

The Growth of In-Work Housing Benefit Claimants:

Evidence and policy implications

The Growth of In-Work Housing Benefit Claimants: Evidence and policy implications

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Executive summary

In December 2011 there were 4.95 million Housing Benefit claimants in Great Britain, an increase of just over 300,000 claimants in two years. This represents the highest number of claimants since the introduction of Housing Benefit in 1982. Claimant numbers increased faster than expected by the Department for Work and Pensions (DWP) forecasts. This higher number of actual claimants has increased overall Housing Benefit expenditure.

Analysis of DWP data indicates that the majority of the increase in Housing Benefit claimants comes from households that are in-work. Between January 2010 and December 2011 the number of “non-passported, in employment” claims (which are claims made by households in full or part-time employment) increased by 279,000. This suggests that households in employment accounted for at least 93 per cent of the increase in overall Housing Benefit claimant numbers. By December 2011, almost one-in-four households who rented their accommodation and were in employment claimed Housing Benefit to help cover their housing costs.

In 2010 and 2011 sizeable numbers of in-work households started claiming Housing Benefit and this implies that there has been a considerable change in the financial situation of these households. A brief review of evidence highlights several possible factors behind this trend. These factors include wage freezes or reductions and increasing numbers of ‘involuntary part-time workers’ who are seeking, but unable to find, full-time employment.

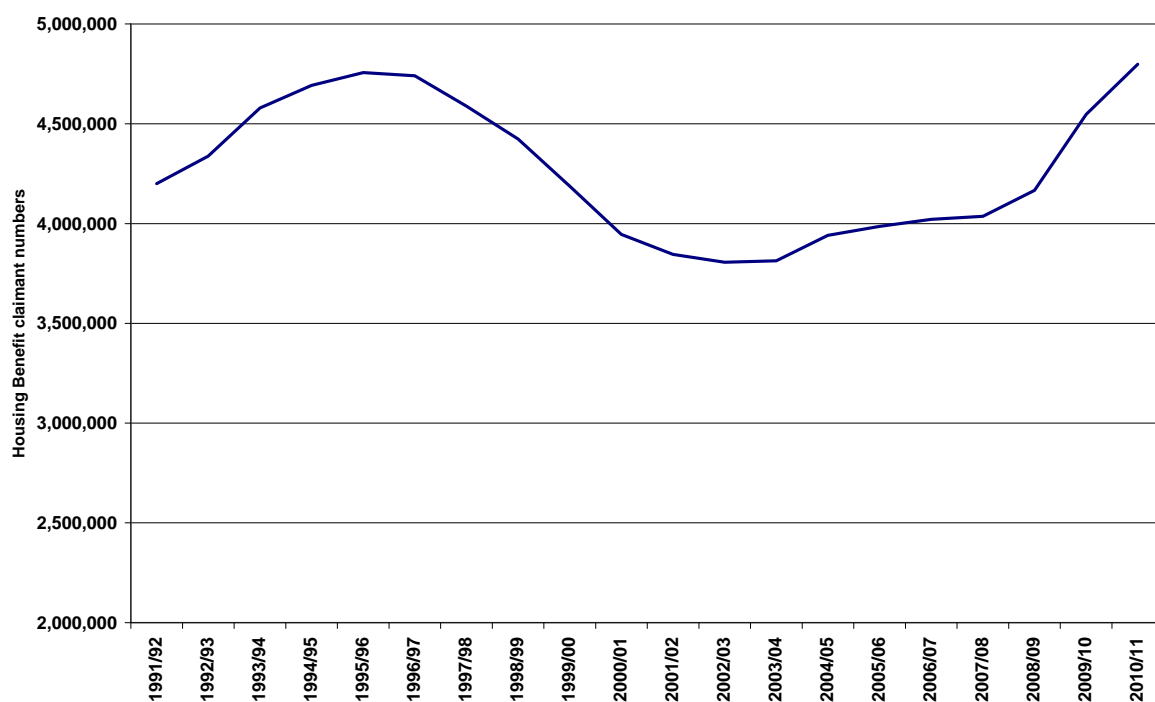
The growth of in-work Housing Benefit claimants has a number of implications for policy makers. In the year to December 2011, the number of additional in-work claimants is likely to have increased overall Housing Benefit expenditure by £490 million per annum. DWP will not achieve its intended savings on Housing Benefit expenditure whilst the number of in-work claimants continues to increase.

DWP should urgently conduct or commission detailed analysis of this trend to understand it more fully. Why has this trend emerged and what can be done to better support in-work Housing Benefit claimants? In the light of this kind of evidence DWP will need to reassess its forecasts for Housing Benefit claimant numbers to ensure that they provide a realistic assessment of likely need and enable the Government to accurately estimate budgets. It is also vital that DWP ensures that the new Universal Credit provides effective support for working households who cannot afford their housing costs otherwise it will fail to achieve its objective to “make work pay”.

Part 1: Historic changes in Housing Benefit claimant numbers

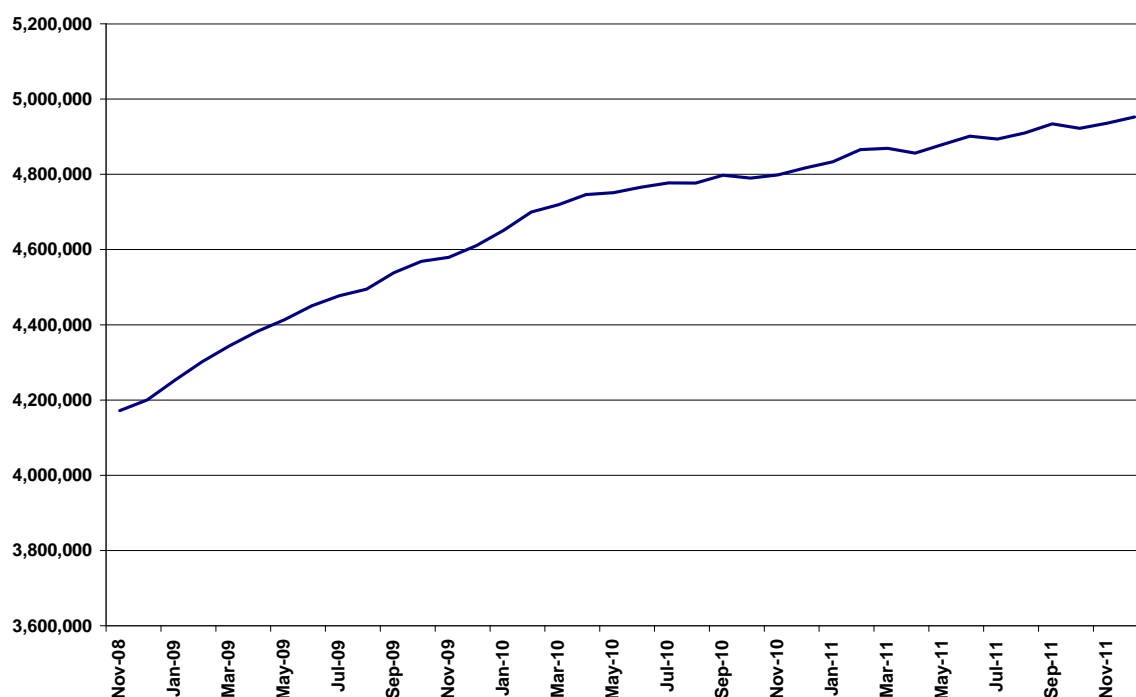
Housing Benefit was introduced in 1982 as part of a shift from capital subsidies, which support the building of new houses, to revenue subsidies, which support the payment of housing costs.¹ Figure 1 outlines the number of Housing Benefit claimants since 1991 and indicates that a peak of 4.74 million occurred in 1996/97. The number of claimants then decreased for six consecutive years to 3.81 million in 2002/03. From that point the number of claimants increased every year to a new high of 4.80 million in 2010/11.

Figure 1: Housing Benefit claimant numbers, Great Britain, 1991/92 to 2010/11²



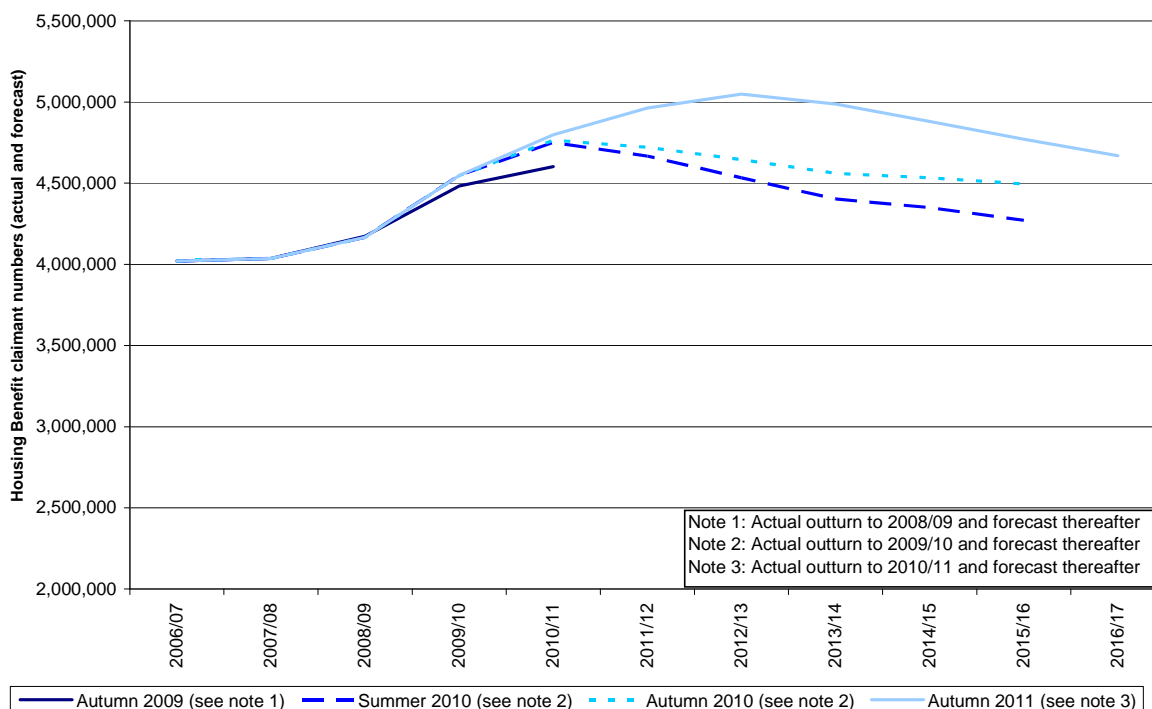
More detailed data on Housing Benefit claimants are available from November 2008. Figure 2 below indicates how claimant numbers changed from that point to December 2011. During this period the number of claimants increased by 780,000 to 4.95 million. This represented a 19 per cent increase in claimant numbers in just over three years.

Figure 2: Housing Benefit claimant numbers, Great Britain, November 2008 to December 2011³



Since Autumn 2009 DWP has published forecasts for the number of Housing Benefit claimants expected in the medium term. These forecasts are generally updated after each Budget or Pre-Budget Report⁴ because they are based on assumptions about the wider macroeconomic context, in particular the labour market. Figure 3 shows the forecasts for claimant numbers made by DWP since Autumn 2009.

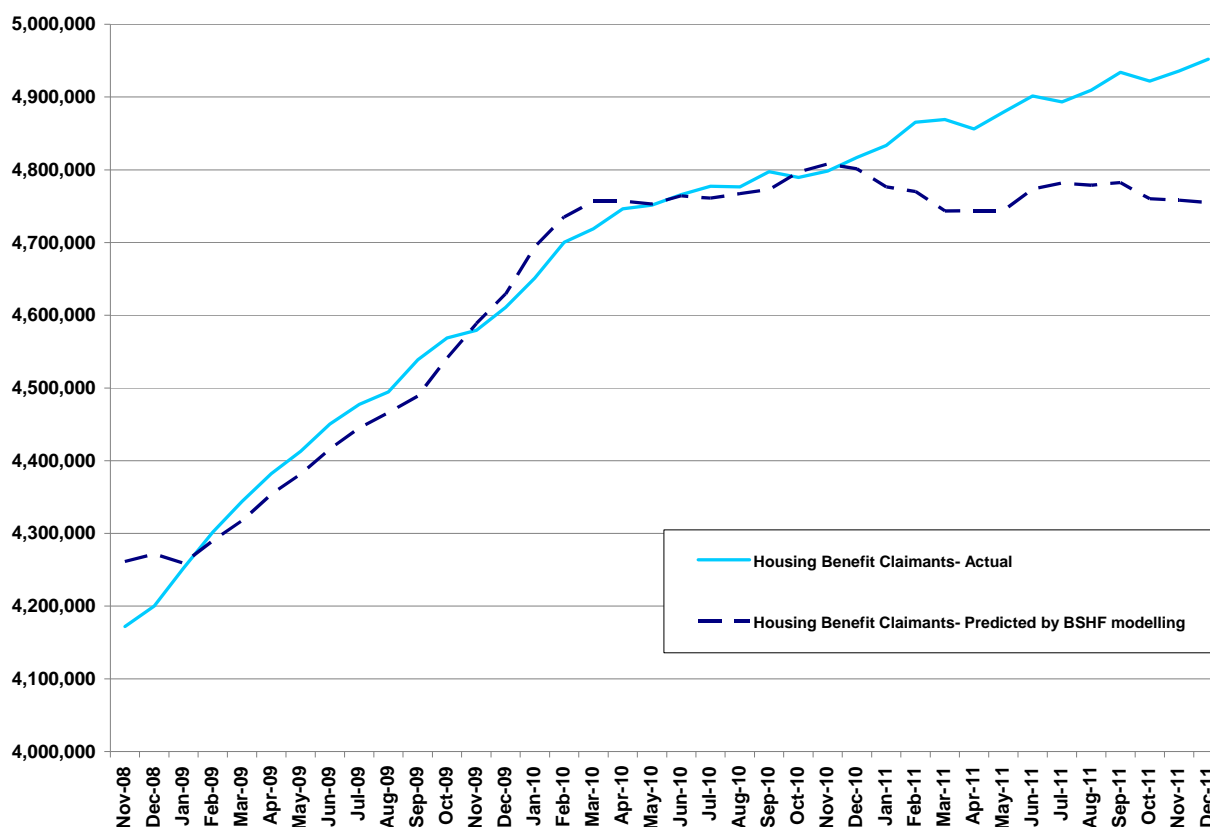
Figure 3: DWP forecasts for Housing Benefit claimant numbers⁵



Housing Benefit claimant numbers increased faster than predicted by the DWP forecasts during 2010 and the first half of 2011. DWP forecasts in Summer 2010, Autumn 2010 and Autumn 2011 all revised upwards the expected number of Housing Benefit claimants. These revisions have been large and have occurred relatively quickly. Between Summer 2010 to Autumn 2011 DWP revised up estimates of claimant numbers by 296,000 claimants for 2011/12, 516,000 for 2012/13 and 585,000 for 2013/14.

BSHF has previously undertaken research into increases in claimant numbers. A model of projected claimant numbers was constructed based on the historic relationship between them and labour market indicators. This research found a strong association between the number of Housing Benefit claimants and labour market indicators such as the number of people who are unemployed.⁶ This association was found to exist over both the short and long term. The BSHF model, published in April 2011, suggested that claimant numbers would increase more quickly than DWP forecasts suggested at that time. Figure 4 indicates that actual claimant numbers have increased more quickly than the DWP forecasts suggested, and have even outstripped the increases forecast by BSHF's modelling.

Figure 4: Housing Benefit claimant numbers – Actual compared to BSHF modelling⁷



This increase in claimant numbers between December 2010 and December 2011 has been greater than expected by either DWP or BSHF forecasts. For example, the BSHF modelling was 197,000 households lower than the actual figures for December 2011. The DWP forecast from Summer 2010 underestimated the actual figures for 2011/12 by 242,000 claimants.

Previous research by BSHF has highlighted the impact of claimant numbers on Housing Benefit expenditure.⁸ For example, analysis of DWP data suggests that adding 100,000 claimants increases overall Housing Benefit expenditure by £460 million each year at 2011/12 prices.⁹ The DWP expenditure forecasts were revised upwards by a considerable amount between Autumn 2010 and Autumn 2011. The expenditure forecasts were increased by £0.92 billion for 2012/13, by £1.31 billion for 2013/14 and by £1.33 billion for 2014/15. This increase in forecast expenditure appears to be almost entirely due to upward revision of the number of expected claimants (rather than, for example, greater increases in rental costs).

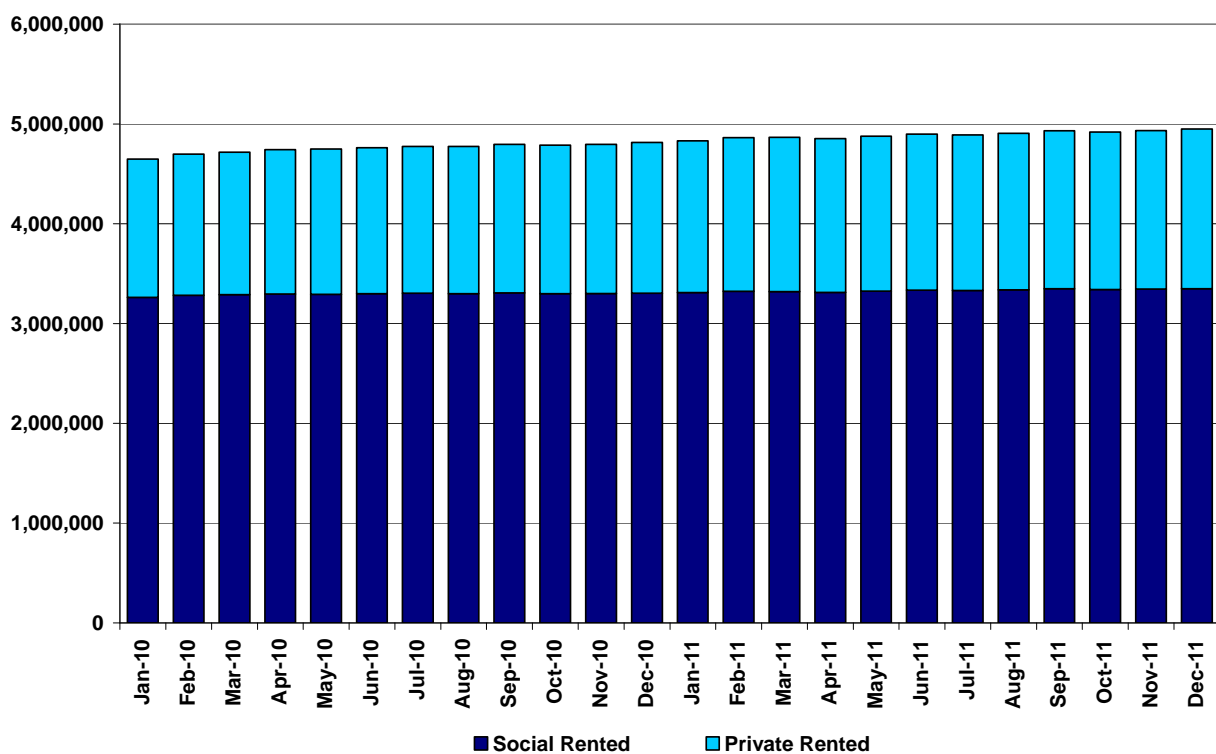
Therefore the continued increase in Housing Benefit claimant numbers is worthy of detailed consideration. The increase will have a significant impact on the Coalition Government’s ability to meet the spending targets set out in the Spending Review of 2010.¹⁰ It is also of great relevance to proposed changes to

incorporate Housing Benefit into a wider Universal Credit. It is vital to understand more about the increase in Housing Benefit claimants in order to respond to the change effectively. The next section undertakes more detailed analysis of these changes.

cut and local variation appears within regions. For example, claimant numbers in Outer London boroughs increased by 9.52 per cent, higher than any region, whilst the increase in Inner London was lower than the national average at 5.80 per cent. Claimant numbers in some individual local authorities increased rapidly. For example, the number of claimants in Watford (north of London in the East region) increased by just less than 20 per cent in 2010 and 2011.

Housing tenure

Figure 6: Housing Benefit claimant numbers by tenure, January 2010 to December 2011



The number of claimants in the private rented sector increased by 213,000 between January 2010 and December 2011 compared to an increase of 87,000 claimants in the social rented sector. This is despite the fact that the private rented sector only accounted for less than one-third of claimants (29.8 per cent) in January 2010. Average claims in the private rented sector were £108.54 per week during December 2011 compared to average claims of £76.51 per week in the social rented sector. Therefore, the increase in claimant numbers in the private rented sector may put upward pressure on Housing Benefit expenditure.

Employment status

Whilst the data from DWP does not directly deal with employment status, some information on this aspect of case mix can be obtained. DWP releases data that divides claimants up into their 'passported status'. If a household applies to receive a passported benefit, such as Income Support or Jobseeker's Allowance, they will also be assessed for a Housing Benefit claim at the same time. This data provides information about the passported claims which are linked to Housing Benefit. In December 2011, around two-thirds (65.5 per cent) of Housing Benefit claimants also received another passported benefit (see Figure 7). The passported status of claimants does not give a definitive description of their employment situation; for example, some households on low incomes can claim Income Support and individuals working less than 16 hours per week can claim Jobseeker's Allowance. However, data is provided which identifies claimants who do not apply for any other benefit and where at least one adult is in employment. These are designated as "non-passported, in employment. This indicates that at least 17 per cent of claimant households in December 2011 had at least one adult who was in employment.

Figure 7: Housing Benefit claimants and passported status, December 2011

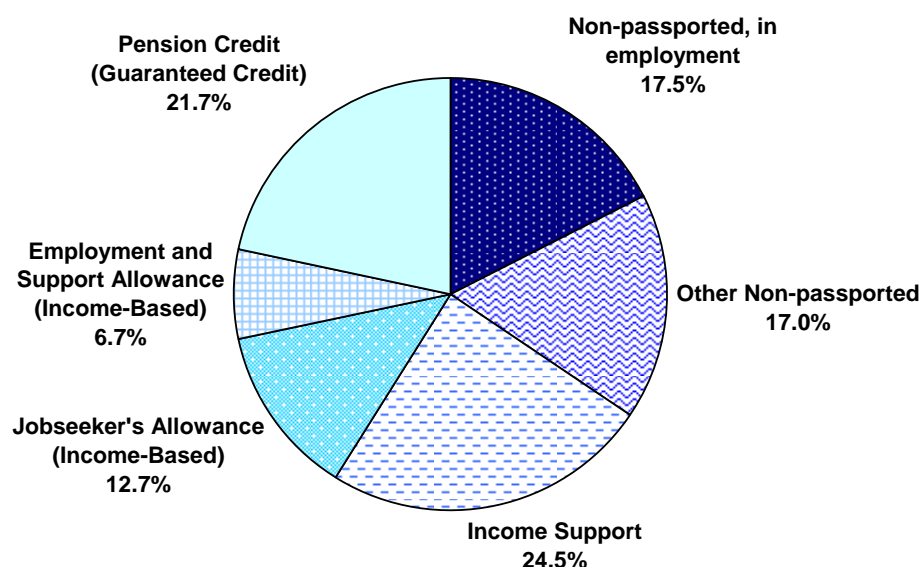


Figure 8: Non-passported claims, in employment, November 2008 to December 2011

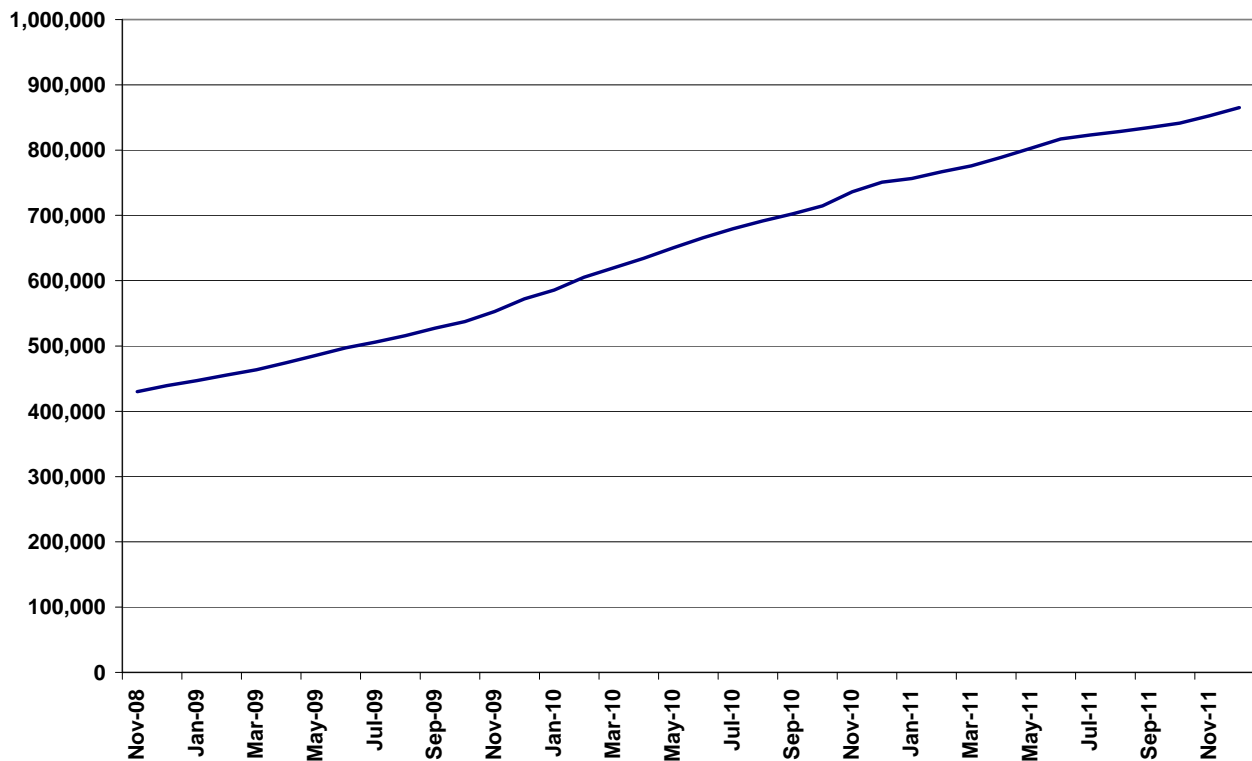


Figure 8 indicates how the number of non-passported claimants, in employment has changed over time. This group of claimants more than doubled in size in just over three years between November 2008 and December 2011. In contrast the number of Housing Benefit claimants also receiving Pension Credit remained stable during this period with an increase of just 2,000 claimants. Assessing the trends in other categories is more difficult as eligibility for these benefits has changed during this period. Since October 2008, claimants of Income Support on grounds of sickness and disability have transferred to Employment and Support Allowance (ESA) or Jobseeker's Allowance. When combined, the total number of claimants for all three benefits (Income Support, ESA and Jobseeker's Allowance) increased by 17.4 per cent between November 2008 and December 2011.

The available evidence suggests that the majority of the increase in Housing Benefit claimants in 2010 and 2011 came from households that were in work. Between January 2010 and December 2011 the total number of Housing Benefit claimants increased by 301,000. During the same period the number of non-passported claims, in employment, increased by 279,000. Therefore households in employment account for 92.8 per cent of the overall increase in Housing Benefit claimant numbers.

Increasing numbers of in-work claimants of Housing Benefit could have affected overall expenditure in different ways. In-work claimants are likely to receive Housing Benefit to cover only part of their rental costs. This could put downward pressure on average Housing Benefit awards even if rental prices or Local Housing Allowance (LHA) rates were increasing. The average LHA Housing Benefit claim in the private rented sector did decrease slightly between January 2010 and December 2011, from £108.92 per week to £108.54 per week; however there is no firm evidence as to the cause of this decrease.

Household type

More detailed information on the type of households claiming Housing Benefit has been published by the DWP on a monthly basis since March 2010. Figure 9 splits claimants into different age groups and household types. The age refers to the oldest person in the household where there is more than one adult present. These data indicate that 13.9 per cent of all Housing Benefit claimants are single females aged 65 years or older. Single females (with or without child dependants) make up 50.9 per cent of Housing Benefit claimants compared to single males who make up 27.9 per cent of claimants and couples who account for 21.0 per cent.

Figure 9: Housing Benefit claimants by age group and household type, December 2011, percentage of total

Age Group	Total	Family Type					
		Single, no child dependant			Single with child dependant(s)	Couple, no child dependant	Couple with child dependant(s)
		Total	Male	Female			
All ages	100.0	55.6	26.6	28.9	23.4	10.0	11.0
Under 25	7.7	3.3	1.8	1.5	3.5	0.3	0.6
25 - 34	17.6	5.4	3.7	1.7	8.4	0.5	3.3
35 - 44	19.2	7.0	4.7	2.3	7.7	0.5	4.0
45 - 49	9.2	5.0	2.8	2.1	2.3	0.5	1.4
50 - 54	7.4	4.9	2.5	2.4	1.0	0.7	0.8
55 - 59	6.1	4.5	2.2	2.3	0.3	0.9	0.4
60 - 64	6.8	5.1	2.4	2.7	0.1	1.4	0.2
65 and over	25.9	20.4	6.5	13.9	0.1	5.3	0.2

Part 3: The growth of in-work Housing Benefit claimants

The most striking trend in the changing Housing Benefit case mix is the growth of in-work claimants, which equated to 92.8 per cent of the overall growth in Housing Benefit claimant numbers in 2010 and 2011. This increase appears to be a departure from historic trends where the number of Housing Benefit claimants was closely associated with levels of employment. Over previous economic cycles the number of Housing Benefit claimants has traditionally increased as unemployment has risen. Then the number of Housing Benefit claimants has fallen as unemployment has decreased. Recent growth of in-work households claiming Housing Benefit appears to be a departure from this historic trend and this section seeks to analyse it further. Other changes in the case mix of Housing Benefit claimants will be analysed in more detail in forthcoming research by BSHF.

Estimating the scale of in-work Housing Benefit claimants

Analysis of official statistics suggests that there are 7.86 million households who rent accommodation in either the private or social rented sectors in Great Britain.¹¹ In December 2011 there were 4.95 million Housing Benefit claimants. This means that almost two-thirds (63.0 per cent) of households in rented accommodation were claiming Housing Benefit.

It is also possible to estimate the number of working households who rented their accommodation. Available data suggest that 3.86 million households were in work and rented their accommodation which is just less than half (49.1 per cent) of all renters. In January 2010 it is estimated that 15.2 per cent of in-work households who rented their accommodation were claiming Housing Benefit. By December 2011 this figure had risen to 22.4 per cent.¹²

This suggests that almost one-in-four households who rent their accommodation and are in-work claim Housing Benefit to help cover their housing costs. In just two years, the number of in-work households claiming Housing Benefit to help cover their housing costs increased by 279,000.

Why are more in-work households claiming Housing Benefit?

It appears that in 2010 and 2011 sizeable numbers of in-work households started claiming Housing Benefit to help cover their housing costs. This suggests that there has been a considerable change in the financial situation of these households. The source of this deterioration in their financial position is likely to

be a combination of changes in their income and expenditure. Detailed analysis of these changes in income and expenditure is beyond the scope of this research. However, a brief evidence review highlights several likely causes of this change in the financial position of in-work households.

A number of changes in 2010 and 2011 could have caused a reduction in the income of in-work households who rented their accommodation. The first is that a large number of workers experienced a freeze or drop in their income during that period. For example, surveys conducted at the end of 2011 by Chartered Institute of Personnel and Development indicate that 43 per cent of employees reported that their organisation had frozen pay.¹³ A second possible factor is an increase in the number of 'involuntary' part-time workers who were seeking full-time employment but were unable to find it. The TUC suggest that the number of 'involuntary' part-time workers increased by 284,000 between October 2009 and October 2011.¹⁴

There are also factors that could have increased the expenditure of in-work households who rented their accommodation during 2010 and 2011. Housing costs are the largest item of expenditure for many households.¹⁵ Available evidence suggests that rental costs did not increase rapidly in most areas of Great Britain. Data from one source suggests that average rental costs for Great Britain (excluding London) increased by around 2.5 per cent per annum during this period. However, the increase in London was greater at around 6 per cent per annum.¹⁶ Another source suggests that rental prices were less than 2 per cent higher in December 2011 than in December 2008.¹⁷ This suggests that higher rental prices are unlikely to have been the cause of a major increase in expenditure for most tenants.

Higher inflation may well have worsened the financial position of households on low incomes. Increased inflation (when not matched by income growth) could lead to a weakening of the financial position of a household which might mean that they began to claim Housing Benefit to help meet their housing costs. Inflation (measured by the Consumer Prices Index) rose from 1.1 per cent in September 2009 to a peak of 5.2 per cent in September 2011.¹⁸ There is some evidence that the impact of inflation has been more severe for people on low incomes. Research for the Resolution Foundation has found that "average households went into the recession around 15% better off than they had been in 2000 while, by stark contrast, lower income households entered the downturn little better off than they had been in 2000".¹⁹ Their estimates suggest that the financial position of low-income households has deteriorated further since the start of the 2009 recession.

A brief review of evidence has clearly highlighted that increasing numbers of in-work households might need to claim Housing Benefit to support their housing costs. Any one of the changes outlined above, such as pay freezes or high inflation, could have led to a considerable deterioration in the financial position of a household and the impact of several factors at the same time would be profound.

Part 4: Policy implications of increasing numbers of in-work Housing Benefit claimants

This analysis has highlighted the growth in Housing Benefit claimant numbers. It is an increase that far exceeds forecasts made by the DWP even one year previously. The most striking trend in the changing case mix for Housing Benefit is the growth of in-work claimants. A brief evidence review has highlighted the financial pressure on low-income working households in 2010 and 2011 due to a combination of factors such as high inflation and wage freezes. The growth of in-work Housing Benefit claimants has a number of implications for policy makers.

DWP forecasts for Housing Benefit expenditure are based on predicted changes in unemployment. This is reasonable given that prior to 2010 changes in Housing Benefit numbers were strongly linked to changes in unemployment. However, it does not appear that the recent increase of in-work claimants has been factored into DWP forecasts. This leaves a significant danger that DWP forecasts underestimate the likely number of Housing Benefit claimants in the medium term. An underestimate of this kind could lead to much higher Housing Benefit expenditure than predicted. Analysis suggests that adding 100,000 claimants increases overall Housing Benefit expenditure by £460 million each year at 2011/12 prices.²⁰ In 2011, the number of in-work claimants grew by 108,000 which would have increased overall Housing Benefit by £490 million per annum.²¹ DWP will not achieve its intended savings on Housing Benefit expenditure whilst in-work claimants remain at this level. If in-work claimants continue to increase at the current rate it would lead to considerable increases in Housing Benefit expenditure and the Coalition Government will not achieve its planned savings in this area.

The impact of this increasing number of in-work claimants means that there is an urgent need for more detailed information on this trend. DWP should urgently conduct or commission detailed analysis of this trend to establish more about why it has emerged and whether it is likely to continue. Particular attention should be paid to the relationship between changes in rental costs and income for working households.

In the light of this kind of evidence DWP will need to reassess its forecasts for Housing Benefit claimant numbers to ensure that they are realistic. Without a realistic assessment of likely need for Housing Benefit in the medium-term, it will not be possible to plan for a sustainable transition to the Universal Credit. The desire to “make work pay”²² is at the heart of government plans for the Universal Credit. This means that it is vital that DWP ensures that Universal Credit provides effective support for working households who cannot afford

their housing costs. BSHF has previously outlined reservations about the treatment of housing costs within the proposed new system and is concerned that if Universal Credit does not deal effectively with housing it will fail to achieve its objectives.²³

Beyond the impact for policy makers it is important to recognise the impact of this change on individual households. The growth of in-work claimants represents households who are in employment but cannot afford to pay their housing costs. The rapid increase in the number of households in this position highlights the vulnerability of their financial situation. If rental accommodation is no longer affordable for many low-income working households it would have serious implications for households, for housing policy and for the wider economy.

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