

Latvia: The energy crisis shines a spotlight on gaps in housing benefit

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In Latvia, support to cover housing and energy costs is provided through the housing benefit. In July 2021, significant changes were made to the eligibility criteria and the calculation methodology for the benefit. However, gaps in the new housing benefit system became apparent at the turn of the year 2021-2022 when the energy crisis escalated. These gaps have led to the adoption of new ad hoc legislation changing the eligibility criteria and increasing the amount of the housing benefit.

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Description

The housing benefit in Latvia is one of the two basic social assistance benefits paid from the municipal budget. Until July 2021, local governments had the right to define the range of persons and groups receiving support, as well as to establish the eligibility criteria, the benefit allocation procedure and the benefit amount. This approach placed inhabitants in an unequal situation with regard to issues related to housing expenses. Therefore, an equal system of housing support for residents of all municipalities was needed.

Then in July 2021, as part of the minimum income reform, a uniform calculation methodology for the housing benefit was introduced throughout the country.

The amount of the housing benefit is calculated using the following formula:

- 1) The monthly guaranteed minimum income (GMI) for the household, i.e. €109 for the first person in the household and €76 for each subsequent person (in 2021 and 2022);
- 2) Plus the household's actual monthly expenditure on housing, which includes expenses for rent, for energy services (heating and hot water, electricity, water, natural gas), and for telecommunications services (together with the Internet) [the total amount of eligible monthly expenditure for each category is capped];
- 3) Less the total monthly income of all household members (including the amount of the GMI if household members are GMI recipients).

Although the regulation does not explicitly set the level of household income as an

eligibility criterion for housing benefit, the formula used for calculating the benefit takes household income into account. After housing costs, the household income of the person concerned must not fall below the GMI level.

Until July 2021, local governments had the right to use a higher level of GMI than the national level (step 1 of above formula) to compute the housing benefit for certain social groups (for instance, pensioners, persons with disabilities, large families and others). With the introduction of a uniform GMI level in the computation of the housing benefit, the amount of the benefit was reduced to zero for certain groups, mainly pensioners and persons with disabilities, despite the absence of changes to their income level. In other cases, the level of the benefit decreased. For instance, the GMI level used to set the amount of the housing benefit for pensioners living in Riga decreased from €128.6 to €109. In other municipalities, the GMI level was previously not taken into account in the computation of the housing benefit and only some target groups were receiving the benefit, regardless of their income, such as for example pensioners and persons with disabilities. As a result of these changes, in some municipalities, between 30% and 75% of previous housing benefit recipients no longer received the housing benefit under the new system. On the other hand, some households benefited from the new system because the amount of the housing benefit they were receiving increased due to the increased GMI level. For the households who benefited from the new system, this can be seen as a welcome additional support in a context of rising energy prices.

However, the gaps in the new housing benefit system became apparent at the

turn of the year 2021-2022, when the energy crisis escalated.

To provide an immediate solution for those hit most severely by the energy crisis, amendments to the Law on the suppression of the consequences of the spread of COVID-19 infection were adopted on 22 December 2021. The new regulation applies higher coefficients to the GMI amount used to calculate the housing benefit (step 1 of the above formula): a) for a pensioner living alone or a person with disabilities living alone - a coefficient of 2.5 (thus the GMI amount for the first person in a household is €272.5); b) for a household consisting solely of persons of retirement age or persons with disabilities, the GMI amount for each household member is multiplied by 2 (i.e. €218). The municipality can even apply a higher coefficient.

The application of the coefficients resulting in an increase in the housing benefit was originally planned until 31 May 2022. However, on 27 January 2022, a new Law on measures to reduce the extraordinary increase in energy prices was adopted by the Parliament. It stipulates that the increased housing benefit for pensioners and persons with disabilities will be allocated until the end of 2022. In addition, a higher GMI amount (applying a coefficient of 1.5) was set for all other households who qualify for housing benefit (€163.5 for the first person and €114 for the following persons in a household). This coefficient has been applied since January 2022. These changes have expanded the number of potential beneficiaries of housing benefit. However, the housing

benefit formula is complex to apply and is not sufficiently transparent for claimants to be able to determine themselves their eligibility or otherwise.

In order to partially compensate for the costs of the increased housing benefit, at the end of 2021, i.e. already at the time of the initial changes, it was stipulated that the state should provide a targeted subsidy to local governments. This subsidy was planned to amount to 50% of the actual costs of the housing benefit incurred in the period from 1 January to 31 December 2022. The total indicative funding needed for the increased housing benefit over 12 months in 2022 is €47.4 million. Therefore, the co-financing of the housing benefit, amounting to 50% of the funds actually spent by the municipalities in 12 months, will require an indicative amount of €23.7 million.



Outlook and commentary

The support for housing costs until July 2021 was provided using both a target group and an income-testing approach – both belonging to a social group and a person's income level could be considered as the eligibility criteria. Since July 2021, the eligibility criteria depend mainly on the income level of the beneficiary and the housing benefit depends on the housing expenditure and the income level of claimants.

The energy crisis, intensified by the negative impact of COVID-19 on household employment and by rapid inflation, has highlighted the gaps in the housing benefit and

made it necessary to provide ad hoc solutions, reverting to the target group approach. These gaps have now been filled by the adoption of new legislation changing the eligibility criteria and increasing the amount of the housing benefit. To implement it, local governments need support from the state budget. However, this is a short-term solution for the period until the end of 2022. In addition, the more favourable housing benefit conditions are supplemented by a range of ad hoc and short-term support measures for the population, particularly the social groups at higher risk of poverty, to compensate for the increased cost of energy.

It remains to be seen whether the shortcomings highlighted by the energy crisis in the eligibility criteria and the calculation of the housing benefit, as well as the state support provided to local authorities for the housing benefit costs, will become permanent.

Further reading

[Law on the Suppression of the Consequences of the Spread of COVID-19 Infection](#) (5 June 2020)

[Law on Social Services and Social Assistance](#) (31 October 2002)

[Noteikumi par mājstāpniecības materiālās situācijas izvērtēšanu un sociālās palīdzības saņemšanu](#) [Cabinet Regulations No 809 on assessing the material situation of a household and receiving social assistance] (17 December 2020)

[Energoresursu cenu ārkārtēja pieauguma samazinājuma pasākumu likums](#) [Law on measures to reduce the exceptional increase in energy prices] (27 January 2022)

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