is covered by the scheme varies according to both the level of the rent and household income. It ranges from 100 per cent to 65 per cent.

Where the applicant’s rent is in the lowest rent band, IHS meets all of the difference between the minimum rent and actual rent. Where the applicant’s rent is in the middle rent band, IHS meets all of the difference for recipients in the lowest incomes, and then falls in five per cent steps down to a maximum of 65 per cent for recipients with the highest incomes. Where the applicant’s rent is in the highest rent band, IHS meets 65 per cent of the difference between the minimum rent contribution and the actual rent at all income levels. Thus the higher the rent band and the higher the income band, the smaller the proportion of the difference between the minimum rent and the actual rent that is met by IHS.

The stepped reduction in the proportion of the difference between the minimum and the actual rent that is met by IHS is referred to as the ‘quality deduction’. This reflects the fact that, broadly speaking, dwellings with higher rents tend to be of higher quality (Priemus, 1986).

The Dutch scheme recognises only two types of household: those comprising one adult and those comprising more than one adult. Hence there are only two sets of IHS tables, one for each household type. No account is taken of dependent children living in the household, as the additional needs of households with children are considered to be met by child benefit. As in the German scheme, income is based on all household members, that is, there is a household means test.

Recipients of social assistance and other social security benefits are eligible to apply for housing allowances on the same basis as other households. These benefits are linked to the statutory minimum wage, which until the early 1980s was itself linked to actual earnings (Priemus, 1984). A tenant with an income at the social assistance level has to pay the minimum standard rent out of that income. At this income level the whole of the difference between the actual and the standard rent is met by the allowance up to the highest rent band. Beyond this income level, 35 per cent of the difference between actual and standard rent is met by IHS.

In the New Zealand Accommodation Supplement scheme, benefit entitlement is based on income, cash assets, and accommodation costs; the level of assistance is also affected by family size and geographical location.

The starting point for the Supplement is what is referred to as the ‘entry threshold’. The entry threshold is the level of accommodation costs which recipients are expected to meet out of their own incomes. It is expressed as a percentage of income: 25 per cent of income in the case of tenants.
and 30 per cent in the case of home owners. It is thus an affordability ratio. The five per cent differential is to take account of the fact that home owners are also acquiring an asset and not just keeping a roof over their heads (Kuila, 1993). The choice of five per cent for the differential appears to have been relatively arbitrary and not based on research.

For households who are paying more than the entry threshold in housing costs, AS meets 65 per cent of the difference between the threshold and the rent, up to a maximum amount of benefit payable. This subsidy rate is known as the co-payment, indicating that the cost of housing above the entry threshold is shared between the recipient and the state.

Under the Accommodation Benefit, the scheme which AS superseded in July 1993, the subsidy rate or co-payment was fifty per cent. The 65 per cent rate taper was chosen after consultation on a number of different entry threshold and co-payment options. It was chosen so as to minimise the number of losers from the wider housing subsidy changes (see Chapter 7), within the nil cost constraint to which the reform was subject (Kuila, 1993).

The maximum payments under the old Accommodation Benefit scheme were $42 for single people and $69 for couples. They were linked to benefit income and were set at 25 per cent of the maximum levels of Invalids Benefit for single people and couples respectively. This method of setting maximum limits did not take reflect actual accommodation costs and nor was it sensitive to regional variations in costs; neither did it adjust for differences in family size. The new AS employs a new method to determine the maximum payments under the scheme. These now vary by location and family size (Table 4.2).

Table 4.2 Maximum amounts of Accommodation Supplement payable in New Zealand, July 1993

<table>
<thead>
<tr>
<th>Region</th>
<th>Single person</th>
<th>Couple or lone parent with 1 child</th>
<th>Couple with one parent with 2+ children</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£PPP (NZ$)</td>
<td>£PPP (NZ$)</td>
<td>£PPP (NZ$)</td>
</tr>
<tr>
<td>Auckland</td>
<td>£25 ($60)</td>
<td>£32 ($75)</td>
<td>£42 ($100)</td>
</tr>
<tr>
<td>Wellington</td>
<td>£21 ($50)</td>
<td>£25 ($60)</td>
<td>£27 ($65)</td>
</tr>
<tr>
<td>Rest of NZ</td>
<td>£18 ($42)</td>
<td>£21 ($50)</td>
<td>£23 ($55)</td>
</tr>
</tbody>
</table>

Thus the formula for AS is as follows:

$$AS = 0.65 \ (H - bYn) \ \text{up to } As_{\text{max}} \ \text{if } H > bYn$$
where

\[
\begin{align*}
\text{AS} &= \text{Accommodation Supplement entitlement} \\
\text{H} &= \text{eligible housing costs} \\
b &= 0.25 \text{ if a renter and } 0.30 \text{ if a home owner} \\
Yn &= \text{net income} \\
\text{ASmax} &= \text{maximum amount of AS payable}
\end{align*}
\]

Expressed in words, this formula says that Accommodation Supplement entitlement is equal to 65 per cent of the difference between eligible housing costs and 25 per cent of net income (or 30% of net income in the case of home owners), subject to a maximum amount of benefit and provided that eligible housing costs are greater than 25 per cent (30%) of net income. However, this formula shows only the maximum amount of AS to which a household may be entitled. In practice it is more complicated than this because there is both an income and a cash assets taper in the scheme.

The AS employs an income taper or `abatement regime` as it is known in New Zealand. This is the same as the one that operated under the old AB. In the case of a welfare beneficiary, AS is reduced by 25 cents for every $1 of their non-benefit income, up to a maximum of $80 per week. Hence the maximum abatement is $20 (ie, 25% of $80). If the beneficiary is receiving income of more than $80, there is no further reduction of AS. In the case of a non-welfare beneficiary, AS is reduced by 25 cents for every $1 by which their gross income exceeds the appropriate gross Invalid Benefit rate.

Like the income taper or abatement regime, the cash assets test in AS is the same as that for the old AB. For both single people and couples, the first tranche of income does not affect AS entitlement. For every $100 of cash assets above this amount but below the cash assets ceiling, AS is reduced by 25 cents. Above the cash assets ceiling, there is no entitlement to AS. As at June 1993, the cash assets ceiling was $8,100 for a single person without children and $16,200 for a lone parent or couple.

Thus in practice, the formula for AS is

\[
\text{AS} = 0.65(\text{H} - bYn) - \{0.25 (\text{Yg} - \text{IBg}) + 0.25 \left(\frac{\text{CA} - \text{Tmin}}{100}\right)\}
\]

if \( \text{H} > bYn \) and \( \text{CA} < T\text{max} \)

where

\[
\begin{align*}
\text{AS} &= \text{Accommodation Supplement entitlement} \\
\text{H} &= \text{eligible housing costs} \\
b &= 0.25 \text{ if a renter and } 0.30 \text{ if a home owner} \\
Yn &= \text{net income} \\
\text{Yg} &= \text{gross income} \\
\text{IBg} &= \text{gross Invalid Benefit rate}
\end{align*}
\]
CA = cash assets
Turin = cash assets minimum
Tmax = cash assets ceiling

Expressed in words, this formula says that, in the case of non-welfare beneficiaries, the Accommodation Supplement is reduced by 25 cents for every $1 by which their gross income exceeds the gross Invalid's Benefit rate and by 25 cents for every $100 by which their cash assets exceed a minimum amount; but if cash assets exceed the assets ceiling, there is no entitlement to the Supplement at all.

*Sweden*

In the general housing allowance scheme, the rules are different for households with children and those without children and for pensioners.

The *housing allowance for families* is based on income, the number of children in the household, and housing expenditure. The allowance has two parts. The first is based on the number of children in the household and is unrelated to housing costs. Prior to the 1991 reform it was paid as a fixed sum per child up to a total of three. Since the reform it has been paid at a fixed rate per family. This is known as the `fixed sum' (Schwarz, 1992). The second part is related to housing costs. It covers 75 per cent of the household’s housing costs that are above a minimum amount, up to a threshold; above which it covers 50 per cent, up to a maximum eligible housing cost (Table 4.3). Prior to the 1991 reform, these rates were 80 per cent and 60 per cent respectively. The amount of these thresholds varies according to the number of children in the household, up to a maximum of three (Hederstierna, 1991; Schwarz, 1992).

<table>
<thead>
<tr>
<th>Table 4.3</th>
<th>Maximum housing allowances entitlement per month for families with children in Sweden in 1993 in LPPP (SEK)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of children</td>
<td>Fixed sum</td>
</tr>
<tr>
<td>(SEK)</td>
<td>(SEK)</td>
</tr>
<tr>
<td>1</td>
<td>£65</td>
</tr>
<tr>
<td>(1000)</td>
<td>(2050-2400)</td>
</tr>
<tr>
<td>2</td>
<td>£65</td>
</tr>
<tr>
<td>(1000)</td>
<td>(1750-2800)</td>
</tr>
<tr>
<td>3+</td>
<td>£65</td>
</tr>
<tr>
<td>(1000)</td>
<td>(1450-3200)</td>
</tr>
</tbody>
</table>

Source: national informant (official)

The sum of these two parts—the fixed amount and the housing cost part—are referred to as the unreduced amount, which in effect is the
maximum amount of housing allowance payable. If the household's taxable income is above a certain limit, the amount of the allowance is reduced from this sum at a rate of 20 per cent of the excess (Nyman and Schwarz, 1991; Schwarz, 1992). In other words, the income taper is 20 per cent of taxable income.

For households without children, the allowance does not include the `fixed amount’ and is based on the housing related component only. Nor does it have the two tier subsidy rate employed in the housing allowance for children. Instead, it simply meets 30 per cent of the monthly housing costs above a minimum amount and below a housing costs ceiling: this is the unreduced sum. For households with taxable income above a set level, benefit tapers off from this sum at a rate of ten per cent of the excess. Thus the subsidy rate is less generous than it is for households with children, but the benefit tapers out at only half the rate (10% instead of 20% of excess income). For childless households aged up to 28, the taper is 33 per cent instead of 30 per cent.

The housing supplement for pensioners is similar in design to the scheme for childless households, but the parameters are rather different. It meets 80 per cent of housing costs between a fairly low minimum amount and a maximum housing cost ceiling. Where taxable income from sources other than paid employment is above a threshold amount, the supplement is reduced at a rate of 35 per cent of the excess (Hederstierna, 1991).

Since no benefit is paid on housing costs below the minimum amount, it defines the minimum rent or mortgage interest which claimants must pay out of their own pockets. At the same time, since no benefit is paid on rent or mortgage interest above the maximum amount, it functions as a housing cost ceiling. Table 4.3 shows the minimum and maximum eligible housing costs for families with children in 1993. For households without children (single people and couples) and at least one adult was aged over 28, the minimum monthly amount was SEK1600 (PPP L104) and the maximum was SEK3500 (PPP L227) in 1993. For single claimants and couples under the age of 29, the minimum eligible cost was SEK900 (PPP £58) per month; the maximum for single people under 29 was SEK2500 (PPP L162) and for couples in this age group it was SEK3100 (PPP L201). For pensioner households, the minimum was relatively low at SEK150 (PPP L10), while the maximum was SEK3500 (PPP L227) per month.

Britain If a tenant is receiving Income Support, the social assistance safety net, they will normally be entitled to the maximum amount of Housing Benefit. In July 1993, the maximum Housing Benefit was equal to all the eligible rent. Deductions are made from the eligible rent if there are non-dependants living in the household.
If a tenant is *not* receiving Income Support, their entitlement to Housing Benefit is calculated by comparing their net income with what is referred to as the ‘applicable amount’, which in most cases is the same as the Income Support benefit rates. The applicable amount is made up of personal allowances and premiums. The personal allowances vary according to age and whether the applicant is single or part of a married or unmarried couple. The premiums are included in the applicable amount of groups identified as having extra needs, such as the elderly and long term sick or disabled.

If a tenant who is *not* on Income Support has a net income that is equal to or less than the applicable amount, they will normally be entitled to the maximum help with their eligible rent (less any deductions for non-dependants in the household). In July 1993 the maximum Housing Benefit, as with those on Income Support, was equal to all of the eligible rent. If the householder's net income is higher than the applicable amount, benefit entitlement is reduced from 100 per cent by 65 pence for every pound by which income exceeds the applicable amount. If entitlement falls below 50 pence a week, no benefit is payable.

The formula for Housing Benefit for household who are *not* on Income Support and whose income is above their applicable amount is as follows:

\[
HB = R - 0.65 \times (Y - IS)
\]

where

- \( HB \) = Housing allowances entitlement
- \( R \) = eligible rent (less deductions for non-dependants)
- \( Y \) = net income (plus earnings disregards)
- \( IS \) = applicable amount

Expressed in words, this formula says that Housing Benefit is equal to the eligible rent minus 65 per cent of the difference between net income and the appropriate Income Support benefit rate. The rules governing the amount of rent that is eligible for assistance in the case of private tenants are due to be altered in January 1996 (see chapter 7).

Entitlement to housing Table 4.4 shows expenditure on housing allowances in 1992 expressed in allowances pounds sterling using purchasing power parities. The absolute amounts spent on housing allowances will obviously be affected by the demographic size of country, so the table also compares it with gross expenditure on rents and with Gross Domestic Product (GDP). The ‘rent’ figures were taken from the national accounts and refer to average expenditure on housing across all tenures.
Table 4.4  Expenditure on housing allowances in total and as a percentage of expenditure on rent and as a percentage of GDP, 1992

<table>
<thead>
<tr>
<th></th>
<th>(1) Expenditure on housing allowances EPPP millions</th>
<th>(2) Expenditure on gross rent EPPP millions</th>
<th>(3) as % of (2)</th>
<th>(4) as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>526</td>
<td>20,233</td>
<td>2.6</td>
<td>0.30</td>
</tr>
<tr>
<td>Germany</td>
<td>2,026</td>
<td>74,833</td>
<td>2.7</td>
<td>0.22</td>
</tr>
<tr>
<td>Netherlands</td>
<td>534</td>
<td>14,845</td>
<td>3.6</td>
<td>0.33</td>
</tr>
<tr>
<td>New Zealand</td>
<td>72</td>
<td></td>
<td></td>
<td>0.24</td>
</tr>
<tr>
<td>Sweden</td>
<td>849</td>
<td>12,194</td>
<td>7.0</td>
<td>0.94</td>
</tr>
<tr>
<td>Britain</td>
<td>8,936</td>
<td>57,598</td>
<td>15.5</td>
<td>1.50</td>
</tr>
</tbody>
</table>

Sources: OECD (1994) OECD (1995) and national officials

Note: the ‘rent’ data is the average expenditure on housing across all tenures

Two countries—Sweden and Britain—stand out as spending a greater proportion of gross rents and of GDP on housing allowances than the other selected countries. Whereas in the other countries housing allowances expenditure in 1992 was equivalent to between two and four per cent of gross rents, in Sweden it was seven per cent and in Britain 15.5 per cent. Thus Sweden was spending about twice as much, and Britain was spending about five times as much, on housing allowances as a proportion of gross rents than were the other selected countries. Similarly, while the other countries were spending the equivalent of between a fifth and a third of one per cent of GDP on housing allowances, Sweden was spending almost one per cent and Britain was spending one and a half per cent.

The reasons why housing allowances take up a much higher percentage of the national rent bill and of GDP in Britain and Sweden are complex, but two factors stand out. First, in Britain social assistance makes no allowance for rent, the cost of which therefore has to be fully covered by the housing allowance scheme. In other words, costs that in Britain are fully covered by the housing allowance budget, in other countries are partly borne by the social assistance budget. Second, a much higher percentage of households was receiving a housing allowance in Sweden than elsewhere in the early 1990s (see Table 4.5).

In 1993 approximately 27 per cent of all Swedish households were receiving housing allowances. The average across the seven countries as a whole was 14 per cent. Although much lower than in Sweden, the number of recipients was higher in Britain than in the other selected countries (19%). The proportion of households was low in Germany at only six per cent. In Canada less than one per cent of households were
receiving a housing allowance in 1993: this is hardly surprising given that only five of the ten provinces had such a scheme and that they were mainly confined to elderly households. In the remaining three countries (Australia, the Netherlands and New Zealand) between 13 and 16 per cent of households were receiving allowances (Table 4.5). These data are for one year only but sharp fluctuations in the number of recipients as a result of reforms can have a marked affect on the proportion of households receiving housing allowances. Thus the sharp increase in the number of recipients in New Zealand following the reform of July 1993 raised the proportion of recipients to around the 20 per cent level in 1994.

**Table 4.5** Percentage of households receiving housing allowances in 1993

<table>
<thead>
<tr>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>6</td>
</tr>
<tr>
<td>Canada</td>
<td>&lt;</td>
</tr>
<tr>
<td>Germany</td>
<td>6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5</td>
</tr>
<tr>
<td>New Zealand</td>
<td>3</td>
</tr>
<tr>
<td>Sweden</td>
<td>27</td>
</tr>
<tr>
<td>Britain</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: national informants (officials and policy experts)

Note: the data for Germany is for West Germany in 1991

In all of the countries, expenditure on housing allowances has grown considerably since 1980, though more in some countries than in others. Table 4.6 shows housing allowance caseloads for each country except from 1980 to the early 1990s. The data for the five Canadian provinces which operate housing allowance schemes are not available.

In Sweden, housing allowances expenditure in current prices increased from SEK 6 billion in 1980 to 17.6 billion in 1993. Over the same period, housing allowances expenditure (excluding ISMI) increased from L1 billion to L9.2 billion in Britain, and from DM 1.8 billion to DM 6.4 billion in Germany. This increase generally reflects the shift in housing support away from bricks and mortar subsidies and rent regulation, towards greater reliance on housing allowances. The factors behind this general shift were examined in Chapter 2.

However, within this overall pattern of increasing expenditure, the experience of the Netherlands was very different from that of the other countries in the early 1990s. Between 1990 and 1993, nominal expenditure on housing allowances increased in the region of 75 to 90 per cent in the other countries but scarcely at all (6%) in the Netherlands (Table 4.7).
Table 4.6 Expenditure on housing allowances 1980 to 1994
(millions, in national currency)

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Germany</th>
<th>Netherlands</th>
<th>New Zealand</th>
<th>Sweden</th>
<th>Britain</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>$</td>
<td>DM</td>
<td>DFL</td>
<td>$</td>
<td>SEK</td>
<td>f</td>
</tr>
<tr>
<td>1980</td>
<td>na</td>
<td>1,830</td>
<td>629</td>
<td>19</td>
<td>6,000</td>
<td>1,024</td>
</tr>
<tr>
<td>1981</td>
<td>na</td>
<td>2,415</td>
<td>828</td>
<td>15</td>
<td>5,500</td>
<td>1,656</td>
</tr>
<tr>
<td>1982</td>
<td>na</td>
<td>2,668</td>
<td>1,069</td>
<td>16</td>
<td>6,300</td>
<td>2,128</td>
</tr>
<tr>
<td>1983</td>
<td>na</td>
<td>2,602</td>
<td>1,131</td>
<td>22</td>
<td>6,800</td>
<td>2,516</td>
</tr>
<tr>
<td>1984</td>
<td>225</td>
<td>2,419</td>
<td>1,271</td>
<td>32</td>
<td>6,900</td>
<td>2,832</td>
</tr>
<tr>
<td>1985</td>
<td>266</td>
<td>2,462</td>
<td>1,346</td>
<td>42</td>
<td>7,100</td>
<td>3,177</td>
</tr>
<tr>
<td>1986</td>
<td>311</td>
<td>3,363</td>
<td>1,467</td>
<td>58</td>
<td>7,200</td>
<td>3,418</td>
</tr>
<tr>
<td>1987</td>
<td>421</td>
<td>3,727</td>
<td>1,532</td>
<td>101</td>
<td>7,500</td>
<td>3,536</td>
</tr>
<tr>
<td>1988</td>
<td>438</td>
<td>3,682</td>
<td>1,612</td>
<td>100</td>
<td>8,100</td>
<td>3,779</td>
</tr>
<tr>
<td>1989</td>
<td>505</td>
<td>3,678</td>
<td>1,699</td>
<td>108</td>
<td>8,300</td>
<td>4,299</td>
</tr>
<tr>
<td>1990</td>
<td>740</td>
<td>3,611</td>
<td>1,788</td>
<td>121</td>
<td>9,300</td>
<td>5,100</td>
</tr>
<tr>
<td>1991</td>
<td>907</td>
<td>4,572</td>
<td>1,891</td>
<td>151</td>
<td>12,600</td>
<td>6,375</td>
</tr>
<tr>
<td>1992</td>
<td>1,200</td>
<td>6,809</td>
<td>1,859</td>
<td>280</td>
<td>13,500</td>
<td>7,793</td>
</tr>
<tr>
<td>1993</td>
<td>1,400</td>
<td>6,461</td>
<td>1,890</td>
<td>211</td>
<td>17,600</td>
<td>9,193</td>
</tr>
<tr>
<td>1994</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>351</td>
<td>na</td>
<td>10,253</td>
</tr>
</tbody>
</table>

Source: national informants (officials and policy experts)

Note: data was not available for Canada

Table 4.7 Index of expenditure on housing allowances 1990 and 1993

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Germany</th>
<th>Netherlands</th>
<th>New Zealand</th>
<th>Sweden</th>
<th>Britain</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>1990</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1993</td>
<td>189</td>
<td>179</td>
<td>106</td>
<td>174</td>
<td>189</td>
<td>180</td>
</tr>
</tbody>
</table>

The explanations of this different experience in the early 1990s are specific to each country. In the Netherlands, various cuts in IHS were introduced in the late 1980s in order to trim the growing cost of the scheme and to reduce the number of recipients, which was approaching the politically sensitive one million mark (Priemus, 1990). In Australia, the cost of the scheme has increased because it has been made more generous, because the scope of RA has been widened, and because of the early 1990s recession. In Sweden, the non-pensioner scheme was enhanced in 1991 to compensate for changes in housing taxation, including reductions in mortgage interest relief (Schwarz, 1992) while bricks and mortar subsidies were cut back as part of welfare state retrenchment; and unemployment increased. In Britain, unemployment rose in the early 1990s, but perhaps even more importantly, rents increased as a result of private-sector rent deregulation and reductions in bricks and mortar subsidies to social housing (Kemp, 1994).
Table 4.8  Number of recipients of housing allowances 1980 to 1994 (000s)

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Germany</th>
<th>Netherlands</th>
<th>New Zealand</th>
<th>Sweden</th>
<th>Britain</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pensioners</td>
<td>Others</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>413</td>
<td>1,486</td>
<td>456</td>
<td>41</td>
<td>780</td>
<td>392</td>
</tr>
<tr>
<td>1981</td>
<td>443</td>
<td>1,609</td>
<td>530</td>
<td>33</td>
<td>738</td>
<td>342</td>
</tr>
<tr>
<td>1982</td>
<td>466</td>
<td>1,811</td>
<td>629</td>
<td>31</td>
<td>679</td>
<td>333</td>
</tr>
<tr>
<td>1983</td>
<td>474</td>
<td>1,422</td>
<td>635</td>
<td>35</td>
<td>645</td>
<td>329</td>
</tr>
<tr>
<td>1984</td>
<td>480</td>
<td>1,548</td>
<td>715</td>
<td>40</td>
<td>624</td>
<td>317</td>
</tr>
<tr>
<td>1985</td>
<td>502</td>
<td>1,512</td>
<td>778</td>
<td>44</td>
<td>596</td>
<td>296</td>
</tr>
<tr>
<td>1986</td>
<td>583</td>
<td>1,877</td>
<td>831</td>
<td>57</td>
<td>576</td>
<td>270</td>
</tr>
<tr>
<td>1987</td>
<td>678</td>
<td>1,897</td>
<td>881</td>
<td>87</td>
<td>564</td>
<td>na</td>
</tr>
<tr>
<td>1988</td>
<td>713</td>
<td>1,897</td>
<td>881</td>
<td>87</td>
<td>564</td>
<td>na</td>
</tr>
<tr>
<td>1989</td>
<td>652</td>
<td>1,793</td>
<td>950</td>
<td>98</td>
<td>551</td>
<td>na</td>
</tr>
<tr>
<td>1990</td>
<td>674</td>
<td>1,774</td>
<td>953</td>
<td>106</td>
<td>548</td>
<td>na</td>
</tr>
<tr>
<td>1991</td>
<td>646</td>
<td>1,757</td>
<td>960</td>
<td>113</td>
<td>559</td>
<td>na</td>
</tr>
<tr>
<td>1992</td>
<td>868</td>
<td>1,847</td>
<td>917</td>
<td>140</td>
<td>549</td>
<td>na</td>
</tr>
<tr>
<td>1993</td>
<td>941</td>
<td>1,844</td>
<td>905</td>
<td>151</td>
<td>593</td>
<td>441</td>
</tr>
<tr>
<td>1994</td>
<td>976</td>
<td>na</td>
<td>252</td>
<td>na</td>
<td>524</td>
<td>na</td>
</tr>
</tbody>
</table>

Sources: national informants (officials and policy experts)

Note: data was not available for Canada

Housing allowance caseloads have also increased considerably since 1980 in all countries except Sweden (Table 4.7) and for the same reasons that expenditure has increased. However, the rate of growth varied significantly between countries. In the Netherlands, the caseload was twice as high in 1993 as it was in 1980, though it had fallen during the early 1990s. In Australia it was much more than twice as high, having increased by 128 per cent. In New Zealand, the caseload had more than trebled, though from a very low base. In Britain the increase was more modest, being little more than a quarter over the period from 1980 to 1993. In Sweden, the housing allowance caseload actually fell by about a quarter during the 1980s, but then increased. Even so, by 1993 it was still a tenth lower than in 1980 (Table 4.9). Most of this decrease was in the number of pensioner recipients, while in recent years the number of non-pensioner recipients has increased considerably (eg. by 19% between 1994 and 1993).

Table 4.9 Index of change in housing allowance caseloads, 1980 to 1993

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Germany</th>
<th>Netherlands</th>
<th>New Zealand</th>
<th>Sweden</th>
<th>Britain</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1985</td>
<td>122</td>
<td>102</td>
<td>171</td>
<td>107</td>
<td>76</td>
<td>137</td>
</tr>
<tr>
<td>1990</td>
<td>163</td>
<td>119</td>
<td>209</td>
<td>259</td>
<td>na</td>
<td>112</td>
</tr>
<tr>
<td>1993</td>
<td>228</td>
<td>124</td>
<td>196</td>
<td>368</td>
<td>88</td>
<td>127</td>
</tr>
</tbody>
</table>
Table 4.10 shows the average amount of housing allowances payment per recipient in 1993 in pounds sterling at PPPs. Again the average amount was much higher in Sweden and especially in Britain than it was in the other selected countries. However, it is difficult to interpret these figures on their own; they could reflect differences in the generosity of the different housing allowances schemes, but they could also reflect differences in rent levels, earnings and social security benefit rates. As we have seen, average rents and earnings in pounds sterling at PPPs differ between the selected countries.

Table 4.10 also shows average housing allowance payments per beneficiary as a percentage of the earnings of an average production worker. As a percentage of the monthly gross earnings of the average production worker (column 3), a familiar pattern emerges, with Sweden and Britain standing apart from the other selected countries. In the other countries, housing allowances in 1993 were equivalent to between three and six per cent of the earnings of the average production worker. But in Sweden it was ten per cent and in Britain (for renters) it was 12 per cent. Thus expressed in this way, average housing allowance payments were between two and three times as high in Sweden and Britain as they were in the other selected countries.

As a percentage of the rent (column 2 in Table 4.10), the average amount of housing allowances paid per beneficiary was relatively small in New Zealand, where it accounted for only nine per cent. In Australia, it was 15 per cent and in Germany 16 per cent for renters receiving the main housing allowances. For renter recipients of social assistance, the flat rate housing allowance in Germany was equivalent to 31 per cent of the average rent, that is, about double that for other renter recipients. In the Netherlands, the average housing allowance payment was 28 per cent of the average rent for a two bedroom dwelling, while in Sweden it was 29 per cent for pensioners and 30 for others. Britain stands out in that the average payment was as much as three-quarters of the average rent. The British result was the outcome of a both a relatively low rent and a relatively high average housing allowances payment; the New Zealand figure reflected the reverse situation, though less extremely: a relatively low average housing allowance and a relatively high average rent. The next section suggests that the relatively high average housing allowance payment in Britain is at least in part due to the lower level of social security benefits paid to unemployed households compared with the other selected countries.
The impact of housing

The impact of housing allowances on rent burdens is clearly affected by allowances the design of the scheme in each country as well as the level of earnings, benefits and rent. Table 4.11 seeks to illuminate the impact of housing allowances in a little more detail, drawing on the data on average earnings, average rents (for a two bedroom dwelling) and average housing allowance payments. The data for Canada refer to Manitoba, the only province in Canada which provides housing allowances for family households and not just for the elderly; to that extent, the Canadian figures are not representative of the country as a whole. The data for Germany refer to the graded housing allowance scheme in the west of the country. Housing allowances can be regarded either as an addition to income or as a reduction in the rent. Columns (6) and (7) in Table 4.11 compute rent to income ratios using these two respective approaches.

Table 4.10

Average monthly amount of housing allowance per recipient, 1993

<table>
<thead>
<tr>
<th></th>
<th>(1) as % average rent for 2 bedroom dwelling</th>
<th>(2)</th>
<th>(3) as % of monthly gross earnings of an average production worker</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£PPP</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Australia*</td>
<td>56</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>Canada (Manitoba)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-elderly</td>
<td>41</td>
<td>16</td>
<td>3</td>
</tr>
<tr>
<td>-families</td>
<td>66</td>
<td>26</td>
<td>5</td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-renters</td>
<td>38</td>
<td>16</td>
<td>3</td>
</tr>
<tr>
<td>-owner-occupiers</td>
<td>47</td>
<td>na</td>
<td>4</td>
</tr>
<tr>
<td>-flat rate HB</td>
<td>72</td>
<td>31</td>
<td>6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>52</td>
<td>28</td>
<td>4</td>
</tr>
<tr>
<td>New Zealand</td>
<td>30</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>Sweden</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-pensioners</td>
<td>91</td>
<td>29</td>
<td>10</td>
</tr>
<tr>
<td>-others</td>
<td>93</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Britain</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-HB</td>
<td>146</td>
<td>76</td>
<td>12</td>
</tr>
<tr>
<td>-ISMI</td>
<td>183</td>
<td>na</td>
<td>16</td>
</tr>
</tbody>
</table>

*Estimated by dividing total annual expenditure by caseload and dividing by 12

Note: the average rent figures are taken from Table 3.7 and refer to the largest rental tenures in the largest cities in each country

Source: national informants (officials)
When housing allowances are calculated as an *addition to income*, gross rents as a percentage of gross earnings and housing allowances combined varied considerably across the countries in 1993. In three countries—Australia, New Zealand and Sweden—gross rent accounted for about three-tenths in 1993. In two countries—Canada and Germany—it accounted for a sixth. And in the Netherlands and Britain gross rent accounted for between a seventh and an eighth of earnings and housing allowances combined (Table 4.11).

A slightly different picture emerges when housing allowances are calculated as a *reduction in the rent*, that is, calculating the net rent (gross rent less housing allowances) as a percentage of gross earnings. Apart from Sweden and Britain, the net rent to income ratio was approximately two to three percentage points lower than the gross rent to income ratio. But in Sweden the differential was seven percentage points, while in Britain it was eleven percentage points (Table 4.11). This suggests that in Britain and Sweden housing allowances have a bigger impact on rent burdens than they do in the other countries.

Table 4.11  Effect of housing allowances on rent burdens, 1992

<table>
<thead>
<tr>
<th>Country</th>
<th>Monthly gross earnings</th>
<th>Average APW payment</th>
<th>Average net rent for 2 bedroom dwelling</th>
<th>2 Net rent as % of (3)</th>
<th>4 Gross rent as % of (1)</th>
<th>6 Net rent as % of (1)</th>
<th>8 Net rent (2) as % of (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>181</td>
<td>56</td>
<td>237</td>
<td>364</td>
<td>308</td>
<td>29</td>
<td>26</td>
</tr>
<tr>
<td>Canada</td>
<td>1327</td>
<td>66</td>
<td>393</td>
<td>256</td>
<td>191</td>
<td>18</td>
<td>14</td>
</tr>
<tr>
<td>Germany</td>
<td>1294</td>
<td>38</td>
<td>332</td>
<td>236</td>
<td>198</td>
<td>18</td>
<td>15</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1350</td>
<td>52</td>
<td>402</td>
<td>187</td>
<td>135</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1082</td>
<td>30</td>
<td>112</td>
<td>332</td>
<td>302</td>
<td>30</td>
<td>28</td>
</tr>
<tr>
<td>Sweden</td>
<td>939</td>
<td>93</td>
<td>1032</td>
<td>313</td>
<td>220</td>
<td>30</td>
<td>23</td>
</tr>
<tr>
<td>Britain</td>
<td>1180</td>
<td>146</td>
<td>1326</td>
<td>193</td>
<td>47</td>
<td>15</td>
<td>4</td>
</tr>
</tbody>
</table>

1 Manitoba. SAFFR (family) recipients
2 Former West Germany. Renter recipients of graded housing allowances
3 Non-pensioner housing allowance scheme recipients
4 Housing allowance recipients excluding ISM

Note: the rent figures are taken from Table 3.7 and refer to the largest tenure in the largest city in each country (province in the case of Canada).

While tables such as Table 4.11 can shed light on cross-national variations in the effect of housing allowances on rent burdens, they can also be misleading if too much is read into them. The average earnings data are for production workers as a whole and not for housing allowance recipients, whose average incomes are likely to be lower. The average
housing allowance payments in the table refer to allowance recipients as a whole and do not reflect (indeed, are likely to be much higher than) the amount of housing allowance, if any, which production workers on average incomes would receive. The average rent data are for particular cities and relate to the most predominant rented housing tenure. In respect of Britain, therefore, the rent data refer to local authority housing, the rents of which are on average much lower than housing association and especially private market rents; whereas in respect of Germany, for example, the rent data refer to private market rents.

One further limitation of these data is that they deal with averages, around which there will inevitably be considerable variation, the distribution of which might itself vary between countries. One partial way of getting around this difficulty is to employ what Bradshaw et al (1993) refer to as `model families`. These are particular types of household living in specified circumstances, whose benefit package or whatever can then be compared across countries in order to assess the impact of the package. Since it is based on a prescribed set of common assumptions about circumstances, it enables like to be compared with like.

Bradshaw et al (1993) point out two disadvantages of this approach: (i) it provides a description of how the system should work rather than how it does work in practice; and (ii) choices have to be made about the model households and their circumstances, and `as choice is piled on choice it leads to the model families becoming less and less representative of all families. As a result the method cannot claim to be representative—only illustrative` (Bradshaw et al, 1993: 258).

To these disadvantages a third may be added: that these choices may be more realistic for some countries than for others. What may represent a common situation in some countries may be unusual in other countries. One example of this which affected the present study concerns the choice of rent. In Britain, where as we have seen, rents in local authority housing are relatively low compared with other countries, it would not be unusual for a household in receipt of housing allowances to be living in accommodation with a rent that was at or even above the national average. In Canada and New Zealand, as the expert informants pointed out, it would be relatively unusual for them to do so. Nevertheless, common assumptions have to be made so that the different countries may be compared.

A further disadvantage which relates especially to housing allowances, is that—as noted in Chapter 3—differences in rent levels and hence (other things being equal) in housing allowances may reflect differences in supply side subsidies and rent setting policies. In other words, at any one point in time, a country may be spending more on housing allowances because it is spending less on supply side subsidies. Changes in the balance between
supply and demand side subsidies can also alter the amount of housing allowance expenditure within a country over time. For example, as noted above, part of the explanation for the growth in housing allowances expenditure in Britain since the late 1980s is the reductions in subsidies to social housing landlords. Likewise, the extent to which social security benefits are set at a level that explicitly makes provision for housing costs, or implicitly assumes that recipients will contribute to their housing costs, will also affect the level of housing allowance payments. In other words, in some countries, help with housing costs is channelled through social security as well as through housing allowance schemes.

A final disadvantage which again relates to housing is that rent levels can vary substantially within countries. If the ‘model households’ approach is employed using one rent level per model family it can give a misleading impression especially in countries such as Australia where there is very great variation in rents between cities. The level of assistance provided by a housing allowance scheme may be adequate in a low rent city but much less so in a high rent location, especially if there is not a close connection between entitlement and actual housing costs.

However, while these disadvantages limit the conclusions that can be drawn from the approach, they do not invalidate it. It can still provide useful insights into the impact of housing allowances across the selected countries. The conclusions that may be drawn from these comparisons, however, can at best be regarded as tentative rather than conclusive.

The study employed four different types of household, the first three of which were below retirement age: (i) a single person, (ii) a childless couple, (iii) a couple with two dependent children; and (iv) a single pensioner. The pensioner was assumed to be a man aged 68. The other adults were all assumed to be 35 years of age; the two children were assumed to be aged seven and 14. One member of the two couples was assumed never to have been in employment. For the three non-retired households, two separate situations were specified in respect of the single person and the other member of each couple. In the first, it was assumed that the households had been unemployed for the previous three months and that, when working, their earnings were equal to two-thirds of the national average. In the second, it was assumed that they were in work with earnings again equal to two-thirds of the national average. The single pensioner was assumed to have retired in 1991; also that, when he had been in work, his earnings had also been equal to two-thirds of the national average; and that he had made full contributions to the social insurance fund. For all households, it was assumed that they had no other income nor savings and investments.

These assumptions produced a set of seven cases, which are summarised in Table 4.12. Because benefit rates, housing allowance entitlements and
other relevant circumstances, can vary within countries, it was assumed that the households were living in the largest town or city in each country. The housing costs and benefit rates were assumed to be those that would have applied in that city. In Canada, the data refer to the province of Manitoba (and the largest city within that province, Winnipeg) as that is the only province to include non-elderly households within the scope of housing allowances.

So far as their housing circumstances are concerned, it was assumed that the household was living in rented accommodation and that they were renting it from the most common type of owner, whether that was provided by a private landlord, a housing association or a public landlord. Since dwelling age and amenities may affect rents and housing allowances entitlement, it was assumed that the dwelling was constructed in 1984 and had all standard amenities (including bath or shower, hot and cold water, an inside WC, and central heating). It was further assumed that:

a) the single person households (Cases IA, 1B, and 4) were renting a one bedroom dwelling;

b) couples without children (Cases 2A and 2B) were renting a two bedroom dwelling; and

c) couples with two children (Cases 3A and 3B) were renting a three bedroom dwelling.

Table 4.12 Model households used for the housing allowances matrix

<table>
<thead>
<tr>
<th>Household type</th>
<th>Dependent children</th>
<th>Economic situation</th>
<th>Income</th>
<th>Rent for:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case I A</td>
<td>Single, aged 35</td>
<td>No</td>
<td>Unemployed 3 months Social assistance/social insurance</td>
<td>1 bedroom dwelling</td>
</tr>
<tr>
<td>Case 2A</td>
<td>Couple, both 35</td>
<td>No</td>
<td>Unemployed 3 months Social assistance/social insurance</td>
<td>2 bedroom dwelling</td>
</tr>
<tr>
<td>Case 3A</td>
<td>Couple both 35</td>
<td>2 (7,14 years)</td>
<td>Unemployed 3 months Social assistance/social insurance</td>
<td>3 bedroom dwelling</td>
</tr>
<tr>
<td>Case I B</td>
<td>Single, aged 35</td>
<td>No</td>
<td>One earner in paid work 2/3 national average pay</td>
<td>1 bedroom dwelling</td>
</tr>
<tr>
<td>Case 2B</td>
<td>Couple, both 35</td>
<td>No</td>
<td>One earner in paid work 2/3 national average pay</td>
<td>2 bedroom dwelling</td>
</tr>
<tr>
<td>Case 3B</td>
<td>Couple, both 35</td>
<td>2 (7,14 years)</td>
<td>One earner in paid work 2/3 national average pay</td>
<td>3 bedroom dwelling</td>
</tr>
<tr>
<td>Case 4</td>
<td>Single, aged 68</td>
<td>No</td>
<td>Retired Social assistance/social insurance</td>
<td>1 bedroom dwelling</td>
</tr>
</tbody>
</table>
The type of dwelling (house or flat) was not specified as the situation varied from one country to the next. Flats are very common in the Netherlands and Sweden, for example, but much less so in Australia and New Zealand. In all cases it was assumed that the household was paying the average rent in the chosen city for dwellings of the three sizes specified above.

Finally, the calculations are those which applied in May 1993 (or as near to that month as possible). All monetary amounts are expressed in monthly sums, converted from national currencies into purchasing power parities (PPPs) in pounds sterling. The matrix tables (Tables A4.1 to A4.7) are set out as an appendix to the chapter.

Case 1A: Unemployed single person  (Table A4.1) For single unemployed households, the amount of housing allowances to which they would be entitled varies considerably across countries. In Canada, such households are not entitled to shelter allowances, even in Manitoba province. Here, the net disposable income is relatively high but the average rent is in the middle range across the countries. Housing allowance entitlement is relatively low in Sweden, the Netherlands, and Germany, at between L24 and L29 at purchasing power parity. In New Zealand and especially in Britain it is relatively high. Australia falls somewhere in between the two extremes. The differential between the net and gross rent to income ratio (rows 7 and 8 respectively) is biggest for New Zealand and especially for Britain, but much smaller in the other countries (and nil in Canada).

Case 2A: Unemployed childless couple  (Table A4.2) For unemployed couples, housing allowance entitlement is still non-existent in Canada and relatively low in Germany and the Netherlands. In Australia, the housing allowance entitlement of the unemployed couple is not much different from that of the unemployed single person. While entitlement in New Zealand and Britain is well above those for the single person, in Sweden the differential is very substantial (L177 for a couple but only L27 for a single person). There is a significant differential between the gross and net rent to income differential in Germany and New Zealand and a very large one in Britain.

Case 3A: Unemployed couple with two children  (Table A4.3) In the Canadian province of Manitoba, Case 3A households qualify for shelter allowances, though the amount to which they are entitled is relatively low. The largest housing allowance entitlements are in New Zealand, Sweden and Britain. Although in Britain the Case 3A household has the largest housing allowance entitlement, it also has by far the lowest disposable income. Thus combining disposable income with housing allowances entitlement, in Britain the Case 3A household has a lower income than any other country except Canada. However, the very high (100%) proportion of the rent accounted for by housing allowances, means that in Britain this model household has a relatively high net disposable income after net housing
costs. It also means that the gross rent to income ratio is low in Britain. The net ratio in Britain is nil, compared with a range of from 23 per cent in Germany to 53 per cent in Australia.

Case 1B: Single person in work (Table A4.4) The striking result in the single, employed household matrix is that in four countries-Australia, Canada, Germany and Britain-entitlement is nil. In Australia and Canada this nil entitlement is due to the fact that this model household is not eligible for housing allowances, whereas in Germany and Britain it is eligible but entitlement is zero because, given their rent level, their income is too high. Even in the three countries where this model household is eligible and entitled to housing allowances-the Netherlands, New Zealand, and Sweden-the amount of their entitlement is low, ranging from only £16 to £31 per month.

Case 2B: Couple, one of whom in work (Table A4.5) The pattern of results for the unemployed couple is very different from that for the unemployed single person. In Australia and Canada the households are not eligible for housing allowances. In Britain, at two-thirds of average earnings and an average rent, the couple has too high an income to have any entitlement to housing allowances. However, the German couple is entitled to a small amount of housing allowances, the same amount as the Swedish couple (which, at £16, is the same amount as the single person in work). The Dutch and especially the New Zealand couple are entitled to a housing allowance payment that is much larger than for the single person in work in these countries. However, with the exception of Sweden and to a lesser extent New Zealand where they are much lower, the rent to income ratios are broadly similar for the couple as for the single person households.

Case 3B: Couple, one of whom in work, with dependent children (Table A4.6) In this case, the model household has an income in both Canada and Britain that is too high for it to be entitled to housing allowances. In Australia and the Netherlands, the amount of housing allowance is much lower than in Germany and especially than in New Zealand and Sweden. Despite the lack of entitlement in Britain, the gross rent to income ratio is lower than in any country other than the Netherlands, where it is very low (only 12% of gross disposable income). The highest gross and net rent to income ratios are in New Zealand and Sweden, yet these are the households with the largest amount of housing allowance entitlement.

Case 4: Retired single person (Table A4.7) To judge from this matrix, the Swedish and UK housing allowance schemes provide much more assistance to pensioners than is the case with the other selected countries. For Britain model retired household, the gross rent to income ratio is the second highest-due to the low disposable income-but the net rent to income ratio is by far the lowest because housing allowances covers a much higher proportion of the rent at this level of income than in the
other countries. Thus housing allowances are relatively high in Britain because income is relatively low compared with the other selected countries.

**Maximum qualifying income** Table 4.13 sets out the level of income at which entitlement to housing allowances runs out: the maximum qualifying income (MQI). This calculation is made for the households in work—that is, Cases 1B, 2B and 3B—assuming that the households were paying an average rent. In both Australia and Canada, households in Cases 1B and 2B would not be eligible for a housing allowances at all. For the other countries where the data are available, the lowest maximum qualifying income is in Britain. The highest maximum qualifying incomes are in New Zealand and Sweden, with Germany falling in between the extremes. In Sweden, the maximum qualifying income is the same for couples as it is for single people. The highest MQI for Case 2B households is in New Zealand. For Case 3B households, the highest MQI is in Sweden, followed by Germany and Australia; the lowest MQI is again Britain, with New Zealand and Canada falling in between the two extremes.

**Table 4.13 Maximum qualifying monthly income for housing allowances assuming average rent, 1993 (monthly income)**

<table>
<thead>
<tr>
<th>Case 1 £PPP</th>
<th>Case 2 £PPP</th>
<th>Case 3 £PPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>not eligible</td>
<td>not eligible</td>
</tr>
<tr>
<td>Canada (Manitoba)</td>
<td>not eligible</td>
<td>not eligible</td>
</tr>
<tr>
<td>Germany</td>
<td>588</td>
<td>833</td>
</tr>
<tr>
<td>Netherlands</td>
<td>825</td>
<td>984</td>
</tr>
<tr>
<td>New Zealand</td>
<td>683</td>
<td>1009</td>
</tr>
<tr>
<td>Sweden</td>
<td>680</td>
<td>680</td>
</tr>
<tr>
<td>Britain</td>
<td>470</td>
<td>636</td>
</tr>
</tbody>
</table>

Source: national informants (policy experts)

Because of the previously discussed limitations of this approach it would be unwise to draw too many conclusions from the data for these model households. What is apparent from the tables is that housing allowances for people who are in receipt of social insurance and/or assistance provide more assistance as a proportion of the rent in Britain than they do in the other selected countries. This finding is as much due to the nature of social security as it is to the housing allowance scheme in Britain. The level of social insurance/assistance is considerably lower in Britain than in other countries for each of the four specified household types (Cases 1A, 2A, 3A and 4). While in Britain Income Support (and the new Job Seeker's Allowance) is set at a level that makes no provision for housing costs, in the other countries social security payments for the unemployed
are set at a level that assumes that at least some housing costs can be met. Moreover, social insurance benefits for the unemployed in some of the countries are set at a level that is related to the claimant’s previous level of earnings in work. For these reasons the greater level of housing allowance as a proportion of the rent in Britain is more apparent than real when social assistance and insurance payments are taken into account.

The matrix tables also confirm that, in Canada (Manitoba province) the only categories of household able to receive a housing allowance are retired people (Case 4) and unemployed families with children (Case 3A). Unemployed single people and childless couples in receipt of social insurance benefits are not eligible for housing allowances (but those on social assistance receive an addition to their benefit based on their actual housing costs). Even so, for the examples used in the matrix tables, even without a housing allowance the single unemployed person and the unemployed couple receive more in social insurance benefits than the equivalents in Britain receive from social insurance/assistance and housing allowance combined.

It is also noteworthy from the tables that in Britain all of the cases where the model household is in work (Cases 1B, 2B and 3B) are earning more than the effective maximum qualifying income for housing allowances. The only other country where this is true for all three cases is Canada, but in this case it is because such households are not eligible to claim for housing allowances. In Britain, housing allowances go much less far up the income scale than in the other countries where people in work are eligible to apply for them. This reflects the very sharp rate of withdrawal of benefit as income rises in the British scheme. Hence housing allowances in Britain are very much more sharply focused on the poorest households than is true of other countries which have general housing allowance schemes.

Summary The main findings to emerge in this chapter are as follows:

- Six of the seven countries operate national housing allowance schemes, the exception being Canada where schemes exist in only five provinces.

- in all schemes, renter households are eligible for housing allowances; but in Australia assistance is confined to renters who are in receipt of social security benefits; and in the Canadian provinces, eligibility is confined to elderly households, except in Manitoba where families are also eligible.

- owner-occupiers are eligible for housing allowances in Quebec province in Canada (if they are elderly), in Germany, New Zealand and Sweden; they are not eligible for assistance in Australia, the Netherlands or Britain.
© in Canada, Germany, Sweden and Britain (owner-occupiers only) the social assistance payments are adjusted to include a component to cover all or some of recipients housing costs

- in all of the selected countries except for Britain, the housing allowance takes the form of a ‘housing gap’ scheme in which part of the difference between a minimum rent and the actual rent (up to a rent ceiling or benefit maximum) is met by the subsidy

- the housing allowance scheme in Britain is more akin to the shelter component of social assistance schemes than to the housing allowance schemes in the other selected countries

- housing allowances assume a greater significance in Sweden and especially in Britain—expressed as a percentage of the rent or of GDP—than it does in the other countries. This is partly because social assistance in Britain does not include an amount for rent, the cost of which is therefore covered fully by housing allowances, and because in Sweden the proportion of households receiving housing allowances is much greater than in the other selected countries

- Britain’s housing allowance scheme provides much more assistance in proportion to housing costs than do the other schemes. This is partly because of the low level of social security benefits for unemployed people there compared with other countries and again because, unlike other countries, social assistance does not include an amount for rent

- entitlement to housing allowances goes less far up the income scale in Britain than in the other countries and is therefore is much more closely targeted on the poorest households than elsewhere.

Table A4.1: Case 1A: Unemployed single person, 1993

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Canada</th>
<th>Germany</th>
<th>Netherlands</th>
<th>New Zealand</th>
<th>Sweden</th>
<th>Britain</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Net disposable income</td>
<td>286</td>
<td>442</td>
<td>367</td>
<td>485</td>
<td>251</td>
<td>443</td>
<td>193</td>
</tr>
<tr>
<td>2. Housing allowance</td>
<td>68</td>
<td>0</td>
<td>29</td>
<td>24</td>
<td>110</td>
<td>27</td>
<td>170</td>
</tr>
<tr>
<td>3. Gross disposable income</td>
<td>354</td>
<td>442</td>
<td>397</td>
<td>509</td>
<td>361</td>
<td>470</td>
<td>363</td>
</tr>
<tr>
<td>(1 + 2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Gross rent</td>
<td>283</td>
<td>214</td>
<td>189</td>
<td>139</td>
<td>253</td>
<td>250</td>
<td>170</td>
</tr>
<tr>
<td>5. Net rent (4 - 2)</td>
<td>215</td>
<td>214</td>
<td>160</td>
<td>115</td>
<td>143</td>
<td>223</td>
<td>0</td>
</tr>
<tr>
<td>6. Net disposable income after net rent (1 - 5)</td>
<td>71</td>
<td>228</td>
<td>208</td>
<td>370</td>
<td>108</td>
<td>220</td>
<td>193</td>
</tr>
<tr>
<td>7. Gross rent as % gross disposable income (4/3 x 100)</td>
<td>80%</td>
<td>48%</td>
<td>48%</td>
<td>27%</td>
<td>70%</td>
<td>53%</td>
<td>47%</td>
</tr>
<tr>
<td>8. Net rent as % net disposable income (5/1 x 100)</td>
<td>75%</td>
<td>48%</td>
<td>43%</td>
<td>24%</td>
<td>57%</td>
<td>50%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: national informants (policy experts). See Table 3.7 for details of how the rent figures were derived.
Table A4.2:  Case 2A : Unemployed couple, 1993

<table>
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<tr>
<th></th>
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<th>Canada</th>
<th>Germany</th>
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<th>New Zealand</th>
<th>Sweden</th>
<th>Britain</th>
</tr>
</thead>
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<tr>
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<td>r</td>
<td>r</td>
<td>r</td>
<td>E</td>
<td>E</td>
<td>E</td>
</tr>
<tr>
<td>1. Net disposable income</td>
<td>n.a.</td>
<td>505</td>
<td>478</td>
<td>693</td>
<td>429</td>
<td>636</td>
<td>313</td>
</tr>
<tr>
<td>2. Housing allowance</td>
<td>n.a.</td>
<td>0</td>
<td>78</td>
<td>64</td>
<td>138</td>
<td>177</td>
<td>191</td>
</tr>
<tr>
<td>3. Gross disposable income</td>
<td>n.a.</td>
<td>505</td>
<td>556</td>
<td>757</td>
<td>567</td>
<td>663</td>
<td>504</td>
</tr>
<tr>
<td>(1 + 2)</td>
<td>n.a.</td>
<td>257</td>
<td>236</td>
<td>180</td>
<td>332</td>
<td>313</td>
<td>193</td>
</tr>
<tr>
<td>4. Net rent (4 - 2)</td>
<td>n.a.</td>
<td>257</td>
<td>158</td>
<td>116</td>
<td>194</td>
<td>286</td>
<td>2</td>
</tr>
<tr>
<td>5. Net disposable income after net rent (1 - 5)</td>
<td>n.a.</td>
<td>248</td>
<td>319</td>
<td>577</td>
<td>235</td>
<td>350</td>
<td>311</td>
</tr>
<tr>
<td>6. Gross rent as % gross disposable income (4/3 x 100)</td>
<td>n.a.</td>
<td>51%</td>
<td>43%</td>
<td>24%</td>
<td>59%</td>
<td>47%</td>
<td>62%</td>
</tr>
<tr>
<td>7. Net rent as % net disposable income (5/1 x 100)</td>
<td>n.a.</td>
<td>51%</td>
<td>33%</td>
<td>17%</td>
<td>45%</td>
<td>45%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: national informants (policy experts). See Table 3.7 for details of how the rent figures were derived.

Table A4.3:  Case 3A : Unemployed couple with dependent children, 1993

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<tr>
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<th>Canada</th>
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<th>New Zealand</th>
<th>Sweden</th>
<th>Britain</th>
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<tbody>
<tr>
<td></td>
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<td>r</td>
<td>r</td>
<td>E</td>
<td>E</td>
<td>E</td>
<td>E</td>
</tr>
<tr>
<td>1. Net disposable income</td>
<td>719</td>
<td>614</td>
<td>658</td>
<td>813</td>
<td>603</td>
<td>686</td>
<td>502</td>
</tr>
<tr>
<td>2. Housing allowance</td>
<td>74</td>
<td>90</td>
<td>151</td>
<td>61</td>
<td>184</td>
<td>187</td>
<td>210</td>
</tr>
<tr>
<td>3. Gross disposable income</td>
<td>793</td>
<td>704</td>
<td>809</td>
<td>874</td>
<td>787</td>
<td>873</td>
<td>712</td>
</tr>
<tr>
<td>(1 + 2)</td>
<td>455</td>
<td>285</td>
<td>300</td>
<td>183</td>
<td>427</td>
<td>371</td>
<td>210</td>
</tr>
<tr>
<td>4. Net rent (4 - 2)</td>
<td>381</td>
<td>195</td>
<td>149</td>
<td>122</td>
<td>243</td>
<td>184</td>
<td>0</td>
</tr>
<tr>
<td>5. Net disposable income after net rent (1 - 5)</td>
<td>339</td>
<td>419</td>
<td>509</td>
<td>691</td>
<td>360</td>
<td>503</td>
<td>502</td>
</tr>
<tr>
<td>6. Gross rent as % gross disposable income (4/3 x 100)</td>
<td>57%</td>
<td>40%</td>
<td>37%</td>
<td>21%</td>
<td>54%</td>
<td>41%</td>
<td>29%</td>
</tr>
<tr>
<td>7. Net rent as % net disposable income (5/1 x 100)</td>
<td>53%</td>
<td>32%</td>
<td>23%</td>
<td>15%</td>
<td>40%</td>
<td>27%</td>
<td>0%</td>
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</table>

Source: national informants (policy experts). See Table 3.7 for details of how the rent figures were derived.
### Table A4.4: Case 1B: Single person in work, 1993

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<th></th>
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<th>Canada</th>
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<td>E</td>
<td>E</td>
<td>E</td>
</tr>
<tr>
<td>1. Net disposable income</td>
<td>744</td>
<td>648</td>
<td>583</td>
<td>476</td>
<td>528</td>
<td>291</td>
<td>772</td>
</tr>
<tr>
<td>2. Housing allowance</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>24</td>
<td>31</td>
<td>16</td>
<td>0</td>
</tr>
<tr>
<td>3. Gross disposable income</td>
<td>(1 + 2)</td>
<td>744</td>
<td>648</td>
<td>583</td>
<td>500</td>
<td>559</td>
<td>307</td>
</tr>
<tr>
<td>4. Gross rent</td>
<td>283</td>
<td>214</td>
<td>189</td>
<td>139</td>
<td>253</td>
<td>250</td>
<td>170</td>
</tr>
<tr>
<td>5. Net rent (4 - 2)</td>
<td>283</td>
<td>214</td>
<td>189</td>
<td>115</td>
<td>222</td>
<td>234</td>
<td>170</td>
</tr>
<tr>
<td>6. Net disposable income after net rent (1 - 5)</td>
<td>461</td>
<td>434</td>
<td>394</td>
<td>361</td>
<td>306</td>
<td>57</td>
<td>602</td>
</tr>
<tr>
<td>7. Gross rent as % gross disposable income (4/3 x 100)</td>
<td>38%</td>
<td>33%</td>
<td>32%</td>
<td>28%</td>
<td>45%</td>
<td>82%</td>
<td>22%</td>
</tr>
<tr>
<td>8. Net rent as % net disposable income (5/I x 100)</td>
<td>38%</td>
<td>33%</td>
<td>32%</td>
<td>24%</td>
<td>42%</td>
<td>81%</td>
<td>22%</td>
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</table>

Source: national informants (policy experts). See Table 3.7 for details of how the rent figures were derived.

### Table A4.5: Case 2B: Couple, one of whom in work, 1993

<table>
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<tr>
<th></th>
<th>Australia</th>
<th>Canada</th>
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<th>New Zealand</th>
<th>Sweden</th>
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<td>E</td>
<td>E</td>
<td>E</td>
<td>E</td>
<td>E</td>
</tr>
<tr>
<td>1. Net disposable income</td>
<td>744</td>
<td>734</td>
<td>622</td>
<td>775</td>
<td>528</td>
<td>459</td>
<td>808</td>
</tr>
<tr>
<td>2. Housing allowance</td>
<td>0</td>
<td>0</td>
<td>16</td>
<td>64</td>
<td>125</td>
<td>16</td>
<td>0</td>
</tr>
<tr>
<td>3. Gross disposable income</td>
<td>(1 + 2)</td>
<td>744</td>
<td>734</td>
<td>638</td>
<td>839</td>
<td>652</td>
<td>475</td>
</tr>
<tr>
<td>4. Gross rent</td>
<td>608</td>
<td>257</td>
<td>236</td>
<td>187</td>
<td>332</td>
<td>313</td>
<td>193</td>
</tr>
<tr>
<td>5. Net rent (4 - 2)</td>
<td>608</td>
<td>257</td>
<td>221</td>
<td>123</td>
<td>207</td>
<td>297</td>
<td>193</td>
</tr>
<tr>
<td>6. Net disposable income after net rent (1 - 5)</td>
<td>461</td>
<td>442</td>
<td>401</td>
<td>652</td>
<td>321</td>
<td>162</td>
<td>615</td>
</tr>
<tr>
<td>7. Gross rent as % gross disposable income (4/3 x 100)</td>
<td>38%</td>
<td>35%</td>
<td>37%</td>
<td>22%</td>
<td>51%</td>
<td>66%</td>
<td>24%</td>
</tr>
<tr>
<td>8. Net rent as % net disposable income (5/I x 100)</td>
<td>38%</td>
<td>35%</td>
<td>35%</td>
<td>16%</td>
<td>39%</td>
<td>65%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Source: national informants (policy experts). See Table 3.7 for details of how the rent figures were derived.
Table A4.6: Case 3B: Couple, one of whom in work, with dependent children, 1993

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Canada</th>
<th>Germany</th>
<th>Netherlands</th>
<th>New Zealand</th>
<th>Sweden</th>
<th>Britain</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>1. Net disposable income</td>
<td>953</td>
<td>859</td>
<td>713</td>
<td>1493</td>
<td>634</td>
<td>531</td>
<td>886</td>
</tr>
<tr>
<td>2. Housing allowance</td>
<td>74</td>
<td>0</td>
<td>113</td>
<td>61</td>
<td>174</td>
<td>167</td>
<td>0</td>
</tr>
<tr>
<td>3. Gross disposable income</td>
<td>(1 + 2)</td>
<td>1027</td>
<td>859</td>
<td>827</td>
<td>1554</td>
<td>808</td>
<td>698</td>
</tr>
<tr>
<td>4. Gross rent</td>
<td>455</td>
<td>285</td>
<td>300</td>
<td>183</td>
<td>427</td>
<td>371</td>
<td>210</td>
</tr>
<tr>
<td>5. Net rent (4 - 2)</td>
<td>381</td>
<td>285</td>
<td>187</td>
<td>122</td>
<td>253</td>
<td>204</td>
<td>210</td>
</tr>
<tr>
<td>6. Net disposable income after net rent (1 - 5)</td>
<td>572</td>
<td>574</td>
<td>526</td>
<td>1371</td>
<td>381</td>
<td>327</td>
<td>676</td>
</tr>
<tr>
<td>7. Gross rent as % gross disposable income (4/3 x 100)</td>
<td>44%</td>
<td>33%</td>
<td>36%</td>
<td>12%</td>
<td>53%</td>
<td>53%</td>
<td>24%</td>
</tr>
<tr>
<td>8. Net rent as % net disposable income (5/1 x 100)</td>
<td>40%</td>
<td>33%</td>
<td>26%</td>
<td>8%</td>
<td>40%</td>
<td>36%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Source: national informants (policy experts). See Table 3.7 for details of how the rent figures were derived.

Table A4.7: Case 4: Retired single person, 1993

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Canada</th>
<th>Germany</th>
<th>Netherlands</th>
<th>New Zealand</th>
<th>Sweden</th>
<th>Britain</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
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<tr>
<td>1. Net disposable income</td>
<td>315</td>
<td>578</td>
<td>336</td>
<td>485</td>
<td>n.a.</td>
<td>366</td>
<td>277</td>
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<tr>
<td>2. Housing allowance</td>
<td>68</td>
<td>36</td>
<td>68</td>
<td>26</td>
<td>n.a.</td>
<td>166</td>
<td>162</td>
</tr>
<tr>
<td>3. Gross disposable income</td>
<td>(1 + 2)</td>
<td>383</td>
<td>614</td>
<td>404</td>
<td>511</td>
<td>n.a.</td>
<td>532</td>
</tr>
<tr>
<td>4. Gross rent</td>
<td>283</td>
<td>214</td>
<td>189</td>
<td>144</td>
<td>n.a.</td>
<td>250</td>
<td>170</td>
</tr>
<tr>
<td>5. Net rent (4 - 2)</td>
<td>215</td>
<td>178</td>
<td>121</td>
<td>118</td>
<td>n.a.</td>
<td>84</td>
<td>8</td>
</tr>
<tr>
<td>6. Net disposable income after net rent (1 - 5)</td>
<td>100</td>
<td>400</td>
<td>215</td>
<td>367</td>
<td>n.a.</td>
<td>282</td>
<td>219</td>
</tr>
<tr>
<td>7. Gross rent as % gross disposable income (4/3 x 100)</td>
<td>74%</td>
<td>35%</td>
<td>47%</td>
<td>28%</td>
<td>n.a.</td>
<td>47%</td>
<td>61%</td>
</tr>
<tr>
<td>8. Net rent as % net disposable income (5/1 x 100)</td>
<td>68%</td>
<td>31%</td>
<td>36%</td>
<td>24%</td>
<td>n.a.</td>
<td>23%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: national informants (policy experts). See Table 3.7 for details of how the rent figures were derived.
This chapter examines a wide range of key issues affecting housing allowances. In particular, for each of the seven selected countries, the chapter looks at the following:

- what costs are counted as eligible for the allowance
- whether housing cost ceilings are in force
- whether there are ceilings on the amounts of allowance which can be awarded
- whether, and if so, what, rules are in place to prevent allowances being paid on excessive housing costs
- whether housing allowance schemes require recipients to make a minimum contribution to their housing costs
- the marginal rate of subsidy
- whether and to what extent work incentives are a problem resulting from housing allowance income testing
- benefit take-up and stigma
- landlord attitudes towards housing allowance recipients.

**Eligible costs**

A crucial defining feature of housing allowance schemes is that they are designed to provide help towards a particular item in household budgets—housing costs—rather than to defray the general cost of living of eligible households. The ‘fixed amount’ for children in the Swedish non-pensioner scheme is a partial exception to this general rule. In addition, housing allowance entitlement is generally determined in part by the amount of costs which eligible households are paying towards particular accommodation, that is they are more often than not *ex post* rather than *ex ante* schemes. If the household moves to new accommodation, the housing allowance therefore usually has to be re-calculated because housing costs may have changed.

Together, these two features complicate the administration of such schemes because the particular housing costs which the household is incurring have to be entered into the calculation. In addition, administration is further complicated by the fact that what counts as eligible ‘housing costs’ is by no means straightforward. In practice, decisions have to be taken as to what housing related costs are to be counted as eligible for benefit.

The policy of the selected countries towards eligible housing costs varies, especially in respect of the housing costs of owner-occupiers (where they are eligible for housing allowances at all). Some countries include in eligible costs all payments made to landlords or their agents. Others include rent payments and fixed amounts for items such as heating and
lighting or electricity; while others specifically exclude the cost of these utilities.

The Swedish housing allowance schemes appears to have the most relaxed approach to eligible housing costs, at least in respect of tenants. The rent as paid to the landlord is counted in full as eligible for assistance. Australia and New Zealand employ a similar approach in that eligible costs in their Rent Assistance and Accommodation Supplement schemes respectively include the rent as paid to the landlord or the managing agent. However, in Sweden boarders are not eligible for benefit, whereas in both Antipodean countries boarders can claim benefit but payments for board are ineligible. If the amount included in the rent for board is not known, a fixed proportion of the rent is deducted: in Australia, two thirds of the rent is deemed to be board, whereas in New Zealand the assumed share for board is one third.

In the graded housing allowance scheme in Germany, eligible housing costs are defined for tenants as the gross rent paid excluding payments for heating and hot water. Rent is defined to include charges for services provided with the accommodation. In Canada, the shelter allowance schemes in the provinces of British Columbia and Manitoba include the rent plus a fixed amount for heating, though the amount allowed for heating differ considerably ($25 in British Columbia, $65 in Manitoba). In Quebec, eligible housing costs for tenants include rent and electricity, heating and taxes paid to the municipality that are not already included in the rent.

In the Netherlands, eligible rent includes the rent paid to the landlord together with the costs of some special, common services (such as the cost of wardens, lifts, gardening, window cleaning) up to a limit. In Britain, the housing allowance scheme for tenants includes the rent paid less certain ineligible service charges and the cost of heating and lighting. Where the latter two items are not separately identifiable, fixed amounts are deducted from the rent.

As noted in Chapter 4, owner-occupiers are ineligible for housing allowances in Australia, the Netherlands, and, in Canada, British Columbia and Manitoba. They are eligible to apply in Quebec, Germany, Sweden, and New Zealand. Home owner recipients of social assistance in Britain are entitled for help with their housing costs through the Income Support scheme. The treatment of eligible housing costs varies considerably between these countries.

For home owners, the housing allowance schemes in Sweden count 70 per cent of mortgage interest costs as eligible for benefit; the remaining 30 per cent is covered by mortgage interest tax relief. Capital repayments are
excluded because they are contributing to savings. The scheme covers housing tax, plus fixed amounts for heating and running costs.

The British scheme appears to be one of the least generous schemes in terms of eligible housing costs. Prior to October 1995, it covered 50 per cent of interest payments on mortgages for the first 16 weeks (except for elderly households, for whom all of the interest was met) and all of them thereafter. The scheme was made even less generous for non-elderly new claimants after 2 October 1995 (discussed later). As in Sweden, capital repayments are excluded from assistance. The interest on loans for repairs and improvements are treated in the same way as mortgage loans for purchasing the property, but the cost of repairs and maintenance is not covered. Ground lease payments are also included in eligible housing costs.

The most generous approach towards owner-occupier costs is taken by New Zealand. This covers all of the costs of buying and owning a home: mortgage interest payments in full, capital repayments, mortgage protection insurance payments, house (but not contents) insurance, ground lease payments, and essential repairs and maintenance expenditure. The German graded housing allowance scheme also covers all of the costs of servicing the loan and of the upkeep of the dwelling. This includes all of the loan interest and the capital repayments, service charges and other regular payments, maintenance and running costs and council tax. In Quebec, the shelter allowance scheme Logirente covers all of the mortgage interest, plus the heating, electricity costs, maintenance, and school and municipal taxes.

Housing costs ceilings

Another key question for the design of any housing allowance scheme is whether (and, if so, how) to define a maximum amount of housing costs that are eligible for benefit. The rationale behind such limits is generally to prevent recipients from living in unduly expensive accommodation and to help restrain the cost of housing allowance schemes. General rent ceilings can be distinguished from housing allowance maxima and also from administrative rules which seek to prevent individual claimants from receiving a housing allowance on excessive housing costs. This section discusses general rent ceilings, while the next section discusses allowance maxima and the one after that examines rules preventing allowances being paid in individual cases on excessive housing costs.

Not all of the selected countries employ general housing costs ceilings. Ceilings of one sort or another are in operation in Canada, the Netherlands, Sweden, Germany, and in Britain in the scheme for owner occupiers on social assistance. Rent ceilings are not employed in Australia and New Zealand: they are not considered necessary by either country because their schemes include housing allowance payment ceilings.

The way general housing cost ceiling schemes operate, with the exception of the Netherlands, is that costs in excess of the ceiling are disregarded for
housing allowance purposes. In the Dutch scheme, households with a rent above the ceiling are ineligible for an allowance. The Dutch scheme employs a rather high but uniform rent ceiling that operates across the country as a whole. The British ceiling on owner-occupiers’ loan interest likewise operates uniformly across the country, taking no account of regional variations in costs. In the three Canadian provinces, the housing costs are all province wide. In the German graded housing allowance scheme, the housing costs ceiling varies between the federal states depending upon the deviation of rents from the average national rent.

In Sweden the three housing allowance schemes operate different levels of housing cost ceiling, which are uniform throughout the country. However, prior to 1995 the housing cost ceiling in the pensioner scheme were decided locally by the municipalities. In the scheme for families, the housing cost ceiling varies by the number of children in the household. For childless households it varies by the age of the applicant (the ceiling is slightly lower for those under 29 years of age).

In Canada, the British Columbia SAFER scheme has rent ceilings that vary by household composition. In Quebec, the rent ceilings for Logirente vary by household type. In Manitoba province, the rent ceiling in the SAFER scheme varies by household type, while in the SAFFR scheme they vary by household type and size. The housing cost ceilings for the shelter component of social assistance in Canada vary between the different provinces and, within them, by household type. There is some concern that landlords tend to push rents up to the rent ceiling for social assistance recipients.

The German graded housing allowance scheme has the most complicated system of rent ceilings. The towns and local councils of the former West Germany are classified into six rent levels. Within each, the rent ceiling is further differentiated by size of household, and by the age and level of furnishing of the accommodation.

The British ceiling on the size of loans eligible for ISMI is relatively unusual in being invariant with household size and type or dwelling size. The Dutch scheme has a separate ceiling for households where applicants are under 23 and another for those aged 23 or more.

Maximum housing Most of the selected countries operate maximum rates of housing allowance payments allowances that can be paid. The exceptions, are Britain, Sweden, and, in Canada, British Columbia and Quebec.

In Australia, the maximum benefit rates varies by household type and the presence and number of children. These rates are uniform throughout Australia despite the fact that average rents vary considerably between and
within the states. This means that Rent Assistance provides less help in high rent areas than in low rent areas.

In New Zealand, the maximum benefit rates also vary by household type and presence and number of children, but also by location. One of the criticisms levelled at the previous Accommodation Benefit scheme was that it varied only by household type and took no account either of children or location. The geographic areas used in the new Accommodation Supplement have, however, been criticised for being insufficiently subtle. The areas are: Auckland, Wellington, and the rest of New Zealand. It has also been claimed that the relative level of rents within these three areas is not adequately reflected in the maximum allowance levels. For example, the level for Wellington is said by some critics to be too low. There may be some fine-tuning of both the areas and the relative maximum allowance levels in the near future.

In Germany, there are different levels of maximum payable allowance for different sizes of household. In Manitoba province in Canada, there are just two maximum allowance rates: one for the shelter allowance scheme for the elderly (SAFER) and one for the scheme for families (SAFFR).

**Excessive housing costs**

Most of the selected countries do not have rules or procedures for deciding whether or not rents of owner-occupier costs are reasonable or excessive. The reason for this is that they employ rent ceilings or allowance maxima which, they feel, makes such rules unnecessary. Recipients can choose to pay as much rent as they like, but the rent ceilings or allowance maxima prevent housing allowances from being paid on unreasonably high housing costs. This means that, unlike in Britain, there are no explicit rules to prevent a recipient from paying ‘over the odds’ for accommodation which has a rent that is below the ceiling or allowance maximum.

The Netherlands is the exception to this generalisation: it employs a rent ceiling but also has procedures-involving Rent Tribunals-for deciding whether the rent is unreasonably high. This difference appears to be related to two features of the Dutch rent ceiling which distinguish it from the ceilings in other schemes: (i) the ceiling is relatively high compared with average rent levels, and (ii) recipients lose all eligibility to IHS if their rent is above the ceiling.

The British Housing Benefit scheme for tenants, which is the only one not to have either a rent ceiling or a allowance maximum, has quite elaborate rules and procedures for preventing benefit from being paid on unreasonably expensive accommodation. The British scheme is the only housing allowance to have rules about the maximum standard of accommodation on which benefit can be paid. This involves a set of specified size criteria for households of different sizes and composition which are employed by Rent Officers (see below).
Local authorities in Britain have the power to restrict the amount of rent that is eligible for Housing Benefit where they consider that the rent is unreasonably high or the accommodation is unreasonably large; they can also restrict the amount of any subsequent rent increase that is taken into account where they consider that the increase is unreasonably soon or unreasonably large (see Kemp and McLaverty, 1994). In addition to these rules, local authorities in Britain must refer to the local Rent Officer Service claims for Housing Benefit made by tenants living in privately rented accommodation who have taken out their tenancy since rents were deregulated in January 1989. They also have the discretion to refer Rent Officers claims made by housing association tenants with deregulated tenancies if they think that the rent is unreasonable. Local authorities do not refer their own tenants to the Rent Officer Service.

These Rent Officers in Britain are required to determine whether or not (1) the rent is above the market value or (2) the rent is exceptionally high in the sense of being accommodation at the top end of the market, or (3) the accommodation is unreasonably large taking into account the size and composition of the household. If the accommodation is over the market value, the Rent Officer has to determine what would be a reasonable market rent; this is defined as the rent which someone not on Housing Benefit would be prepared to pay for the accommodation. If the rent is deemed to be exceptionally high, the Rent Officer has to determine what would be the ‘highest reasonable rent’ that would not be exceptionally high for the accommodation, that is, if it was not at the top end of the market. Finally, if the accommodation is overlarge according to the specified size criteria, the Rent Officer has to determine a notional market rent for similar accommodation that is not over large for the claimant’s needs (see Ward and Zebedee, 1995).

Prior to January 1996, these Rent Officer assessments were used to determine the amount which central government reimbursed on Housing Benefit payments made to private tenants (and housing association tenancies that were referred to them, though in practice very few were so referred). As a result, local authorities had a direct financial incentive to use the assessments when deciding what rent to accept as eligible for Housing Benefit. Research found that local authorities generally did use the Rent Officer’s assessment in the great majority of cases as the eligible rent for Housing Benefit purposes, though they were required by law to investigate the circumstances of each individual claim (Kemp and McLaverty, 1994). These Rent Officer referral arrangements were modified in January 1996 (see Chapter 7). For some cases, local authorities are now under a duty to use the Rent Officer determinations to calculate the eligible rent for benefit purposes.

The British ISMI scheme for owner-occupiers who are in receipt of social assistance has both a general mortgage interest ceiling (based on the size of
the loan) which applies to all recipients and rules and procedures for restricting excessively high housing costs in individual cases. However, it appears that relatively little use is being made in practice of the rules to restrict individual home owners’ mortgage interest payments (Kemp et al, 1994).

Only one of the selected countries (Germany) employs minimum standards which the accommodation has to meet in order for the recipient to claim housing allowances on the accommodation. In the German `graded' scheme, the accommodation has to meet the definition of accommodation set out in the housing allowances legislation. Under this legislation, accommodation is defined as rooms designed for continuous or temporary occupation which are designed and furnished as suitable for living. Emergency accommodation—such as asylums, camps, caravans, tents, and business rooms—are not regarded as accommodation for the purposes of the legislation. The rationale for this definition is the aim of the scheme to enable households to afford reasonable, family-friendly accommodation. Women’s refuges and certain other forms of temporary accommodation can exceptionally be regarded as accommodation provided they meet certain conditions.

**Minimum housing cost** In all of the selected countries other than Britain, housing allowance contributions recipients are expected to make a minimum contribution to their housing costs whatever their circumstances. In Britain, tenants in receipt of Housing Benefit can in some circumstances get all of their rent met in benefit.

In three of the countries where social assistance includes an amount that is based of recipients’ actual housing costs—namely, in Canada (below a ceiling), Germany (taking flat rate housing allowances together with *Sozialhilfe*), Sweden and Britain (home owners)—recipients can get all of their housing costs met in certain circumstances.

The minimum rent feature of housing allowance schemes reflects the fact that they are all variants of the so-called ‘housing gap’ approach. Housing gap schemes can be expressed generically as:

\[ HA = a(R - Rt) \]

where

- **HA** is housing allowance entitlement
- **a** is a fraction that is usually less than 1.0
- **R** is eligible housing costs
- **Rt** is the minimum rent threshold

Expressed in words, this latter formula means that housing allowance entitlement is equal to a percentage of the difference between recipients’...
eligible rent and a minimum rent threshold. Invariably, tenants must be paying more than the minimum rent threshold (referred to as the `entry threshold' in New Zealand) in order to be entitled to an allowance. Where the fraction of the difference between the actual (eligible) rent and the minimum rent threshold is less than 1, it follows that recipients have to contribute a sum towards their housing costs that is greater than the minimum threshold.

Very often the minimum rent threshold (Rt) is a function of income. In these schemes, the general formula can be represented as follows:

\[ HA = a(R - bY) \]

where

- HA is housing allowance entitlement
- a is a fraction that is usually less than 1.0
- R is eligible housing costs
- b is the household contribution rate
- Y is assessed income

Expressed in words, this latter formula means that housing allowance entitlement is equal to a percentage of the difference between the rent and a set percentage of income.

The proportion of the difference a that is covered by the allowance varies between schemes, but is usually less than 100 per cent. Even within schemes, it can vary according to client group or level of income. Likewise, the household contribution rate b varies between schemes and also sometimes within schemes, depending for example on client group, income, or rent level.

In Australia (rent rebates), New Zealand, and the three Canadian provinces, the minimum rent threshold is expressed as a percentage of income; this ranges from 25 to 30 per cent. In Manitoba province, the percentage varies by income level. In New Zealand, there is a different rate for renters (25%) from that for owner occupiers (30%); as explained in Chapter 4, the higher minimum contribution for home owners is meant to take account of the fact that they are acquiring an asset and not just shelter.

In other schemes, instead of the minimum rent threshold or contribution rate being defined as a percentage of income, it can be set at a monetary amount. In Australia, Germany, the Netherlands and Sweden, the minimum contribution is expressed as a monetary amount (though this sum may itself have been originally calculated in percentage terms, as in Germany). In Germany, the amount varies by the size of household and the level of their income. In the Netherlands, it is related only to income level. In Sweden, it varies by client: there is a different amount for
pensioners, households with children, and households without children. In Australia (Rent Assistance) the minimum rent threshold varies by household type, including the presence and number of children. However, in order to qualify for Rent Assistance, tenants must additionally be paying more than 20 per cent of their income in rent, though the calculation of their entitlement is not otherwise affected by the level of their income.

There are several rationales for the presence of these minimum rent thresholds or contribution rates. The most common reason is almost tautological in that it is felt that households should have to make a contribution out of their own pockets. The Australian and New Zealand official informants both stressed that the minimum contribution allows allowances to be targeted on households who are paying higher rents. The official informant for British Columbia stated that households paying less than 30 per cent of their income in rent are not in need and therefore do not require assistance with their rent. In Australia, New Zealand and the Netherlands, the contribution is designed to give recipients an incentive to shop for accommodation; the Australian official mentioned the need to minimise the risk of collusion between the landlord and tenant in setting the rent.

One result of these minimum rent thresholds or contribution rates is that in none of the schemes—again except Britain (and those receiving social assistance in Canada, Germany, Sweden)—can recipients in any circumstance receive a housing allowance payment that equals 100 per cent of their eligible housing costs. In Britain, housing allowance recipients receiving Income Support as well as those not receiving Income Support but whose income is not more than the relevant Income Support scale rate could receive all of their rent in Housing Benefit. Likewise, owner-occupiers in receipt of ISMI payments can get all of their mortgage interest met after a waiting period (those who are elderly can get all of it met from the date of their claim). In Australia, the Netherlands, New Zealand social assistance recipients are required to make a contribution to their housing costs and their benefit is supposed to be sufficient to allow them to do so.

In addition to having to make the minimum contribution, recipients of all of the housing allowance schemes have to pay some of their housing costs in excess of the minimum contribution. In Britain, only Housing Benefit recipients with an income above the social assistance scale rates have to contribute to their housing costs.

The marginal cost of housing in Britain (and again in respect of social assistance recipients in Canada, Germany, and Sweden, in some circumstances) the amount of any increase in rent that is met by housing allowances is 100 per cent. Thus the marginal rate of benefit is 100 per cent; or to put it another way, the marginal cost of housing is nil. A £1 increase in rent (provided it is not an unreasonable increase) is met by a £1 increase in housing allowances. The
same is true for a 1 DM increase in rent for Socialhife recipients in Germany, a 1 SEK increase in rent for social assistance recipients in Sweden, and a $1 increase in rent for social assistance recipients in Canada (provided the rent is below the provincial ceiling).

In the housing allowance schemes in all of the other countries, the amount of any subsidy of rent increases is governed explicitly by the inverse of the fraction $a$ in the two general housing gap formulae set out above. For example, in Australia, the share of rent paid for by Rent Assistance is 75 per cent of the excess over a minimum threshold which is adjusted for household type. Hence, Rent Assistance recipients pay all of the rent up to the entry threshold; above that level they contribute 25 per cent of the excess up to the benefit ceiling, above which they contribute to all of the rent. (In Australian public housing, tenants simply pay 25 per cent of their income in rent and hence the implicit marginal cost of housing for them is nil above that amount.) In New Zealand, where the scheme pays 65 per cent of the difference between the entry threshold and the rent, the marginal cost of housing is 100 per cent below the threshold; above that level it is 35 per cent up to the maximum benefit payment, above which the marginal cost of housing is again 100 per cent.

In British Columbia, the proportion of the rent in excess of the entry threshold covered by benefit ranges from 90 to 44 per cent. Hence the marginal cost of housing between the entry threshold and the rent ceiling ranges from 10 to 66 per cent. Below the entry threshold and above the rent ceiling, the marginal cost of housing is 100 per cent. In Manitoba, the marginal subsidy above the entry threshold ranges from 90 to 60 per cent; hence, the marginal rate of benefit ranges from 10 to 40 per cent above the entry threshold, and 100 per cent below the threshold and above the rent ceiling. In Quebec, the uniform subsidy rate of 75 per cent means that the marginal cost of housing is 25 per cent above the threshold and below the rent ceiling, and 100 per cent above and below these extremes.

In both Germany and the Netherlands, the use of tables means that, in practice, the marginal rate of benefit varies in both cases depending upon the rent and income level (and in Germany, also household size). In Sweden the marginal subsidy rate varies in each of the two schemes. For households with children, the marginal rate of subsidy is 75 per cent in the lower rent band (above the minimum housing cost payment) and 50 per cent in the upper rent band. Hence, the marginal cost of housing is 25 per cent up to a cross-over point above which it increases to 50 per cent, up to the rent ceiling, above which it increases to 100 per cent. For non-pensioner households without children, the subsidy rate is 30 per cent up to the rent ceiling. Thus the marginal cost of housing for recipients is 70 per cent up to the rent ceiling and 100 per cent above it. For pensioners, the subsidy rate is 80 per cent, hence the marginal cost of housing is 20 per cent.
Work disincentives In Britain, there has been much policy debate about the work disincentive effects arising from the sharp rate of withdrawal of Housing Benefit as income rises (Deacon and Bradshaw, 1983; Hills, 1991; Kemp, 1992; Wilcox, 1993). The rate of withdrawal (‘taper’) of Housing Benefit as income increases is 65 per cent of net (after tax) income; this is equivalent to 43 per cent of gross (before tax) income. Combined with income tax, social security tax, and loss of other social benefits, some working households face a marginal tax rate of up to 97 per cent. This problem is perceived to have been exacerbated by the sharp increase in rents since the late 1980s (Wilcox, 1993).

In three of the other selected countries—Australia, Germany, and New Zealand—work disincentives is also seen by officials and policy experts who were consulted in the study as a problem that needs to be addressed. In the remaining three countries—Canada, the Netherlands, and Sweden—it is not seen as an especially pressing issue.

In Australia, the government is very aware that targeting assistance on the most needy households brings with it the risk of a poverty trap for recipient households in work. In that country, social security means testing includes what is referred to as ‘free area’ within which benefit is not affected. These free areas are considered by the government to be important in providing an initial impetus for recipients to increase their income through earnings. The income testing of Rent Assistance has been designed so as to minimise the potential impact of a poverty trap. In particular, a separate income test for Rent Assistance was abolished in 1987 precisely for this reason. Rent Assistance is now withdrawn only once all of what is referred to as the primary payment (social security pension, allowance or benefit) is withdrawn. The taper for Rent Assistance is the same as that for the primary payment. At the point at which Rent Assistance begins to be affected by extra earned income, the taper for pensions is 50 cents in the dollar for single people and 25 cents each for members of a couple; for allowances, the taper is 50 cents in the dollar for income between $60 and $140 in excess of the pension/allowance benefit level, and 100 cents in the dollar for income more than $140 above the pension/allowance level. For additional family payments (a form of child benefit) the withdrawal rate is 50 per cent. Only once these benefits have been fully withdrawn does the amount of Rent Assistance start to be reduced by extra income.

The impact of housing allowances on work incentives is perceived to be much more of a problem in Australia in relation to public housing than it is in respect of Rent Assistance. Some public tenants face marginal tax rates (MTRs) of over 100 per cent. These high MTRs are due to the interaction of social security income testing and rent setting practices in public housing. The withdrawal rates of 50 per cent (and 100 per cent for allowees over $140 in excess of their allowance level) on social security
pensions, benefits and allowances is exacerbated by the way rents are set. Since rents are income related, any increase in income automatically results in an increase in rent (equivalent to a loss of notional rent rebate) at a rate of 25 per cent.

In Germany, the rate of withdrawal of housing allowances as income rises is relatively low. The income taper is approximately equal to the rent burden and is usually well below a third, being mainly in the range from 19 to 24 per cent. However, combined with the withdrawal of social security benefits, the result can be quite high MTRs, though these vary considerably. In 1995 the government set up a committee to examine the interaction between the different social security benefits and the incentive to work. However, the poverty trap effects of housing allowances in Germany are dampened somewhat by the operation of the 15 per cent rule in which changes of income that do not exceed 15 per cent do not have to be reported and therefore do not affect benefit entitlement until the claim is due for renewal.

In New Zealand, Accommodation Supplement is reduced at a rate (referred to as the ‘abatement rate’) of 25 cents for every dollar earned. As in Australia, there is a ‘free area’ for those on benefit within which additional income is not taxed; this free area is up to $60 per week. For social security beneficiaries, total MTRs range from 28 per cent to 98 per cent. For working households, they range from 28 per cent to 88 per cent at the maximum.

In Canada, one important reason why work disincentives are not regarded as a policy issue is that, in both British Columbia and Quebec, only elderly households are eligible for the shelter assistance scheme. Even in Manitoba, where family households are eligible for SAFFR payments, most of the recipients are lone parents and many are students. Hence work disincentives have not been given much attention. The rate of withdrawal of shelter assistance as income rises is relatively low in any case. For example, in Quebec, it is only 22.5 per cent. However, within the social assistance system—which is operated separately from the shelter allowance programme—the MTR is zero up to $130 and 100 per cent above that level in Manitoba.

In the Netherlands, while work disincentive effects are believed to exist, they are not regarded as a matter of much policy concern. The rate of withdrawal of IHS as income rises varies according to the rent level and whether the recipient is a one person household or not. On average it is about 40 per cent of gross income. It is possible for the maximum marginal tax rate to exceed 100 per cent of net income.

In Sweden, work disincentives are believed not to be significant and hence are not an issue of policy concern. Discussion of work disincentives almost
disappeared after a major tax reform in the early 1980s, which reduced the maximum MTR to about 50 per cent for most working households. However, a study based on 1988 data by Schwarz and Nyman (1989) found that MTRs could still be very high. They found that 21 per cent of households with children had a total MTR of 72 per cent or more. Within the housing allowance schemes, the taper only comes into effect when income exceeds a certain level, which varies by household type. For households with children, the taper is 20 per cent; for households aged above 28 years without children it is 33 per cent; and for households aged between 18 and 28 years without children it is ten per cent.

Take-up and stigma The amount of attention which is given to the rate of take-up of housing allowances varies between the countries, as does the availability of information on the subject. It seems to be a matter of more concern in Britain than in the other countries. Perhaps for this reason, reliable data on take-up are produced on a much more regular basis and at a greater level of detail in Britain than in the other countries. And yet the rate of take-up appears to be higher in Britain than it is in some of the countries where take-up is not much of an issue.

In Australia, Rent Assistance is automatic for renters receiving social security benefits, the take-up rate for which is regarded as high. Lack of take-up is consequently not regarded as a problem, though unwarranted take-up is so regarded. Instead, the focus has been on the coverage of, and eligibility for, Rent Assistance.

In Canada, Steele (1985b) estimated take-up to be 64 per cent in British Columbia in 1978. She also estimated it to be in the order of 50 to 60 per cent in British Columbia and Quebec in 1981/82 (Steele, 1985a). Figures appear not to be available about the take-up of shelter allowances in the other provinces.

In Germany, it was estimated in the late 1980s that only about two-thirds of households that were eligible for a housing allowance were participating in the scheme. However, this estimate is not thought to be very accurate. The take-up rate may in fact be considerably in excess of two-thirds because social assistance recipients automatically receive a housing allowance without any application being necessary on their part. The take-up rate is not an issue of much concern in Germany. Take-up is also not really an issue in the Netherlands. A succession of studies from the late 1970s to the early 1990s found that the take-up rate was fairly constant, in the region of 70 to 75 per cent.

In New Zealand, there has been concern about take-up, mainly in relation to the non-beneficiary population, among whom take-up is thought to be low. Little is apparently known about low income earners who are entitled to, but have not claimed, Accommodation Supplement. One study
suggested that having one’s family circumstances investigated, stigma, and lack of knowledge, are factors affecting take-up rates (NZCCSS, 1993).

In Sweden, there has been little discussion of take-up, perhaps because there is widespread information about housing allowances. Very little is known about the take-up rate. However, Schwarz, et al (1989) estimated that the take-up rate in 1987 was 80 per cent.

In Britain, regular estimates of take-up are published by the Department of Social Security. These show that the take-up rate is relatively high and has increased compared with prior to the 1988 reform of Housing Benefit. Perhaps for these two reasons, concern about take-up is less now than it previously was. The latest estimates are for the financial year 1993/94 (DSS, 1995). These show that between 88 and 96 per cent of tenants take up the Housing Benefit to which they are entitled.

Stigma One of the factors that is sometimes thought to be associated with unwillingness to take up entitlement to benefits is perceived stigma attached to claiming social security benefits (Deacon and Bradshaw, 1983). In none of the selected countries, however, was stigma seen to be a major problem.

Thus in Australia, stigma is not generally associated with claiming Rent Assistance in the social security system. Within the public sector, many tenants are apparently unaware that they receive an implicit rent rebate through the rent setting procedure. Any stigma that exists is thought to be attached to the dwelling—being a tenant in public housing—rather than to receipt of the rebate.

In Canada, a survey in Manitoba found that only five per cent of those who had requested an application form for shelter allowances but did not in the event submit the application, mentioned ‘pride/not needed’ as the reason. The conclusion of the research was that stigma had a very limited impact on participation in the shelter allowance programme (cited in Steele, 1995). There is some evidence that the relative absence of stigma in Manitoba makes some families apply for a shelter allowance when they are entitled to much more assistance from the welfare system (Steele, 1985b). This implies that there is more stigma attached to claiming ‘welfare’ than there is to claiming shelter allowances. Information about stigma and shelter allowances appears not to be available for the other provinces.

In Germany, there appears to be general acceptance of housing allowances, which do not suffer from the stigma as much as social assistance benefits. Likewise, there is said to be no real problem of stigma attached to claiming IHS in the Netherlands.

In New Zealand, the great majority of recipients of the Accommodation Supplement are welfare beneficiaries. For them, Accommodation
Supplement is paid as a supplement to their income support. Hence, it is unlikely that they suffer any extra stigma as a result of receiving Accommodation Supplement. It is not known, however, to what extent stigma is inhibiting people not on benefit from claiming Accommodation Supplement. Nevertheless, landlords, mortgage lenders and neighbours are unlikely to have any knowledge of whether tenants and owners are receiving Accommodation Supplement.

In Sweden, since one of the objectives of housing allowances is to encourage households to consume more housing than they would otherwise do, they have a more positive image, unlike social assistance. Moreover, households with moderate and higher incomes are entitled to housing allowances and consequently they are not associated specifically with people on low incomes. Hence stigma is not a problem.

In Britain there appears to be general acceptance of Housing Benefit and little stigma is attached to those in receipt of it. It seems widely accepted that low income households should be entitled to receive means-tested help with their housing costs.

In some of the countries under review, landlords is thought to discriminate against tenants who are on housing allowances. Thus, in Australia, there is considerable anecdotal evidence that in the private rental housing market, private landlords discriminate against certain types of household, such as lone parents, the young, people with disabilities, and aborigines and Torres Straits Islanders. It is not clear whether the fact that some tenants are receiving a housing allowance per se is the reason for the discrimination or other factors. Research has suggested that the source of this discrimination is tenants’ rent records and their ability to pay the rent (Econsult, 1991).

In New Zealand, landlords are unlikely to know whether or not their tenants are receiving Accommodation Supplement, hence they are unlikely to discriminate against them for that reason. However, there may be some unwillingness to let to income support beneficiaries. It is reported that the Landlord’s Association is encouraging it members to look favourably on beneficiaries, as they have a steady and reliable source of income, perhaps more so than those in low-paid or insecure work.

In Canada, the landlords of many recipients of shelter allowances do not know they are receiving these payments. There is apparently little evidence that landlords are unwilling to let to shelter allowance recipients. However, the situation in respect of recipients of social assistance in Canada is different from that for shelter allowances. As in Britain, the belief exists that some landlords target this group of households and offer them over priced accommodation, while at the same time many landlords are unwilling to let to them (Steele, 1995).
In Sweden, recipients of housing allowances are often looked upon as good tenants. This is because of the generous and stable support which the allowances provide. In addition, in newer, less attractive rented housing, landlords would find it difficult to let them to people paying all of their rents solely out of their own resources.

In Germany, there is evidence of landlords being unwilling to let their accommodation to people receiving housing allowances. In the Netherlands, commercial landlords often select tenants on the basis of their income. Tenants with a high level of IHS payments are seen as bad risks. By contrast, social housing landlords accept recipients because their social goals compel them to do so.

In Britain, research has shown that most private landlords prefer not to let their accommodation to tenants who are on housing allowances or have no preference either way; only a small minority appear to prefer to let to people on housing allowances (Kemp and Rhodes, 1994; Crook et al, 1995). The two main reasons why landlords prefer not to let to such tenants are (i) that they are perceived to be a poor risk and (ii) the delays that exist in some local authority areas in processing housing allowance claims mean that the tenants may run up rent arrears while waiting for their benefit to come through.

Summary

The main findings to emerge from this chapter were as follows:

- the treatment of eligible costs varies between the selected countries; some countries count all of the passing rent as eligible for the allowance, while others ignore certain items; some countries include all home owner costs in housing allowances (including capital repayments) while others cover just interest payments

- all of the countries employ housing cost ceilings (though in Britain this applies only to ISMI); in the Netherlands, an above ceiling rent disqualifies the tenant from housing allowances, but in the other countries the excess rent is simply disregarded

- most of the countries have limits on the amount of housing allowances that may be awarded

- only Britain and to a lesser extent the Netherlands have rules to investigate whether applicants’ housing costs are excessive

- in all countries apart from Britain, recipients are required to make a minimum contribution to their housing costs; but in some countries, social assistance schemes can cover all of the recipient’s housing costs

- the marginal rate of subsidy varies across countries; only in Britain and in the social assistance schemes in some countries is it possible for housing allowances to meet all of any increase in the recipient’s housing costs
• work incentives are regarded as a problem in some countries but not in others; the income taper on housing allowances in Britain is much steeper than in housing allowance systems in other countries (though social assistance schemes in some countries have a 100% withdrawal rate)

• there is little evidence that stigma is a major problem in any of the selected countries; knowledge and concern about take-up rates varies across the countries

• landlord attitudes towards housing allowance recipients also vary; but in some countries landlords are unlikely to know whether or not their tenants are receiving housing allowances.
This chapter examines aspects of administration and funding affecting housing allowances. In particular, for each of the seven selected countries, the chapter looks at the following:

- responsibility for administration and funding of housing allowance schemes
- whether the rules governing the housing allowance schemes are national or vary locally
- the period for which housing allowances are awarded
- how changes of circumstances are dealt with
- at what intervals housing allowances are paid
- the methods which are used to pay housing allowances
- whether housing allowances are paid to the claimant or the landlord.

In **Australia**, Rent Assistance is administered and fully funded by the Commonwealth Government, through its Department of Social Security. Public housing is administered by State governments and is jointly funded by the Commonwealth and State governments through the Commonwealth-State Housing Agreement (CSHA). Over the last decade, the Commonwealth has generally provided just under half of these funds, with the States providing the remainder. For example, in 1991/92, the Commonwealth Government paid for 47 per cent and the State governments for 53 per cent.

In **Canada**, the shelter allowance programmes are administered and fully funded by the provincial governments. In British Columbia, the SAFER programme is the responsibility of the provincial Ministry of Housing, Recreation and Consumer Services. In Manitoba province, SAFER and SAFFR are both administered by the Client Services Branch of the Department of Housing. In Quebec, Logirente is administered by the Quebec Housing Corporation. The shelter component of social assistance is administered by the provinces, but is jointly funded; the cost sharing ratio varies among the provinces.

In **Germany**, Wohngeld is the responsibility of the federal states, who have transferred this task to the municipalities. Half of the cost of the benefit is funded by the federal government and the other half by the 16 federal states. In **the Netherlands**, IHS is administered by the Ministry of Housing, Physical Planning and Environment. It is fully paid for by the central government.
In **Sweden**, housing allowances are administered centrally by the National Social Insurance Board and locally by the Social Insurance Offices. Each of the 25 Social Insurance Offices in turn has local offices, of which there were 370 in June 1993. The local office network covers the whole country and there is at least one office in each municipality. Central government pays for all housing allowance expenditure in Sweden. Prior to 1995, the cost of the scheme for pensioners was mainly financed by the municipalities.

In **Britain**, the Department of Social Security is responsible for the overall structure and detailed rules governing the Housing Benefit scheme. The day-to-day administration is carried out by local authorities. The Income Support scheme is administered by the local offices of the Benefit Agency, which is responsible to the Department of Social Security. Income Support payments for mortgage interest are fully funded by central government. The funding of Housing Benefit is fairly complicated and differs as between payments made to local authority tenants (rent rebates) and those made to private and housing association tenants (rent allowances).

In general, 95 per cent of rent allowance expenditure in Britain is paid for by the DSS, with the remainder being paid by local authorities out of a block grant which they receive each year from central government. In addition, a lower rate of reimbursement is made, ranging from nil to 60 per cent, in certain areas where local authorities have most scope to control benefit expenditure, for example, over payments of benefit and backdated awards of benefit. The aim here is to give local authorities an incentive to control scheme costs in discretionary areas of the scheme.

In Scotland, rent rebate expenditure is reimbursed in the same way as for rent allowances, but in England and Wales a very different system applies for rent rebates. All estimated expenditure on rebates is combined with the bricks and mortar subsidy (if any) to which local authorities are entitled from the Department of the Environment. The system has been designed such that it is possible for local authorities to have a negative bricks and mortar subsidy entitlement; this can occur where the assumed rental income is greater than the assumed expenditure on the local authority’s housing revenue account. In such circumstances, this negative bricks and mortar subsidy entitlement is then deducted from the amount which they would otherwise have received to cover their rent rebate expenditure.

**Uniform v local rules**  Most of the selected countries operate uniform rules which apply throughout the country for each of the housing allowance schemes which they operate. However, where more than one scheme applies, as in Sweden for example, there are differences between these schemes.

In Australia, the rules governing Rent Assistance are uniform throughout the country. However, the rules governing public housing vary from one
State to another. Most of the State Housing Authorities (SHA) now pursue similar objectives, but there remain historical differences between them. For example, most SHAs set market rents for their dwellings, on which they then provide rebates according to the tenants' income, but two States (Queensland and Tasmania) simply charge income-related rents without first calculating the notional market rent. The income limits for access to public housing vary between the SHAs. The importance of other factors which affect access to public housing (such as homelessness, lone parenthood and age) also vary from State to State.

In Canada, whether or not there is a housing allowance programme and, if so, the rules that govern it, are a matter for the provinces themselves to decide. However, within each of the three provinces being considered here, the rules are uniform within the province.

In Germany, leaving aside the spatial variations in the rent ceilings, graded *Wohngeld* applies uniformly across the former West Germany. The special *Wohngeld* has different, more generous, rules which apply uniformly across the former East Germany until the end of 1995. The `flat rate` *Wohngeld* for social assistance recipients applies uniformly across the whole of Germany.

IHS applies uniformly across the Netherlands. Likewise, apart from the regional variation in maximum benefit ceilings, the rules governing the Accommodation Supplement are the same throughout New Zealand. Uniform rules also govern the Swedish housing allowance schemes, though prior to 1995 the rent ceilings in the pensioner scheme were determined by each of the individual municipalities.

As a principle, the regulations which govern Housing Benefit and ISMI are uniform throughout Britain. However, within the Housing Benefit scheme, local authorities can enhance the benefit paid to war pensioners; this is a legacy from the pre-1988 Housing Benefit scheme, when local authorities could make local enhancements (up to a permitted total) for recipients other than those on Income Support. As part of a reform introduced in January 1996 (discussed below) local authorities were given the discretion to pay Housing Benefit on rent in excess of the maximum eligible rent (up to the contractual rent) in cases where they judge it is necessary to prevent exceptional hardship. However, the total amount that may be spent under this discretionary power is limited by statute.

Claim periods A range of approaches are taken across the selected countries in the ways in which they deal with the period of claims. In some cases, claims are for fixed periods, such as a year; in others they are indefinite and run on until circumstances change.
In Australia, Rent Assistance is simply paid until the recipient’s circumstances change. In British Columbia and in Manitoba, shelter assistance payments are made for one year or until the applicant becomes ineligible. In Manitoba, a reapplication process is undertaken each July, at which point the recipient’s circumstances are verified and their shelter allowance recalculated. In British Columbia, the annual reapplication takes place in the recipient’s birth month. In Quebec, renewals of claims are not required but every year the recipient’s circumstances are checked and adjustments to Logirente made as necessary.

In Germany, the normal benefit period for Wohngeld is 12 months. However, the period can be made for any period between one and 18 months. The average benefit period is for eight months. In the flat rate scheme, as with Sozialhilfe with which it is paid, there is no set claim period: it is paid until entitlement ceases.

In the Netherlands, a new assessment of rent and income is made each year. In Sweden the housing allowance is generally paid until the recipient’s circumstances change. However, in the scheme for non-pensioners, a new claim must be made no later than 15 months after the date at which the allowance is awarded. In Britain, ISMI is paid together with the rest of the recipient’s Income Support award until the claim ends or there is a change of circumstances. However, Housing Benefit is paid for a set benefit period, the duration of which is at the discretion of the local authority, but which is not allowed to exceed 60 weeks. In most cases, the benefit period is around a year.

Changes of Most countries adjust housing allowance entitlement immediately a change circumstances of circumstances takes place, whether in respect of increases or decreases in entitlement. Thus in Australia, British Columbia, and Britain, housing allowances are recalculated from the date of the change of circumstances (except that in Britain, in the Housing Benefit scheme but not in ISMI, the readjustment can be varied by a few days from the date of change of circumstances). In Manitoba and in Sweden, the allowance is recalculated from the month following the change of circumstances. By contrast, in Quebec, Logirente is readjusted only once a year.

In Germany, Wohngeld is adjusted to take into account only certain changes of circumstances during the allowance payment period. Wohngeld is only increased during the payment period if the rent goes up by more than 15 per cent, if the household’s income falls by more than 15 per cent, if the number of household members has increased, or if more up-to-date data (for example, on incomes) results in an increased entitlement. Likewise, Wohngeld is only decreased during the allowance payment period if income goes up by more than 15 per cent, rent falls by more than 15 per cent, or more up-to-date data results in a reduction or complete loss of entitlement.
In Britain, the government plans to introduce an extended payment scheme for Housing Benefit recipients in April 1996. The scheme also applies to recipients of the local tax rebate (Council Tax Benefit). This is designed to encourage recipients to move from social security benefit to employment by meeting the same level of rent (and local tax) for the first four weeks after starting work, irrespective of earnings. In doing so it should help to reduce people’s uncertainty about their ability to pay their rent (and local tax) during the gap between the last payment of social security benefit and receipt of their first wage packet.

People who leave Income Support (or the new income based Job Seeker’s Allowance from October 1996) because of their own or their partner’s earnings will be eligible to apply if they have been getting a qualifying benefit for a continuous period of six months before leaving that benefit. The qualifying benefits are Unemployment Benefit (with or without Income Support), Job Seeker’s Allowance (insurance contribution or income-based) and Income Support that includes a lone parent premium or carer premium.

Allowance payment In all of the selected countries, housing allowances are payable at intervals of no longer than one month. In some countries, there appears to be no choice for the claimant as to how frequently the allowance is paid. Thus in Australia, Rent Assistance is paid fortnightly as part of the pension, or family payment which the client receives. In British Columbia, SAFER payments are made monthly unless the entitlement level is lower than $10, in which case it is paid bi-annually based on the client’s birth month. In Quebec, Logirente is paid monthly. In Manitoba, SAFER and SAFER are paid monthly unless the entitlement level is small (for example, less than $5 a month), in which case it is paid quarterly instead. The shelter component of social assistance in Canada is also paid monthly. In New Zealand, Accommodation Supplement is paid weekly, while in Sweden housing allowances are paid monthly.

In several of the countries, recipients have a choice of payment interval. Thus in Germany, Wohngeld can be paid either monthly or two-monthly in advance. The flat rate housing allowance is normally paid monthly together with the social assistance payment. In the Netherlands, IHS is paid either monthly or quarterly.

In Britain, recipients have a much greater choice of payment interval than in the other selected countries. Housing Benefit is usually paid either weekly or monthly, but can be paid at other intervals (for example, fortnightly or quarterly) to suit the tenant’s needs. ISMI is part of Income Support, which is usually paid weekly, but can be paid fortnightly, four-weekly or 13-weekly.
Payment methods The most commonly used method of housing allowance payment is credit transfer into the recipient's bank account. Again, some countries offer recipients a choice of two or more methods, while others pay by only one method.

In Australia, New Zealand, and Sweden, payment of housing allowances is as a general rule made by credit transfer. In British Columbia and Manitoba, payment is by cheque. In Quebec, however, recipients can choose whether to have their Logirente paid by credit transfer or by cheque. In Germany, recipients normally get their Wohngeld payments by credit transfer but can demand to have it sent directly to their address through the post or even in cash by courier. In the Dutch scheme, IHS is paid by credit transfer, or in social housing, directly to their landlord, in which case their rent bill is reduced by the relevant amount. Most social housing tenants apparently opt for direct payment to the landlord.

In Britain, recipients generally have some choice over the method by which their Housing Benefit is paid. Different local authorities offer different payment options, though some offer only one. A survey carried out in 1984 found that the most commonly used methods were bank cheques and Post Office giro payment (Kemp, 1984). Credit transfer was not commonly used as a method of payment, but at that time less than half of council tenants in England had a bank account (Duncan and Kirby, 1983). The use of credit transfers is, however, likely to have increased significantly since that survey was carried out. ISMI can also be paid by a variety of methods, but the most commonly used ones appear to be payment by order book or Post Office Giro.

Payment recipients In Australia and the three Canadian provinces, housing allowances are paid directly to the client (tenant or owner-occupier).

In Germany, Wohngeld is as a general rule paid to the tenant or owner-occupier. However, in the case of tenants but not owner occupiers, if there is reason to believe that the claimant is not using the money to pay the rent, then it can be paid to another member of their family or directly to the landlord. In Sweden, housing allowances are paid to the tenant, co-operative housing resident or owner-occupier, but in special circumstances it can be paid to a Social Assistance Office.

In the Netherlands, IHS can be paid to the tenant or, if the tenant agrees, to the landlord if they are renting in the social housing sector. In Britain, rent rebates to local authority tenants are paid directly into tenants' rent accounts; they are then billed for a reduced amount of rent. With rent allowances the benefit is paid to the tenant or, if the tenant agrees or is more than eight weeks behind with the rent, directly to the landlord. The landlord then becomes responsible for repaying any overpayments of the rent allowances, which can cause friction in the case of private landlords,
especially those with only one or a few lettings (Bevan et al., 1995; Thomas and Snape, 1995).

In New Zealand, tenants renting from New Zealand Housing Ltd can request that the Accommodation Supplement be paid to their landlord (about 60% do so). Otherwise, it is paid directly to the tenant or owner-occupier. In the case of married or unmarried couples, half of the Supplement is usually paid to each of the partners.

Summary The main findings to emerge from this chapter were as follows:

• in the federal countries of Canada and Germany, the cost of housing allowances is shared about equally between central government and the states/provincial governments; in Australia, rent assistance is funded by central government but the cost of public housing rent rebates is shared nearly equally between the Commonwealth government and the states

• in the non-federal countries, the cost of housing allowances is met fully by central government, except for Britain where the great majority of the cost is centrally funded but part is paid for by local authorities themselves

• the rules governing housing allowance schemes in the selected countries (in Canada, within each province) are uniform rather than varying by locality

• different rules and procedures are used across the seven countries for dealing with changes in circumstances, allowance payment intervals and methods, and the claim period for allowance awards

• in most countries, the allowance is normally or always paid to the tenant or owner-occupier, but in the Netherlands, New Zealand and Britain it usually paid direct in the case of social housing landlords.
This chapter examines a wide range of key policy issues affecting housing allowances. In particular, for each of the seven selected countries, the chapter looks at the following:

- the main policy issues concerning housing allowances
- housing allowance reforms and reviews.

There is concern among officials about the adequacy of housing allowance payment levels in the two countries—Germany and Canada—where schemes are not uprated in line with inflation each year. In British Columbia, the provincial government has declined to raise the rent ceiling for some years, which means that it does not realistically reflect market rent levels. In Manitoba, programme variables are reviewed, but not necessarily adjusted, each year. Failure to uprate the scheme each year means that the adequacy of allowance payments is reduced as rents and nominal incomes increase. Likewise, in Germany, the failure to automatically uprate the rent ceilings to reflect the considerable increases in rent levels as well as nominal increases in incomes devalues housing allowance payment levels. This in turn creates pressure for housing allowances to be adjusted but this is difficult to achieve politically because it appears to represent a costly ‘improvement’ in the scheme. The scheme is revised every two years, with the most recent review having been undertaken in 1993. Additionally, in Germany there is a debate about simplification of administrative procedures and (as discussed in Chapter 6) concern about the interplay between social security and work incentives.

In the Netherlands, there is concern about the misallocation of people and dwellings in terms of rents and incomes, a problem to which IHS is seen to be a contributory factor. On the one hand, IHS allows low income households to rent dwellings at a relatively high rent; on the other, there are a large number of households who are living in cheap accommodation but who can afford to spend more on housing. The cost of IHS could potentially be reduced if low income people living in high rent accommodation could move into cheaper accommodation and better off households living in cheaper accommodation could be persuaded to move into more expensive housing.

In Sweden, the Netherlands and Britain, the increasing cost of housing allowances is seen as the main policy concern. In Sweden, this concern is centred on the general housing allowance scheme—rather than the scheme for pensioners—the cost and caseload of which has risen considerably. There is a perceived need to cut down on expenditure.
In Britain, there has been a very rapid increase in the cost of housing allowances. In part, this increase had been caused by rent deregulation in the private sector in 1989 and reductions in bricks and mortar subsidies in social housing over the same period. A growth in unemployment and in the numbers of lone parents also contributed to the rising cost of the scheme. Expenditure on housing allowances was reviewed in 1994/95 as part of a wider review of state spending (see Kemp, 1994). Some reductions in housing allowances were introduced in January 1996 for private tenants. Further cutbacks for private tenants aged under 25 are planned for October 1996 (see below). There is also concern in Britain about the rising cost of ISMI and the failure of this benefit to prevent repossessions among unemployed owner-occupiers. Again, changes to ISMI were introduced in October 1995. Finally, as discussed above, there is a concern about the impact of rising rents on work incentives.

In the Netherlands, there is concern about what is perceived to be the 'uncontrollability' of housing allowances, that is, that the scheme is not cash limited and hence costs could rise with relatively little control over the budget. This concern arose in the context of rising scheme costs in the late 1980s, which to some extent were due to a shift away from bricks and mortar subsidies and towards rent deregulation and greater reliance on income-related housing allowances. Part of the motive for this shift was to reduce overall expenditure on housing subsidies (Priemus, 1990).

Finally, in New Zealand, the housing allowance scheme has very recently been reformed and hence the policy concern is related to minor fine tuning of the new Accommodation Supplement. The main issue so far as the officials were concerned is that the level of maximum benefit in one city (Wellington) is felt to be too low and would probably be raised.

**Housing allowance** In none of the three Canadian provinces has there been a review of the scheme reviews shelter assistance programmes in recent years. Even so, in British Columbia and in Quebec, changes have been made of a relatively minor nature to some of the programme variables. In Quebec, the main change was a gradual lowering of the minimum age of eligibility to Logirente, the main effect of which was to increase the number of households eligible to receive assistance. The minimum age had been lowered from 60 to 59 years in October 1992, to 58 years in October 1993, and finally to 57 years in October 1994. In British Columbia a number of enhancements had been made in 1989/90 to SAFER. The minimum age of eligibility was lowered from 65 to 60 years, the rent ceilings were raised, the fixed amount for heating was increased, the provincial residency requirement was reduced from two years to one year, and the benefit formula was adjusted to maximise benefits for recipients with the least incomes. As a result of these changes, monthly payments to recipients doubled. Prior to these enhancements (some of which amounted in effect to inflation uprating) the caseload, average payment and scheme costs had been...
gradually decreasing as rents and nominal income increases reduced entitlement levels.

In Germany, a special, more simple housing allowance scheme was introduced into the federal states of the former East Germany, in the wake of the 1991 unification. This scheme has more generous benefit payments which reflect the lower incomes and drive to increase rents from their very low level that existed there at least in the early post unification period. As well as *Wohngeld*, a number of other social welfare benefits were adjusted to deal with the circumstances of the former East Germany. However, legislation was being drawn up to unify *Wohngeld* across Germany from 1996, but this was not expected to change the basic structure of the scheme. In the scheme that applies in the former West Germany, a new rent ceiling dwelling age group-applying to buildings constructed in 1992 or later-was recently introduced to reflect the sharp increases in the rents of newly constructed dwellings (Hubert, 1993).

In Sweden, there have been some important changes in recent years to housing allowances. In the 1980s the non-pensioner scheme was extended to include students and households without children, though the main client group remained people with children. In 1991, benefit levels were enhanced as part of a radical reform of taxation and housing subsidies. The aim of the tax .reform was to increase the efficient functioning of markets. Income tax was lowered but the tax base was broadened in several ways which involved housing: housing investment and property management ceased to be exempt from VAT, the property tax was increased, and the rate of mortgage interest tax relief was lowered. At the same time, the interest rate subsidy on housing loans was reduced (Schwarz, 1992; Swedish Institute, 1992). In order to alleviate the effects of this marked reduction in housing subsidies, the housing allowance scheme was enhanced; this resulted in an increase in scheme costs (Schwarz, 1992).

As discussed in Chapter Six, in 1994 the administration and financing of the non-pensioner housing allowance scheme in Sweden was altered. At the same time, new rules were introduced for calculating the eligible income of allowance recipients. Again, as mentioned above, in 1995 the financing costs of the municipal housing supplement for pensioners was taken over entirely by central government and the rules were made uniform throughout the country. This change to the municipal housing supplement meant that in municipalities which had previously operated relatively high housing cost ceilings, some pensioners had a reduced entitlement, hence some transitional protection was allowed. In the years from 1995 to 1998, municipalities are to be allowed to provide out of their own funds a supplementary housing allowance for pensioners. The changes in the administration and funding of the housing allowance schemes were part of a wider reform in Sweden of the tasks being carried out by the State and by the municipalities.
A government committee was established in Sweden in 1995 with a remit to produce proposals to cut the net cost of housing allowances by a fifth. This was part of a wider drive to substantially reduce the relatively large public sector deficit. The background to this drive was the economic crisis in the early 1990s which led to a serious drain on public funds. In 1989, the public sector had a surplus of four per cent of GDP, but by 1993 this had turned into a record deficit of 13.4 per cent of GDP. In response, the Swedish government decided upon a major rationalisation programme, the aim of which was to balance the budget by 1998 at the latest. This was to be achieved by a combination of expenditure cuts and increases in taxes and charges. Most of the spending cuts were in the areas of transfer payments to households and government consumption.

The cost of housing allowances in Sweden has increased sharply in recent years. According to the committee of inquiry, the reasons for this increase are the rise in unemployment, high interest rates, the changes to the housing allowances which were introduced as part of the 1991 tax reforms and the transfer of full liability for the costs of housing allowances from the municipalities to the state. Costs have also increased because the incomes of housing allowance recipients have increased faster than incomes generally, but the income limits for housing allowances have been raised in line with earnings in general. This has meant that a greater number of people fell within the range of entitlement for housing allowances. Finally, it was felt that the change made in January 1994 to the way in which eligible income is calculated had resulted in an unexpected increase in costs, as the new method tended to underestimate actual income, a problem made worse by the fact that benefit is granted for an indefinite period.

The committee also thought it probable that the abandonment of two requirements in relation to the calculation of housing allowances for parents who have rights of access to children had contributed to the increase in costs. These requirements were that (i) in order for their housing allowance to be calculated with their children included as part of their assessment unit-and hence qualify for an enhanced level of allowance-absent parents with rights of access had to have previously been living in accommodation that was larger than one room and a kitchen in size; and (ii) that their children had to stay with them for at least 60 days a year.

The committee put forward a whole menu of possible cutbacks that could be made. These included changing the basis on which income is calculated; introducing a housing allowance award period of 12 months in place of the current indefinite awards; the abolition of housing allowances for childless adults aged under 29 (housing allowances for childless households in which anyone is 29 or older were abolished in January 1996); reductions in the benefit rates of 75% and 50% in the family
housing allowance scheme; reductions in housing allowances for parents with rights of access to their children; lowering income limits; and other changes in the way entitlement is calculated. At the time of writing it is not clear which of these changes the Swedish government will choose to introduce in order to achieve the desired reduction of one-fifth in net expenditure on housing allowances.

In Australia, significant changes were made to the Rent Assistance scheme between 1986 and 1993. Some of the most important of these changes are as follows. Prior to 1986, only pensioners and sickness allowance recipients were eligible for Rent Assistance. From 1986, all allowance recipients became eligible for Rent Assistance. In 1987, a separate income test for Rent Assistance was abolished. In December 1987 eligibility to Rent Assistance was extended to include Family Allowance Supplement (now Additional Family Payment) recipients. Since 1991, Rent Assistance maximum benefit payments and rent ceilings have been indexed to maintain their real value over time. From March 1992, eligibility for Rent Assistance was extended to independent/homeless 16 and 17 year old allowance recipients. From March 1993, the rate of Rent Assistance subsidy was increased from 50 cents to 75 cents per dollar of rent between the entry threshold and the maximum benefit rate. At the same time, different thresholds for different family types were introduced to replace the previous uniform threshold applied to all family types.

In addition to these changes, there have been three major reviews in Australia which have concerned housing allowances. First, a National Housing Strategy (NHS) was carried out over a two year period in 1990 and 1991, which involved a comprehensive review of current and future housing needs. The aim of the NHS was to develop a programme of policy reform as part of a sustainable national housing strategy, taking into account the broader economic and social goals, as well as the changing needs of individuals over the life cycle. The NHS in turn led to the publication of the Government’s Housing Statement in 1992-93, which among other things established a long-term commitment to assist all low income people paying more than 20 per cent of their income in rent.

Second, an Industry Commission Inquiry into Public Housing reported its findings in November 1993. Among its recommendations, the Industry Commission proposed that Rent Assistance (i) be modified so that it declines as income rises, (ii) that it more closely matches the assistance made available to those who rent public housing, and (iii) that it be made available to all low income private renters and not just those who are clients of the DSS or DVA. Changes were also proposed for the conditions of eligibility to public housing and public sector rent setting (Industry Commission, 1993). The Australia Government is still considering the Industry Commission’s recommendations, including the potential to reform Rent Assistance. A report published by the DSS set out an initial
response to the Commission's report, including a discussion of the feasibility of harmonising rent support across tenures (DSS, 1993).

Third, in 1996 the Australia government decided to embark on a major restructuring of housing support. Bricks and mortar subsidies were to be abolished and sole reliance placed on a new housing allowance scheme which would replace the existing system of income-related allowance scheme in the public sector and rent assistance in the private sector. Fuller details of this major reform—which in outline follows the example of the 1993 New Zealand reform—were not available at the time of writing.

Mainly as a result of these changes, the annual DSS expenditure on Rent Assistance increased from $225 million in 1984/85 to over $1,400 million in 1993/94. These changes improved the coverage and adequacy of assistance, while at the same time targeting benefit more effectively within an expanded eligible population. The rationale behind these changes over the past decade was to reinforce reforms to other aspects of the social security system and to target additional assistance on the most vulnerable groups. In turn, the rationale for most of the social security changes has been to better target assistance to those most in need and to minimise poverty traps. Minor changes were made to balance out differences in affordability between different client groups.

The reforms to Rent Assistance were also a response to the deterioration in housing affordability which accompanied the high interest rates and property boom of 1988-90 and the impact of the early 1990s recession on the growth in private renters dependent upon income support. Public and media awareness of these changes was said to have been low, mainly because no one has been made worse of as a result of them. The 1993 reform did involve some cash losers, but they were given transitional protection which preserved their Rent Assistance at its March 1993 amount.

In New Zealand, a major restructuring of State housing subsidy was introduced in the early 1990s, central to which was the replacement of Accommodation Benefit by the new Accommodation Supplement in July 1993. The rationale for the changes was four specific problems which the New Zealand Government had identified with the previous system (Kuila, 1993). First, there was a lack of horizontal equity in the assistance provided to people in similar financial circumstances. An income support beneficiary renting from HCNZ paid a rent equal to 25 per cent of their income. By comparison, a beneficiary renting from a private landlord had to pay a rent equal to 25 per cent of their income, plus 50 per cent of any excess rent up to the maximum benefit rate, and all of the excess over that. As a policy analyst for the Social Policy Agency put it, “There was no rational basis for this difference, which had arisen as a result of a lack of co-ordination between income support and housing policies” (Kuila, 1993: 45).
Second, the Government perceived there to be poor incentives for clients to search for cheap accommodation. HCNZ tenants paid 25 per cent of their income in rent irrespective of the cost of providing the accommodation or its standard relative to other HCNZ dwellings. In other words, above 25 per cent of income, the marginal cost of housing was nil. Hence, HCNZ tenants had no incentive to move to cheaper accommodation even if their housing needs had reduced.

Third, HCNZ was the sole recipient of bricks and mortar housing subsidies. Hence, Government policy effectively eliminated competition for HCNZ because others could not supply accommodation of equivalent quality at the same price as HCNZ (Kuila, 1993: 46). Fourth, by having two uniform maximum benefit rates across the whole of New Zealand, the Accommodation Benefit was insensitive to high cost locations.

The reform involved: (i) the transformation of the New Zealand Housing Corporation (HCNZ) into a state owned enterprise called Housing New Zealand (HNZ), charged with having to operate as a business; (ii) a phased increase in the rents of HNZ dwellings to market levels; (iii) a concomitant extension of eligibility to housing allowances of HNZ tenants; (iv) the termination of new low cost loans provided by the Housing Corporation; (v) a concomitant extension of eligibility for housing allowances to owner occupiers not in receipt of income support payments; (vi) an extension of eligibility for housing allowances to non-income support recipients living in private rental housing; and (vii) the replacement of Accommodation Benefit by Accommodation Supplement (Kuila, 1993; Murphy and Kearns, 1993).

The new Accommodation Supplement is in practice simply an enhanced version of the previous Accommodation Benefit. The subsidy rate was increased from 50 to 65 per cent of the difference between the entry threshold and the maximum benefit rate. The maximum benefit rates were made a little more sophisticated by the introduction of regional variations and different rates for different family sizes. The groups eligible for the payment were also widened, though this was mainly done in order to at least partially compensate households whose rent was due to increase as a result of the shift towards market rents in HNZ dwellings.

Thus the housing allowance reform involved extending the scope and increasing the level of benefit of the scheme. What was radical about the changes was not the amendments to housing allowances, but the removal of bricks and mortar subsidies to HNZ tenants and the associated phased increase in rents to market levels (Murphy and Kearns, 1993). The housing allowance scheme was enhanced in order to make possible the supply side reductions in housing support.
The housing reform was itself part of a wider restructuring of the welfare state in New Zealand. However, whereas many of the changes in other areas, such as social security benefits, health and education involved substantial reductions in state spending, the housing reform was undertaken on a fiscally neutral (‘nil cost’) basis. The savings from reducing bricks and mortar subsidy were used to pay for the enhancement of, and increased eligibility for, Accommodation Supplement. The impact of these reforms is not yet clear. Public and media reaction to the reforms appears, however, to have been mainly adverse, with most attention being focused on the increase in HNZ rents.

In Britain, a review of Housing Benefit and of ISMI was carried out in 1994/95 as part of a wider review of social security and indeed of public spending more generally. The background to these reviews was the rapid increase in the cost of both of the schemes in the context of a prolonged economic recession and a marked increase in the public sector borrowing requirement. A ceiling of £150,000 on the amount of mortgage loan on which interest payments could be met was introduced in August 1993. This ceiling was then reduced to £125,000 in April 1994 and to £100,000 in April 1995. This was well above the average UK house price of £62,750 in 1994 (Halifax Building Society, 1995).

A major change to ISMI was introduced on 2 October 1995 which affected new claims by non-elderly people made after that date. People in receipt of ISMI when the reform was implemented are protected from the change until their claim ceases or they move home or change their mortgage commitments (other than by a change in interest rates). Under the new ISMI rules, non-elderly new claimants who have also taken out their loan prior to that date, now receive no help at all for the first two months, then 50 per cent of eligible interest payments for the next four months, and 100 per cent thereafter. For new claimants who have taken own their loan after that date, the scheme now provides no help at all for the first nine months and then 100 per cent of eligible interest payments thereafter.

A major change was also introduced for new claimants of Housing Benefit from January 1996 or for existing claimants who moved home after that date. Under the new arrangements, the rent which is taken into account in calculating entitlement for new claims by private tenants living in deregulated accommodation is affected by the introduction of `local reference rents’ (LRR) for different dwelling types and sizes. Recipients whose eligible rent is below the LRR for their accommodation are unaffected by the change in that all of their rent continues to be taken into account in calculating their Housing Benefit entitlement. However, where the rent is above the LRR, all of the rent that is below the LRR is taken into account, but only half of it above the LRR. This two tier system bears some similarity to that which applies in the Swedish non-pensioner scheme for families with children.
These LRRs are set by Rent Officers for each localised housing market area—which might be different for different types of accommodation and vary significantly in size—using local rental market evidence. Broadly speaking, the LRRs are set at the mid-point in the range of rents for different types of accommodation, ignoring exceptionally high and exceptionally low rents. In addition, in October 1996 new arrangements are to be introduced which restrict Housing Benefit payments made to single claimants under the age of 25 to no more than the average cost of shared accommodation in the locality.

Public and media reaction to the changes in both Housing Benefit and ISMI has been mixed. The ISMI changes in particular received extensive publicity because they affected home owners (a powerful constituency in political terms), because the mortgage interest subsidy (MIRAS) was also reduced (from 25 to 20 per cent in April 1994 and to 15 per cent in April 1995), and also because the change was made at a time when the owner occupied housing market was in a prolonged slump. This slump involved both nominal and (for the first time since the war) real falls in house prices, with the result that around one in six home owners have ‘negative equity’ (outstanding loan more than the owner’s equity); a fall in transactions; and increased mortgage arrears and repossessions (Forrest and Murie, 1994).

There is strong media and political pressure to cut the rising cost of Housing Benefit. This is linked to concerns about fraudulent claims for Housing Benefit from private tenants and landlords and artificially inflated rents. However, the cuts in Housing Benefit for private tenants introduced in January 1996 and those planned for October 1996 have been criticised by the poverty lobby and by the bodies representing social housing organisations. Financial institutions lending money to housing associations have also expressed concern about the impact of possible future cuts in Housing Benefit on associations’ rental income and hence on their ability to repay their loans.

Summary The two main findings to emerge from this chapter were as follows:

• some countries have introduced changes to their housing allowance schemes, though often these did not affect the structure of the schemes, only the details of eligibility, entitlement or administration

• a significant reform had been undertaken in New Zealand and important reforms are being introduced in Britain

• major reductions in expenditure on housing allowances are expected to be introduced in Sweden, while Australia plans a major reform of housing assistance in which bricks and mortar subsidies will be abolished and sole reliance placed on a reformed housing allowance scheme.
Housing allowances are an important element of social policy in all of the selected countries, except for Canada where there is no national scheme. Even within the five Canadian provinces which do operate housing allowance schemes, the coverage is relatively limited, being confined mainly to elderly households.

While all of the countries make housing allowances available to renters, in several countries owner-occupiers can also get income-related assistance with their housing costs. The lack of help for owner-occupiers in some countries relates to the fact that other forms of assistance are available through the tax system and to concerns that recipients would otherwise be acquiring an asset out of public funds. Even where owner-occupiers are eligible for assistance, it appears that they account for only a small minority of recipients. This reflects the occupational status of home owners, in that, generally speaking, they have a much higher level of income than tenants and a lower propensity to be unemployed, and hence are less likely to need income-related help with their housing costs. It also reflects the fact that part or all of their interest costs are already met by mortgage interest tax relief in several of the countries under consideration here.

In most of the selected countries, housing allowances have become more important in recent years. This increased emphasis on housing allowances has arisen because of a general shift by governments away from direct supply side subsidies and below market rents, towards demand side assistance and market level rents. Tax expenditures on both the supply and demand sides, while often amended, have largely remained in place even while direct subsidies have been reduced (Kemp, 1990). Both of these trends reflect the renewed belief in markets as the most appropriate way in which to provide rented housing and the disappearance of the housing shortages that developed during the war and its aftermath. With the issue of concern increasingly being seen as a problem of income rather than of housing shortage, it is not surprising that income-related housing allowances have been seen as a more appropriate policy instrument for tackling it than subsidies to producers.

Radical, new reductions in supply side (‘bricks and mortar’) subsidies have been introduced since the late 1980s in Germany, the Netherlands, New Zealand and Sweden. By design or by default, these changes have led to greater reliance being placed on housing allowances as an instrument of housing policy in these countries. However, in Germany the ‘new housing shortage’ in the wake of the collapse of communism and the re-unification
of the east and west parts of that country. have prompted the re-emergence of social housing subsidies.

Partly in consequence of the shift away from supply side interventions and rent regulation, rents have risen in real terms in all of the selected countries. The largest increase in rents has been in Britain, where local authority rents doubled in real terms between 1980 and 1993. Despite these increases, Britain is a relatively low rent country, as is the Netherlands. (Private sector rents in Britain are not low compared with other countries, but this sector is much smaller than the local authority sector.) Partly because of these rent increases, rent burdens have also risen, especially in Sweden and New Zealand where supply subsidies have been cut back considerably.

The increased reliance on housing allowances in most of the selected countries, and the economic recession from which many of them have suffered in recent years, has meant that housing allowance caseloads and scheme costs have also risen considerably In the Netherlands, Sweden and Britain, there has been growing concern about this increase in costs and, as a result, action has been taken in these three countries to trim expenditure on housing allowances. This repeats a similar cycle-of reductions in bricks and mortar subsidies, higher unemployment, increased housing allowances costs and scheme cutbacks-that occurred in the late 1980s in these countries (Kemp, 1990; Priemus, 1990).

This cycle reflects an important feature of the housing allowance schemes which operate in most of the selected countries, namely their open ended nature, or what in the Netherlands is referred to as the `uncontrollability' of housing allowances (Priemus, 1990). There is thus to some extent a trade off between, on the one hand, bricks and mortar subsidies which can relatively easily be cash limited and which are less well targeted and, on the other, housing allowance schemes which are highly targeted but which are non-cash limited. However, while open ended, housing allowances can act to dampen the financial dislocation caused to households-and therefore potentially to the housing market-by economic down swings. Thus housing allowances can have a counter cyclical impact on the housing market.

The cost of housing allowances is not however a very pressing concern in all of the selected countries. In Australia the concern is more to do with the adequacy of the rent assistance scheme in tackling housing affordability problems and the fact that it provides less help than the implicit rent rebates provided to public housing tenants. Australia is in fact very much an exception to the general pattern among the selected countries in that its Rent Assistance scheme was very substantially enhanced during the late 1980s and early 1990s. While the New Zealand scheme has also been enhanced compared with its predecessor, this increase in entitlement levels
was made to compensate for changes to support on the supply side and the move towards market rents for Housing New Zealand tenants. Interestingly, the Swedish scheme, which was also enhanced to compensate for the radical tax reform and the reduction in bricks and mortar subsidies that were introduced in the early 1990s, is now going to be cut back again to help reduce the public sector deficit.

In Britain, there is concern that increasing rents, and hence higher levels of housing allowance ‘dependency’, are producing work disincentive problems. Work incentives are an issue in some but not in all of the selected countries, but where it is a concern this relates to high effective marginal tax rates rather than to the numbers of people receiving housing allowances. Total effective marginal tax rates in several of the countries, but not in Britain where the income test is based on net income, can in theory exceed 100 per cent. Yet the housing allowance income taper much higher in Britain than in the other selected countries.

The very sharp rate of withdrawal of Housing Benefit as income rises in Britain reflects the cutbacks in the scheme that were made in the mid 1980s. It also reinforces the income support orientation of the scheme in that, as a result of the increases in the taper, Housing Benefit in Britain does not go very far above the social assistance benefit level (see below).

While it was not possible for every country to ascertain the relative share of housing support that was devoted to housing allowances, it was possible to identify the scale of housing allowances expenditure in relation to the total rent bill in each country and to GDP. On these two measures, Britain and to a much lesser extent Sweden, devote a much higher proportion of resources to housing allowances than do the other countries. Yet while Sweden is a relatively high rent country Britain is a relatively low rent country in respect of local authority housing. The British scheme provides a much greater level of support than the schemes which operate in the other countries. This appears to be because the social assistance scheme in Britain, unlike the schemes in the other selected countries, makes no provision for the housing costs of tenants, who therefore rely solely on Housing Benefit to meet their housing costs. At the same time, social insurance for unemployed people in Britain is not earnings-related and hence provides a lower level of help than comparable schemes elsewhere, with the result that even unemployed tenants with relatively low housing costs receive Housing Benefit. On the other hand, the British Housing Benefit scheme generally speaking goes much less far up the income scale than those which operate in the other countries. In other words, it is more tightly focused on the lowest income households than elsewhere.

Two further and related distinguishing features of the British Housing Benefit scheme are that it does not automatically require recipients to
make a contribution to their rent—in other words, it is possible and indeed common, for recipients to have all of their rent met by Housing Benefit—and that it provides 100 per cent assistance on increases in rent for all recipients. These two features largely reflect the design of the Housing Benefit scheme in Britain, which ensures that recipients’ income does not fall below a minimum level. In these respects, the British Housing Benefit scheme (and of course ISMI, which is confined to social assistance recipients) is more similar to the housing component of the Canadian, Swedish and German social assistance schemes than it is to the housing allowance schemes which these and the other countries operate.

In the countries other than Britain, housing allowances generally have more explicitly housing, rather than an income support, roles. In all of the other countries the aim is to ensure that rent burdens do not exceed what is considered to be a reasonable share of household income—usually defined as being in the region of 15 to 30 per cent of income—which in turn defines the minimum contribution which households are expected to make out of their own resources. A second aim of housing allowances in some of these countries is to ensure that recipients can afford to occupy a minimally adequate standard of housing consumption.

The contrast between the design of the British Housing Benefit scheme and those which operate in the other selected countries is reflected in the greater concern about housing consumption incentives in the former as compared with the latter. The minimum rent contribution embedded in the ‘housing gap’ design in the countries other than Britain means that recipients have at least some financial incentive to minimise their housing costs by negotiating the rent with their landlord or, more realistically, by shopping around for the less expensive accommodation. In consequence, none of these countries employ anything like the detailed panoply of regulations and procedures that Britain has in place for ensuring that benefit is not paid on unreasonable housing costs. In addition to the minimum rent contribution, all of these countries employ rent ceilings or benefit maxima to prevent over consumption of housing.

Since January 1996, however, the British Housing Benefit scheme has had a rent threshold for new claims by private tenants with deregulated tenancies; and this has brought it a little closer to the schemes which operate in the other countries. Even so, a major difficulty facing attempts to move the Housing Benefit scheme towards the type of housing allowance operated in the other selected countries is the design of the social security system. Because of the relatively low level of insurance based unemployment benefit, many of the unemployed are reliant on social assistance, which (except for home owners) makes no provision for housing costs. In consequence, unemployed and other social assistance recipients are not currently in a position to pay the contribution to their housing costs that is an integral feature of the housing allowance schemes.
operated elsewhere. At the same time, in Britain there is a poor relationship between rent levels and dwelling size, condition and location, a factor which would make the introduction of a minimum rent contribution into the Housing Benefit scheme that much more problematic. This reinforces the point that housing allowance schemes do not exist in isolation but interact with the wider social security, taxation, housing finance and housing market systems within each country. It follows that they are best understood and reformed with that broader context in mind.
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