

The Impact of Claimant Numbers on Housing Benefit Expenditure

Sensitivity analysis using three scenarios

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Summary

The coalition government has announced changes to Housing Benefit in the Emergency Budget and Spending Review that are projected to save £2.25 billion p.a. by 2014/15. The measures focus on controlling the amount of Housing Benefit that is paid to particular households. Neither makes any reference to controlling Housing Benefit expenditure by reducing the number of households that need to claim Housing Benefit to be able to afford their housing costs.

This analysis focuses on the possible impact of changes in claimant numbers on Housing Benefit expenditure. It presents three plausible scenarios for the possible numbers of claimants and the impact this could have on Housing Benefit expenditure over the Spending Review period. Two scenarios are based on forecasts made by the Office for Budget Responsibility on changes in the number of unemployed people and economic activity rate. A third scenario is based on no change to the number of Housing Benefit claimants in July 2010. The purpose of these scenarios is to test the sensitivity of Housing Benefit expenditure to plausible changes in claimant numbers.

There is a striking difference between the numbers of Housing Benefit claimants in the scenarios. Small changes in the underlying assumptions for the scenarios lead to large changes in both the number of claimants and overall Housing Benefit expenditure. These lead to a difference of up to 1.3 million claimants and £2.6 billion in annual expenditure by 2014/15, dependant on the assumptions made. This is in contrast to the government's projected savings of £2.25 billion for 2014/15. The results of this analysis suggest that changes in the number of claimants could have a bigger impact on Housing Benefit expenditure than all of the proposed government changes.

In the light of these emerging findings BSHF makes the following recommendations:

- The Department for Work and Pensions should place greater emphasis on reducing the number of households that need to claim Housing Benefit to be able to afford their housing costs rather than focusing exclusively on controlling the amount of benefit received by households;
- The Department for Work and Pensions should publish any modelling or research that they have undertaken on the sensitivity of projected savings in Housing Benefit expenditure to changes in claimant numbers.

Background

Since the general election in May 2010 the coalition government has announced a series of measures to limit expenditure on welfare. These measures and their projected impact on expenditure are outlined in Appendix 1. The combined savings from these measures are expected to be £220 million in 2011/12, £600 million in 2012/13, £1,640 million in 2013/14 and £1,765 million in 2014/15.

BSHF published its analysis of the measures announced in the Emergency Budget in June 2010.¹ The government's aspirations to undertake the important task of reforming the UK's unduly complex system for support with housing costs are commendable. However, several of the mechanisms adopted in the budget give cause for concern. There is a risk they will:

- Have unintended consequences that act to minimise the public expenditure savings that are expected;
- Fail to meet one of the stated aims of the budget, which was to support the most vulnerable;
- Undermine the core purposes of Housing Benefit, of providing access to affordable housing and protecting residual income (the amount of money people have left to live on).

Another, more wide-ranging discussion of the system of support with housing costs has now been published by BSHF. *Support with Housing Costs: Developing a simplified and sustainable system* analyses the current situation and provides possible options for reform.²

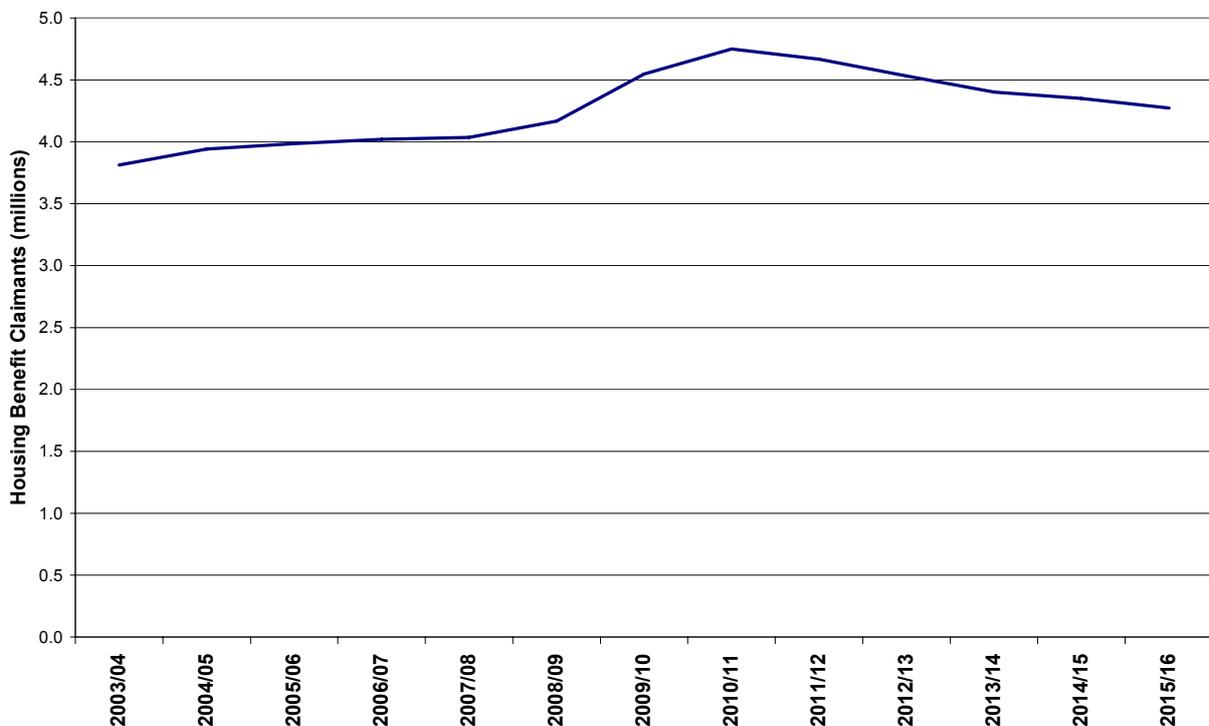
Further analysis of the increase in Housing Benefit expenditure was submitted to the government ahead of the Spending Review.³ This submission noted that discussion of Housing Benefit expenditure has focused on the impact of increasing rents. Whilst the growth of Housing Benefit expenditure is clearly linked to increasing rents over the longer term, the focus on increases in rents has overshadowed another important factor in the growth of Housing Benefit expenditure since 2008: the increasing number of claimants. The majority of the recent increase in Housing Benefit expenditure is due to the increase in the number of claimants.

The measures announced in the Emergency Budget and Spending Review focus on controlling the amount of Housing Benefit that is paid to particular households through caps and other limits on entitlement. Neither makes any direct reference to controlling Housing Benefit expenditure by reducing the

number of households that need to claim Housing Benefit to be able to afford their housing costs. However, the projected Housing Benefit expenditure contains an assumption that the number of claimants will decrease during the Spending Review period.

The Department for Work and Pensions (DWP) has published an official forecast of the number of Housing Benefits claimants that are expected during the period covered by the Spending Review. In July 2010 there were 4.78 million households claiming Housing Benefit.⁴ The DWP forecasts suggest that the number of Housing Benefit claimants will fall to around 4.3 million claimants by the end of the Spending Review period (see Figure 1).⁵

Figure 1: Housing Benefit claimants, Great Britain, actual to 2009/10 and forecast from 2010/11 onwards



These forecasts are entirely reasonable and reflect forecasts made by the independent Office for Budget Responsibility (OBR). This analysis provides three alternative scenarios for the number of Housing Benefit claimants during the Spending Review period. It then focuses on the possible impact of claimant numbers on Housing Benefit expenditure.

Method

This analysis presents plausible alternative scenarios for the number of Housing Benefit claimants, in order to provide a comparison to those produced by the DWP. The first two scenarios are based on forecasts made by the OBR. These relate to two measures that can be used to create plausible alternative scenarios for the possible number of benefit claimants:

- **Labour market participant rate forecast.**⁶ This is a forecast of the percentage of the adult population who are economically active, which is defined as “people [who] supply, or want to supply, their labour to produce goods and services”.⁷ It is often referred to as the economic activity rate.
- **Labour market forecasts.**⁸ This is a forecast of several measures of employment including the number of people who are unemployed (using the International Labour Organisation (ILO) definition of unemployment), the unemployment rate (percentage of people who are unemployed) and claimant count (number of people claiming employment benefits).

Historically there has very strong association between measures of unemployment and economic inactivity and the number of Housing Benefit claimants. For example:

- There is a negative correlation with a large effect size between the number of Housing Benefit claimants and the economic activity rate over the last fifteen years. For example, monthly measures of the two variables between November 2008 and April 2010 showed a significant correlation ($r = -0.950$, $N = 18$) and the scatter plot is shown in Appendix 2.⁹
- There is a positive correlation with a large effect size between the number of Housing Benefit claimants and the number of people who are unemployed over the last fifteen years. For example, monthly measures of the two variables between November 2008 and April 2010 showed a significant correlation ($r = 0.867$, $N = 18$) and the scatter plot is shown in Appendix 3.¹⁰

Similar associations exist between the number of Housing Benefit claimants and other measures of employment and economic activity using both monthly and annual variables (see Appendix 4 for a summary of the correlations for various measures). Given the strength of these associations, the OBR forecasts for

economic activity rate and number of unemployed people can be used as the basis for creating plausible scenarios for the possible number of Housing Benefit claimants during the period of time covered by the Spending Review. **However, it should be noted that these are not predictions about the number of claimants.** Correlations between variables may cease at any time if the underlying causal links change. It should also be noted that 26 per cent of Housing Benefit claimants were aged 65 years or over in July 2010.¹¹ Changes in unemployment are unlikely to affect the number of this type of claimants. The number of claimants over the aged 65 is much more stable than the number of working age claimants.

One example of possible changes in the correlation between this type of variable comes from the OBR forecasts for economic activity rate and the number of unemployed people. These two variables have shown a negative association with a large effect size over the last fifteen years.¹² It might be expected that the forecasts made by the OBR for these variables would also show a negative correlation. However, the OBR forecasts suggest that both the number of people who are unemployed and the economic activity rate will fall over the spending review period. The rationale for the OBR forecasts is outlined in Appendix 5.

This analysis assessed the correlation between the number of Housing Benefit claimants and two of the variables which the OBR have forecast over the Spending Review period. The two variables used are the economic activity rate and the number of people who are unemployed. The correlation and the OBR forecasts were then used to extrapolate possible number of Housing Benefit claimants. It creates two scenarios for the number of Housing Benefit claimants over the Spending Review period. A third scenario is based on a continuation of the number of Housing Benefit claimants recorded in July 2010.

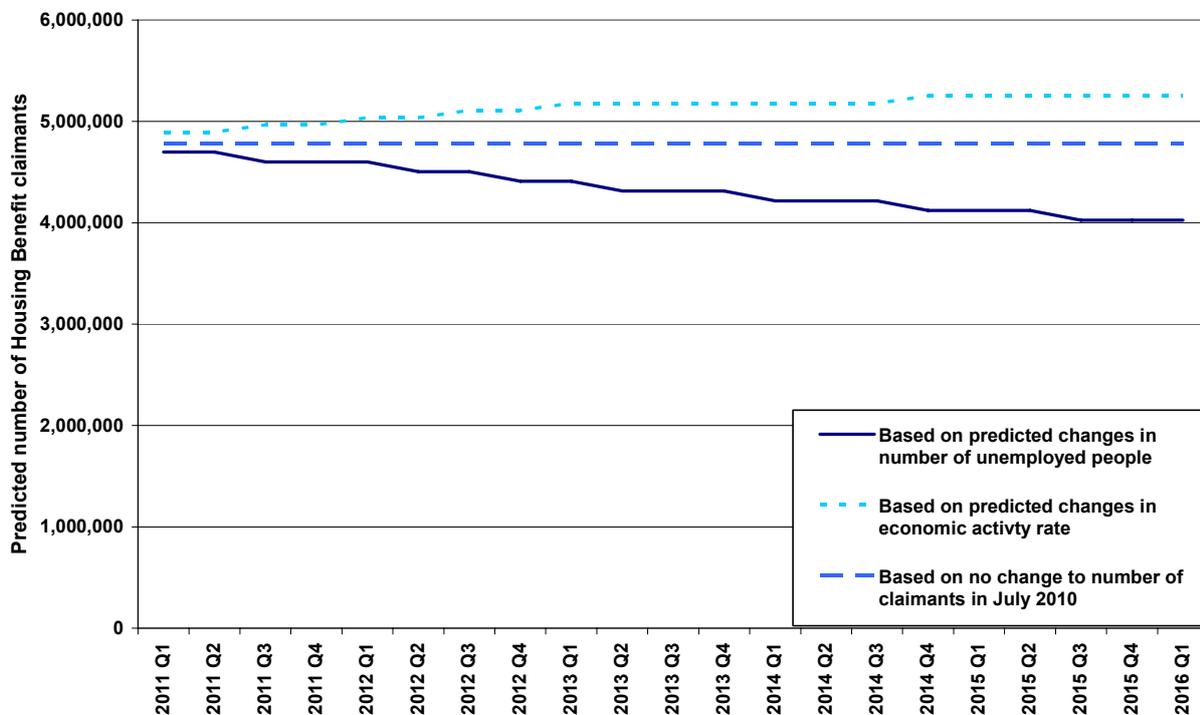
These scenarios have then been used to assess the impact on overall Housing Benefit expenditure. This has been achieved by uprating the average housing benefit claim annually using the OBR forecasts for consumer price index (CPI) inflation and multiplying this by the number of claimants suggested in each scenario.¹³ This analysis is intended to test the sensitivity of Housing Benefit expenditure to plausible changes in claimant numbers.

Results

Number of claimants

There is a striking difference between the numbers of Housing Benefit claimants in the three scenarios which can be seen in Figure 2. The first scenario assumes a continuation of the historic association between economic activity rate and the number of Housing Benefit claimants. Under that assumption, if the economic activity rate changes as predicted by the OBR the number of Housing Benefit claimants would increase to around 5.3 million claimants. The second scenario assumes a continuation of the historic association between the number of unemployed people and the number of Housing Benefit claimants. In that scenario, if the number of unemployed people changes as predicted by the OBR the number of Housing Benefit claimants would decrease to around 4.0 million claimants. The third scenario is a continuation of the number of Housing Benefit claimants from July 2010.

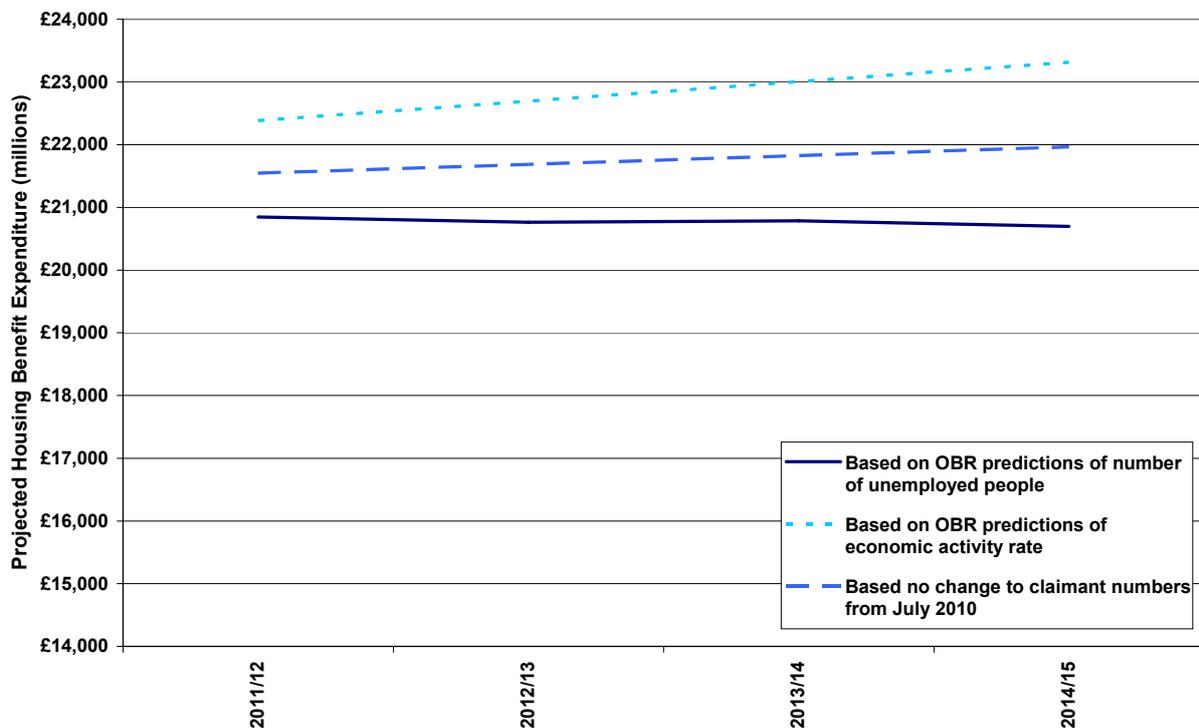
Figure 2: Predicted number of Housing Benefit claimants during the Spending Review period



Financial impact

The possible financial impact of this variation in claimant numbers is outlined in Figure 3. These projections do not include the government's proposed changes to welfare outlined in Appendix 1. If the number of claimants increases in line with expectations based on the past correlation with economic activity rates then Housing Benefit expenditure would reach £23.3 billion in 2014/15. If the number of claimants falls in line with expectations based on the past correlation with the number of unemployed people then Housing Benefit expenditure would remain stable at around £20.7 billion until 2014/15. If the number of claimants remains the same as in July 2010 then Housing Benefit expenditure would increase to £22.0 billion in 2014/15.

Figure 3: Housing Benefit expenditure based on claimant numbers from two scenarios (excludes impact of proposed changes)



When the impact of the government's proposed changes are included in the analysis Housing Benefit expenditure in 2014/15 would be £21.1 billion given the number of claimants predicted using economic activity rates. Using the claimant levels predicted by the number of unemployed people would mean Housing Benefit expenditure of £18.5 billion in 2014/15. If the number of claimants remained at the same level as July 2010 the proposed changes would result in Housing Benefit expenditure of £19.7 billion in 2014/15.

Conclusions and recommendations

The three scenarios for the number of Housing Benefit claimants presented here are not intended to be predictions. Instead they demonstrate the sensitivity of Housing Benefit expenditure to changes in the number of claimants. One scenario is a simple continuation of recent numbers of claimants. The numbers of claimants in the other two scenarios are based on the continuation of historic correlations and OBR forecasts. It is striking that a small change in the underlying assumptions between the scenarios leads to very large changes in both the number of claimants and overall expenditure. A small change in underlying assumptions between the scenarios leads to a difference of 1.3 million claimants and £2.6 billion in annual expenditure by 2014/15. This is in contrast to the government's projected savings of £2.25 billion for 2014/15.

The results of this analysis suggest that changes in the number of claimants could have a bigger impact on Housing Benefit expenditure than all of the proposed government changes combined. BSHF has released this research at any early stage of development to ensure that the findings are considered in the process of welfare reform that is currently underway.

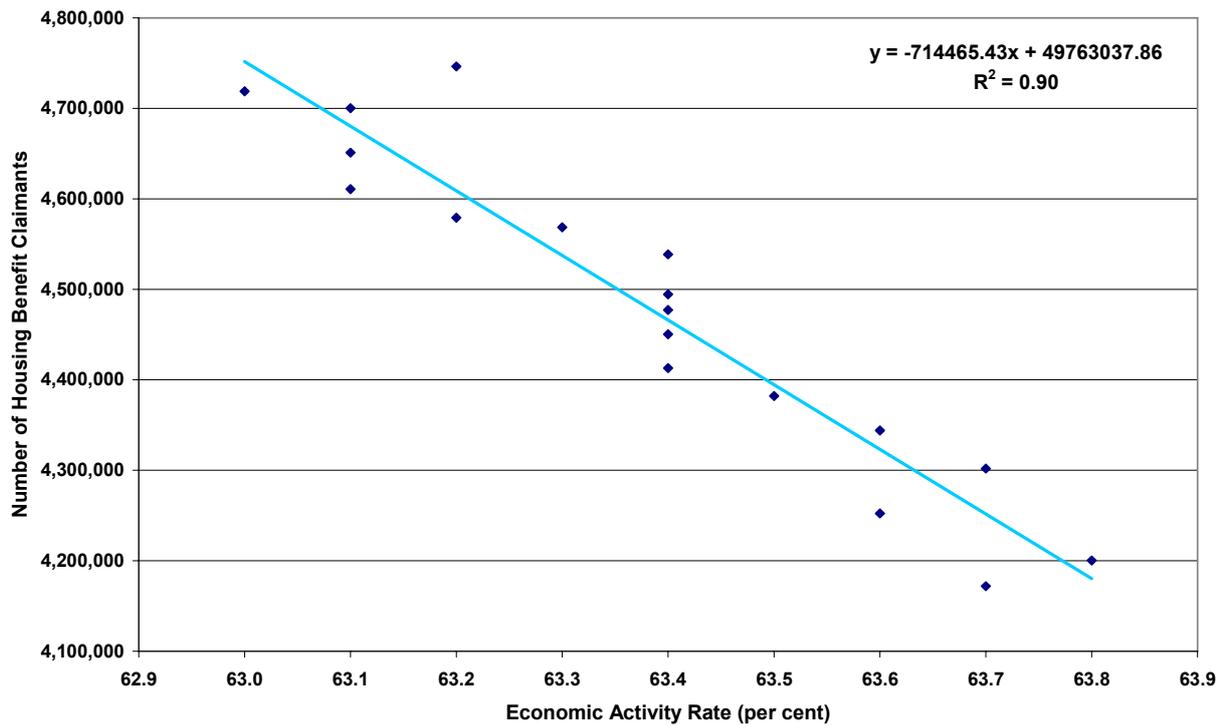
In the light of these emerging findings BSHF makes the following recommendations:

- The Department for Work and Pensions should place greater emphasis on reducing the number of households that need to claim Housing Benefit to be able to afford their housing costs rather than focusing exclusively on controlling the amount of benefit received by households;
- The Department for Work and Pensions should publish any modelling or research that they have undertaken on the sensitivity of projected savings in Housing Benefit expenditure to changes in claimant numbers.

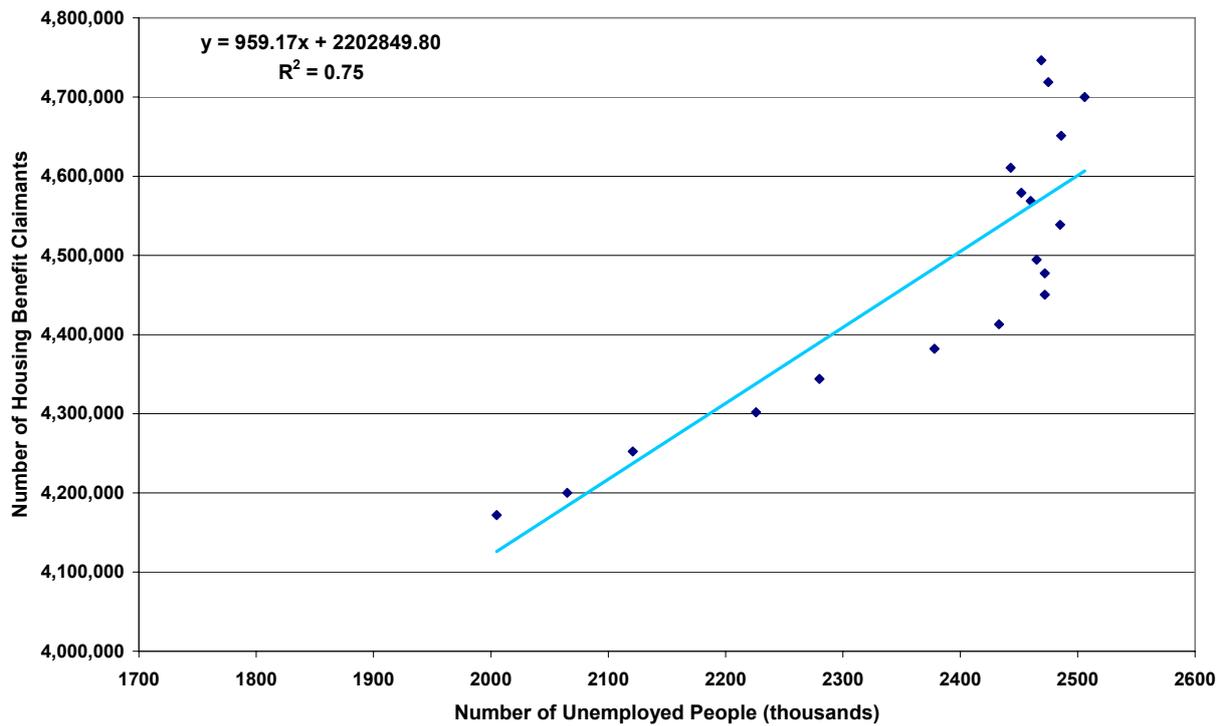
Appendix 1: Summary of measures outlined in Emergency Budget (June 2010) and Spending Review (October 2010)¹⁴

	<i>£ million</i>			
	2011/12	2012/13	2013/14	2014/15
Local Housing Allowance: set at the 30th percentile of local rents from 2011-12	65	365	415	425
Deductions for non-dependents: reverse previous freezes on uprating and maintaining link with prices from 2011-12	125	225	320	340
Social sector: limit working age entitlements to reflect size of family from 2013-14	0	0	490	490
Switch to CPI indexation for Local Housing Allowance from 2013-14	0	0	300	390
Reduce awards to 90 per cent after 12 months for claimants of Jobseekers Allowance	0	0	100	110
Additional bedroom for carers from 2011-12	-15	-15	-15	-15
Local Housing Allowance: caps on maximum rates for each property size, with 4-bed limit from 2011-12	55	65	70	65
Additional Discretionary Housing Payments from 2011-12	-10	-40	-40	-40
All Housing Benefit reforms in Emergency Budget	220	600	1,640	1,765
Housing Benefit: increase age limit for shared room rate from 25 to 35	0	130	225	215
Total household benefit payments capped on the basis of average take-home pay for working households	0	0	225	270
All Housing Benefit reforms in Spending Review	0	130	450	485
Total Projected Savings	220	730	2,090	2,250

Appendix 2: Scatter plot of Housing Benefit claimants and economic activity rate, November 2008 to April 2010¹⁵



Appendix 3: Scatter plot of Housing Benefit claimants and number of unemployed people, November 2008 to April 2010¹⁶



Appendix 4: Summary of correlations

There is every reason to expect that the number of Housing Benefit claimants will be related to the numbers of people unemployed or economically inactive. Correlation coefficients for a range of measures over a range of time periods were calculated to test the strength of these relationships. These are summarised below, and demonstrate that there is, indeed, a strong correlation between any of the measures identified.

Variable	Period	Frequency	Pearson's r (comparing variable with Housing Benefit claimant count¹⁷)
Economic Activity Rate (per cent), all persons 16 and over ¹⁸	1994-2007	Annual	-0.745 (N = 14)
ILO unemployment (count) ¹⁹	1994-2007	Annual	0.893 (N = 14)
Economic Activity Rate (per cent), all persons 16 and over ²⁰	November 2008 – April 2010	Monthly	-0.950 (N = 18)
ILO unemployment (count) ²¹	November 2008 – April 2010	Monthly	0.867 (N = 18)

Appendix 5: OBR rationale for estimates of economic activity rates and number of unemployed people²²

“The prospects for the trend employment rate can be split into the outlook for the ‘structural’ unemployment rate, or non-accelerating inflation rate of unemployment (NAIRU), and the outlook for the labour market activity rate. For the purposes of the projection the NAIRU is assumed to be around 5¼ per cent, which is broadly in line with the unemployment rate prior to the recession, and to remain flat over the projection period. This judgement is consistent with the absence of a significant pick-up in the NAIRU in the previous recession, as well as the limited evidence so far of structural displacement in the labour market. It is also consistent with OECD evidence that finds no evidence of a significant impact of economic downturns on structural unemployment in economies with below average employment protection legislation, a category that includes the UK.

The activity rate is projected using the ‘cohort method’, an approach used by a number of international organisations to project labour market activity over the medium to long term. The cohort method of projecting future participation rates uses historical lifetime participation profiles of different cohorts to model current cohorts through the projection period. It captures the impact of an ageing workforce on overall participation and the effect of current young cohorts gradually replacing current older cohorts. This is important as each generation or cohort has its own specific level of participation that is usually different from the corresponding level of participation of preceding and future generations.

The latest estimates obtained using the cohort approach point to a decline in labour market activity (on a 16+ basis) of around –0.15 per cent a year. This entirely reflects the large shift in the age composition of the population as the baby-boom generation moves beyond State Pension age and retires. This projection includes an allowance for the effect of the gradual increase in the female State Pension age on labour market activity. It is consistent with empirical evidence which suggests that increases in the female State Pension age may have a non-negligible, positive effect on the labour market activity rates of older age groups.”

Notes and references

- ¹ Vine, J., Diacon, D. and Pattison, B. (2010) Housing Benefit and the Emergency Budget of June 2010, <http://www.bshf.org/published-information/publication.cfm?lang=00&thePubID=8EE7CD39-15C5-F4C0-998147558D33B53E>
- ² Diacon, D., Pattison, B., Strutt, J. and Vine, J. (2010) Support with Housing Costs: Developing a simplified and sustainable system, <http://www.bshf.org/published-information/publication.cfm?lang=00&thePubID=AB588DD9-15C5-F4C0-993D5892C8E1DCC1>
- ³ Diacon, D., Pattison, B. and Vine, J. (2010) BSHF Submission to Spending Review 2010, <http://www.bshf.org/published-information/publication.cfm?lang=00&thePubID=8AF35100-15C5-F4C0-99BE979B7ACACA24>
- ⁴ Department for Work and Pensions (2010) Housing Benefit and Council Tax Benefit: First release, http://campaigns.dwp.gov.uk/asd/asd1/stats_summary/stats_summary_oct2010.pdf?x=1
- ⁵ Department for Work and Pensions (2010) Benefit Expenditure Tables: Medium term forecast, http://research.dwp.gov.uk/asd/asd4/index.php?page=medium_term
- ⁶ Office for Budget Responsibility (2010) Labour market participation rate forecast, 20 October 2010, http://budgetresponsibility.independent.gov.uk/d/labour_rate_participation_forecast_release_201010.pdf
- ⁷ Office for National Statistics (2010) Economic Activity, <http://www.ons.gov.uk/about-statistics/user-guidance/lm-guide/concepts/activity/index.html>
- ⁸ Office for Budget Responsibility (2010) Labour market rates, 19 August 2010, http://budgetresponsibility.independent.gov.uk/d/labour_market_forecasts_190810.pdf
- ⁹ This is a Pearson correlation on monthly measures of the two variables. The number of Housing Benefit claimants is taken from Table 8 of the Department for Work and Pensions Quarterly Statistical release (http://campaigns.dwp.gov.uk/asd/asd1/hb_ctb/hbctb_release_oct10.xls). Economic Activity Rate is taken from the Office for National Statistics (www.statistics.gov.uk/) and is the LFS Quarterly economic activity rate, all aged 16 and over (ONS Statistical Bulletin: Labour market statistics, identifier: MGWG).
- ¹⁰ This is a Pearson correlation on monthly measures of the two variables. The number of Housing Benefit claimants is taken from Table 8 of the Department for Work and Pensions Quarterly Statistical release (http://campaigns.dwp.gov.uk/asd/asd1/hb_ctb/hbctb_release_oct10.xls). Number of people

unemployed is taken from the Office for National Statistics (www.statistics.gov.uk/) and is ILO unemployment, all aged 16 and over (ONS Statistical Bulletin: Labour market statistics, identifier: MGSC).

¹¹ Department for Work and Pensions (2010) Housing Benefit and Council Tax Benefit: Additional tables, http://campaigns.dwp.gov.uk/asd/asd1/hb_ctb/hbctb_release_oct10.xls

¹² This is a Pearson correlation with a large effect size ($r = -0.661$, $N = 14$) on annual measures of the two variables. The variables used are the same as in previous examples.

¹³ The DWP use a more sophisticated method to forecast the average claim. This method is less sophisticated but still achieves a similar forecast for average claim.

¹⁴ HM Treasury (June 2010) Budget June 2010, HC 61. Table 2.1, page 40. <http://www.official-documents.gov.uk/document/hc1011/hc00/0061/0061.asp>

HM Treasury (October 2010) Spending Review 2010, Cm 7942. Table 3, page 12. <http://www.official-documents.gov.uk/document/cm79/7942/7942.asp>

¹⁵ The number of Housing Benefit claimants is taken from Table 8 of the Department for Work and Pensions Quarterly Statistical release (http://campaigns.dwp.gov.uk/asd/asd1/hb_ctb/hbctb_release_oct10.xls). Economic Activity Rate is taken from the Office for National Statistics (www.statistics.gov.uk/) and is the LFS Quarterly economic activity rate, all aged 16 and over (ONS Statistical Bulletin: Labour market statistics, identifier: MGWG).

¹⁶ The number of Housing Benefit claimants is taken from Table 8 of the Department for Work and Pensions Quarterly Statistical release (http://campaigns.dwp.gov.uk/asd/asd1/hb_ctb/hbctb_release_oct10.xls). Number of people unemployed is taken from the Office for National Statistics (www.statistics.gov.uk/) and is ILO unemployment, all aged 16 and over (ONS Statistical Bulletin: Labour market statistics, identifier: MGSC).

¹⁷ For annual datasets, the source for Housing Benefit claimant counts is Table 115a of the 2003/04 and 2009/10 editions of the UK Housing Review (<http://www.ukhousingreview.org.uk/>). For monthly datasets the source is Department for Work and Pensions (2010) Housing Benefit and Council Tax Benefit: First release, http://campaigns.dwp.gov.uk/asd/asd1/stats_summary/stats_summary_oct2010.pdf?x=1

¹⁸ Office for National Statistics, Series Identifier MGWG. Data downloaded from <http://www.statistics.gov.uk/> The dataset is titled "Labour Force Survey: Summary, 1984-2002", but was actually last updated 13 October 2010 and at present covers annual data up to 2009 and monthly data up to to July 2010. It can be accessed directly at <http://www.statistics.gov.uk/StatBase/tsdataset.asp?vlnk=429>

¹⁹ Office for National Statistics, Series Identifier MGSC. Data downloaded from <http://www.statistics.gov.uk/>
Dataset availability as above.

²⁰ Office for National Statistics, Series Identifier MGWG. Data downloaded from <http://www.statistics.gov.uk/>
Dataset availability as above.

²¹ Office for National Statistics Series Identifier MGSC. Data downloaded from <http://www.statistics.gov.uk/>
Dataset availability as above.

²² Office for Budget Responsibility (2010) Pre Budget Forecast: June 2010, p 77,
http://budgetresponsibility.independent.gov.uk/d/pre_budget_forecast_140610.pdf

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