

Accounting for housing benefit expenditure growth 1991/2 to 2010/11

How and why did HB expenditure increase?

The growth in housing benefit expenditure over the last decade has been widely canvassed in debate on public spending cuts, and has formed an important plank in housing benefit reform proposals under both the current and previous administrations. Housing benefit expenditure is four and half billion pounds higher in real terms than at its previous peak in 1996/7: total expenditure for 2010/11 is forecast to be £21.2bn, compared to £15.8bn in 1996/7. There can be no question that this growth represents a significant shift in welfare expenditure- it is greater, for example, than total expenditure on Jobseeker's Allowance, even under today's adverse labour market conditions.

However, recent debate and even policy development have involved little in the way of analysis of the drivers of growth in housing benefit expenditure. Rather, decontextualised figures, often concerning payments to private sector tenants in central London, have been rhetorically linked to overall expenditure growth with no explanation of what role if any these figures play in accounting for that growth, or what broader pattern they are supposed to exemplify. Much of the discussion assumes almost as a matter of faith that the explanation for expenditure growth lies in some combination of excessive system generosity and out-of-control rental market inflation. Such evidence as is adduced to support this diagnosis (such as comparing increases in housing benefit payments in the private rented sector with increases in the social sector) is generally irrelevant when not positively misleading. It also seems to be widely assumed that expenditure showed an inexorable upward trend prior to the recession, which would indeed be what would be expected if the diagnosis of expenditure growth were correct: however when expenditure trends are placed in longer term context it is clear that this is not the case.

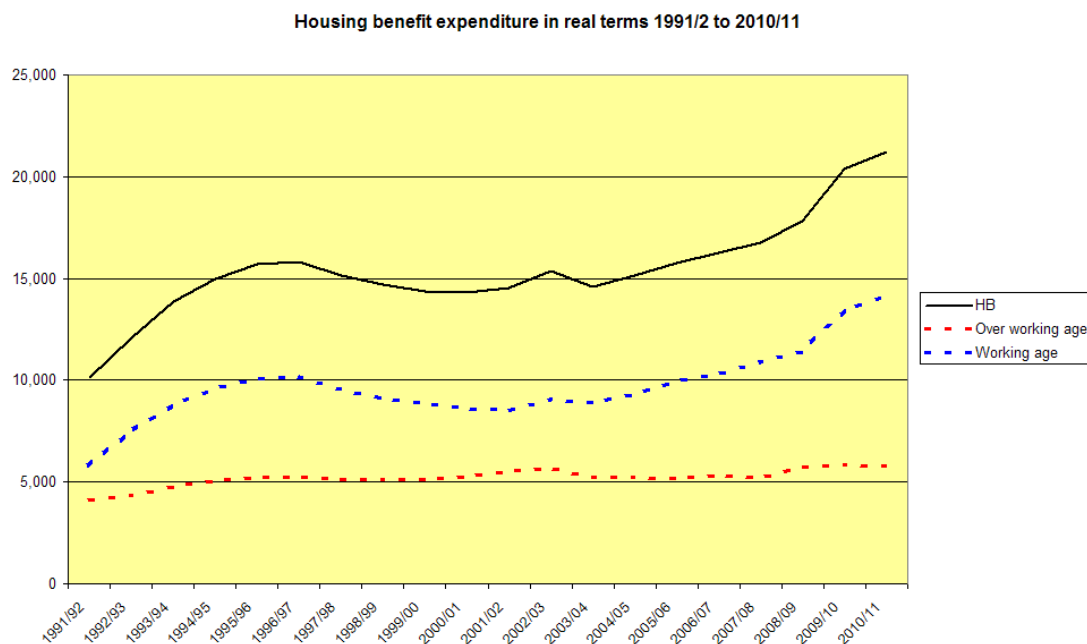
Meanwhile obvious questions have hardly been asked, let alone answered. How does HB expenditure growth break down between the three main tenure types: local authority, Registered Social Landlord (RSL) and the private rented sector (PRS)? To what extent do changes in the numbers of HB claimants and in the amount of HB they are receiving respectively explain expenditure trends? To what extent should the recent steep rise in expenditure be attributed to the impact of recession on employment and household incomes, or to longer term problems with the system?

In order to provide some context for the current debate, we have looked at trends in HB expenditure over an extended timeframe, from 1991/2 to 2010/11, using DWP's benefit expenditure series, and from 2002 on the department's quarterly statistics on caseload and average awards. From 1994/5 the expenditure series offers separate figures for the local authority, RSL and private rented sectors, which are helpful in understanding sectoral contributions to trends in aggregate expenditure. We have also

brought labour market evidence, startlingly absent from the current debate, to bear on understanding trends in housing benefit receipt.

Our aim is to understand changes in aggregate housing benefit expenditure by breaking changes down into sectoral components and to further decompose within-sector changes into the contributions made respectively by the numbers of people entitled to HB and the average amount they receive in HB.

Chart 1



Source: DWP expenditure tables, table 6

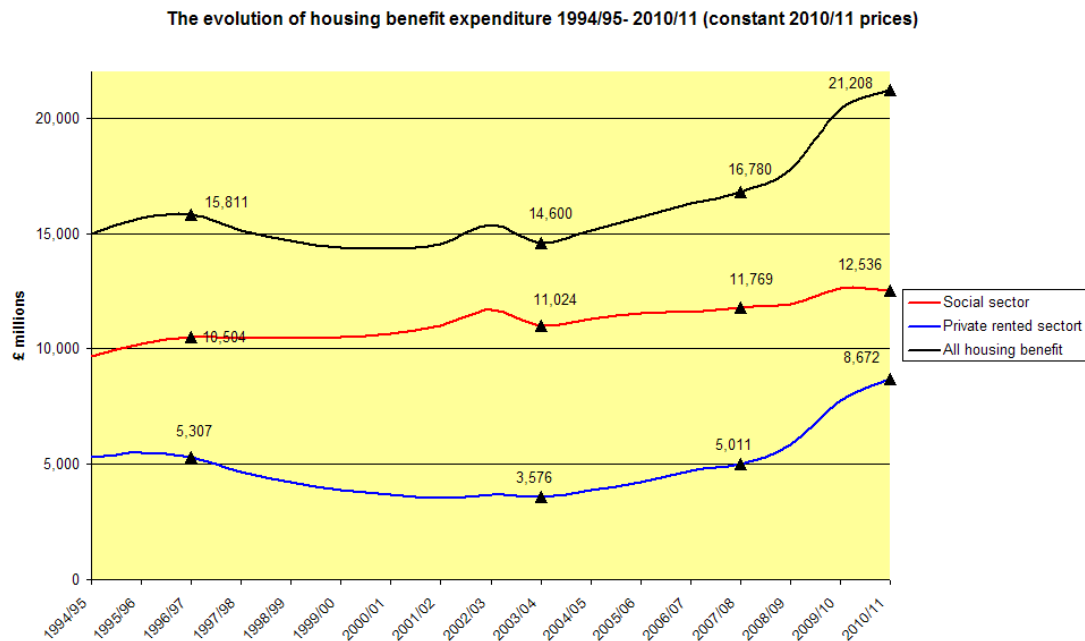
Chart 1 shows how aggregate HB expenditure (in constant 2010/11 prices) developed from 1991/2 to 2010/11, the entire period covered by the expenditure series. We have included in this chart a breakdown by age group in order to make a simple but important point: unlike some other areas of growth in welfare expenditure, population ageing plays very little role in explaining trends in HB expenditure, with the working age group clearly accounting for the bulk of movements in both directions over the period.

It is obvious that HB expenditure has seen two periods of substantial growth: between 1991/2 and 1995/6, and from 2007/8 to the present. The steep rise in the early to mid-1990's is only partly due to the recession of that period, as is suggested by the fact that expenditure never returned to its early 1990's levels even after the strong recovery in employment from mid-decade. This step change in expenditure levels is explained when we look at trends within tenure types.

The long-term evolution of housing benefit expenditure by tenure type is shown in chart 2. We have flagged up the values for certain dates which seem particularly relevant to the current discussion: 1996/7, just prior to Labour's return to power;

2003/4, because this was a year when aggregate HB expenditure was at a particularly low level; 2007/8, the year before the financial markets crisis; and 2010/11.

Chart 2



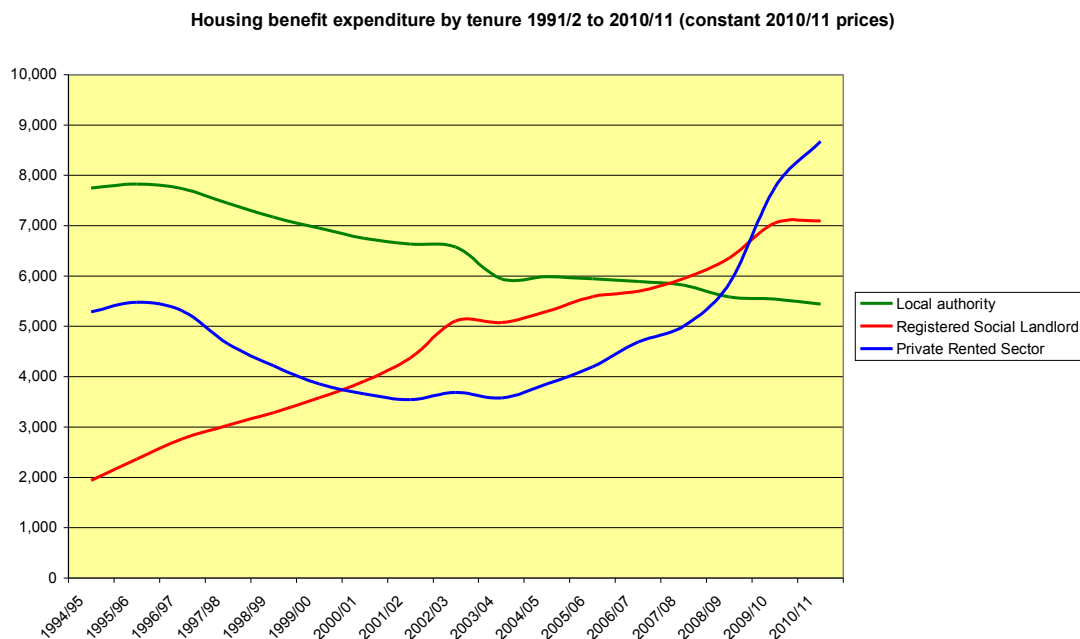
Source: DWP benefit expenditure tables, table 8

We can now see that the stabilisation of HB expenditure at a higher level during the early-to-mid 1990's is to be attributed to the social sector- local authorities and RSL's- rather than to the private rented sector. From 1996/7 to 2003/4 expenditure in the PRS is on a fairly steep downward trend, while in the social sector the trend is modestly upwards for most of this period. Thus by 2003/4 the social sector spend had increased by a little over £1bn from 1996/7, while the PRS spend was lower by £1.5bn. The obvious interpretation, that trends in the PRS tend to reflect economic conditions far more than trends in the social sector, is we feel about right.

We can also see that recent growth, from 2007/8, is largely attributable to the PRS, where expenditure has risen from just over £5bn to £8.7bn. However there was growth in PRS expenditure before the recession: expenditure in 2007/8 was substantially higher than it had been in 2003/4, while being lower than it had been in 1996/7.

In order to better understand the step change in HB expenditure, the next chart breaks expenditure from 1994/5 down into LA, RSL and PRS components. From 1994/5 to the present, HB expenditure in the RSL sector has shown an almost linear upward trend, while expenditure in the LA sector has shown a less steep downward trend. The stabilisation of HB expenditure at much higher levels than previously during the 1990's reflects the fact that expenditure in the RSL sector rose faster during the 1990's than expenditure in the LA sector fell. This shift must to a large extent be attributed to policy decisions regarding (a) the routing of social housing subsidy (via HB rather than direct grant) and (b) tenure shifts from the LA to the RSL sectors.

Chart 3



Source: DWP expenditure tables, table 8

In contrast, the effect of the PRS is to reduce HB aggregate expenditure over the entire period 1996/7 to 2003/4, and even between 2003/4 and 2007/8 when PRS expenditure was rising quite rapidly, the effect is neutral, as expenditure in this sector had not quite recovered its 1996/7 level. The step change in HB expenditure is therefore to a great extent attributable to ‘housing benefit taking the strain’ of decisions on the routing of subsidy and tenure transfer, offset by falling expenditure in the PRS up to 2003/4.

Unpicking recent rises in HB expenditure

Between 1996/7 and 2007/8 there was a real terms increase of just under £1bn in aggregate HB expenditure, as shown in chart 2. This should dispel some of the wilder claims about out-of-control expenditure *prior* to the crisis of autumn 2008. It is also clear that expenditure was on an upward trend between 2003/4 and 2007/8 and that the driver of growth was the PRS. Nonetheless, as noted, by 2007/8 PRS expenditure had still not reached the level it was at in 1996/7. While expenditure on the PRS in 2010/11 is at unheard of levels of £8.7bn, there was nothing unprecedented about expenditure prior to the recession. We have to recognise that the current very high levels of expenditure in this sector primarily reflect changes taking place since 2008/9.

The rise in PRS HB expenditure between 2003/4 and 2007/8, while playing a minor role in explaining current expenditure levels, may be important if it reflects longer term trends which are independent of labour market conditions- if the pattern noted above of PRS expenditure following developments in the economy more closely than social sector expenditure in the 1990's has weakened over time. It is worth asking therefore whether the current very high levels of expenditure in this sector should be seen as an exacerbation of trends which were visible before the recession. Obviously there is *no* long term upward trend in PRS expenditure prior to the recession (on any reasonable understanding of long-term) but we could ask whether the growth from 2003/4 can be attributed, for example, to long term trends in rental market inflation combined with a plateauing of the sectoral caseload. We have looked at the drivers of growth in expenditure in this sector during this period and found that this hypothesis is not supported, as there were significant increases in caseload during this period and these played the major role in driving up expenditure levels, with changes in HB payment levels (our nearest and highly imperfect proxy for the impact of contemporary rent inflation) accounting for at best a third of the growth.

If there were a long term trend independent of labour market factors behind the growth in PRS HB expenditure prior to the recession, it would lie in caseload increases rather than in the amount of HB households were receiving, and it seems implausible to see the rise in caseload between 2003/4 and 2007/8 in terms of any such trend. Although in retrospect 2003/4 to 2007/8 may look like a time of relatively benign employment outcomes, signs of labour market stress were clearly visible at this time in terms of rising ILO unemployment, increased flows on to and off the claimant count and stagnation of real wages at the lower end of the labour market. It would therefore be unwise to regard the very low levels of HB PRS expenditure which characterised the first years of the new century as representing any kind of norm. The expenditure increase between 2003/4 and 2007/8 is in our view most likely to reflect conjunctural labour market factors (labour market stress bringing more households within the HB safety net), which may however be seen as reflecting long-term trends towards greater dispersal of earnings. It is sometimes assumed that rent inflation inevitably brings more households within the scope of HB entitlements: however this clearly depends on what is happening to earnings,

The explosion of PRS expenditure since 2008 should not therefore be seen as the exacerbation of an existing trend in HB, but as a measure of the volatility of this area of public expenditure during economic downturns when subsidy in the PRS plays such an important role in social protection. The table below shows the results of a simple shift-share analysis of caseload and payment effects between November 2008 and June 2010 (payments in constant September 2010 prices using the RPI all-items index). The components sum to unity. Little comment is necessary. Numerical change in caseload, especially in the private rented sector, is the overwhelming driver of growth. Changes in payments in the private rented sector account for only 10% of change over this period, while changes in payments in the social sector account for 7%. The remaining 83% results from higher numbers and nothing else.

Table 1

Change in HB expenditure November 2008 to June 2010

	Social	PRS	
Within-tenure payment effect		0.07	0.10
Numerical change effect		0.20	0.63

Source: author's calculations from DWP quarterly housing benefit and council tax benefit statistics October 2010

Growth in PRS HB expenditure: greater volatility rather than long term upward pressures

It is in this longer term perspective that we can specify the role of rental market inflation in driving HB expenditure increases. *Contemporary* rental market inflation is clearly a minor contributor to recent change, but if we want to understand why PRS spend is so much higher now than in 1996/7, longer term trends in PRS rents are likely to play an important role. But that role would lie in increasing the *volatility* of public expenditure in response to economic downturns rather than in exerting continuous upward pressure on expenditure during periods of stability, for which there is simply no evidence.

This should be a sobering conclusion for anyone concerned with the contribution of HB to current fiscal problems. For it supports the view, which is also encouraged by analysis of who will be affected by the proposed changes, that it is households affected by the adverse labour market conditions of the last two years who have driven the rise in HB expenditure to its current unprecedented levels. It is striking that as shown in table 2 below nearly half of those who will lose under the 2011/12 changes are either in employment or claimant count unemployed (which is not to suggest that the other half is made up of long-term workless households). This analysis would suggest that this impact on households which are currently engaged in the labour market is an inevitable consequence of attempts to control the current very high levels of PRS housing benefit expenditure, which should be seen as an amplification of the labour market impacts of the economic downturn rather than as a consequence of long term problems in the benefit system. The employed and the unemployed account for 83% of the rise in HB receipt in all tenures since the financial markets crisis. Assertions about the need to bring housing benefit under control need to take account of this aspect of the context.

Table 2

Claims affected by 2011/12 changes to Local Housing Allowance			
	Number of claims	% of all claims	cumulative %
in employment	241,700	25.7	25.7
on Jobseeker's Allowance	206,470	22.0	47.7
on Pension Credit Guarantee Credit	51,820	5.5	53.2
on Income Support or Employment Support Allowance	308,540	32.9	86.1
others not in employment	130,690	13.9	100.0
all	939,220	100.0	
Sources			
DWP impact assessment table 5			
PQ 12676 (for 'in employment' and 'others not in employment')			