



Department
for Work &
Pensions

Benefit and Tax Credit expenditure in Great Britain

January 2013

Introduction

This note provides a series of total benefit and tax credit expenditure for Great Britain, combining information from Her Majesty's Revenue and Customs (HMRC) and the Department for Work and Pensions (DWP) and their predecessor departments, to present as consistent a picture of trends in spending as possible. It covers the period 1996/97 to 2010/11, and provides a selection of analyses based on these figures.

For full consistency with the geographical coverage of DWP (and the Department of Social Security (DSS) before it), these figures are for Great Britain only. HMRC expenditure covers the whole of the United Kingdom, and most statistics published by HMRC cover United Kingdom.

Elements of spending made by other Government departments, including those elements that have been transferred away from DWP / DSS, are not included here; Northern Ireland expenditure is also excluded. Additionally, spending on Council Tax Benefit, which will be replaced by local Council Tax support from April 2013, is excluded. However, figures do include benefit and tax credit spending on people resident overseas.

Methodology

Summary

The methodology comprises the following steps:

- Taking published data from DWP and HMRC;
- Converting from United Kingdom to Great Britain where necessary;
- Adjusting to take account of price inflation.

More detail on each of these steps is given below:

Data sources

Department for Work and Pensions and Department of Social Security

An extensive range of information on benefit expenditure in Great Britain¹ is published on DWP's website². In order to provide as consistent series as possible over time, the figures in this analysis exclude certain elements of past spending because of transfers of responsibility between departments or budgets for certain items of support. The items excluded from DWP / DSS benefits spending are:

- War Pensions, which were transferred to the Veteran's Agency (part of the Ministry of Defence) from 2002/03.
- The elements of Income Support in support of those living in Residential Care or Nursing Homes, which were transferred to local authorities from April 2002 to October 2003.
- Council Tax Benefit, which will be localised from April 2013.
- Independent Living Fund, which was transferred into DWP's Departmental Expenditure Limit from 2007/08.

However, there are other areas of support where it has not been possible to identify the amount of spending involved. The largest of these is the Supporting People programme, which transferred a significant element of Housing Benefit to local authority budgets from 2003/04. Other transfers are relatively minor.

DWP benefit spending includes those elements of Housing Benefit funded by other departments and local authorities, as well as those funded by DWP.

Finally, the DWP spending figures exclude those benefits that were transferred to, or replaced by, HM Revenue and Customs provision – as these are included separately. Benefits affected are:

¹ DWP's spending also includes Over 75 TV licences in Northern Ireland, which cost £14 million in 2010/11. This makes little difference to the overall spending and trends covered in this note.

² <http://research.dwp.gov.uk/asd/asd4/index.php?page=expenditure>

- Family Credit and Disability Working Allowance, which were replaced by Working Families Tax Credit and Disabled Person's Tax Credit from October 1999 to March 2000.
- Child Allowances in Income Support and Jobseeker's Allowance, which were replaced by Child Tax Credit in a phased transition beginning in April 2003.
- Child Benefit and Guardian's Allowance, which were transferred from DWP to HM Revenue and Customs from April 2003.

Spending on these items is included in the Child Benefit series, and the "personal tax credit and equivalents" series in the results table.

HM Revenue and Customs

HM Revenue and Customs information sources:

- Tax credits data is taken from the DWP ad hoc publication released in January 2013³, which explains sources, definitions and derivation. This includes equivalent spending in DWP benefits and covers 1999/00 to 2010/11. Figures for equivalent benefits up to 1998/99 come from DWP's expenditure tables⁴.
- Child Benefit data is taken from HMRC's table of receipts⁵, for 2003/04 onwards, with figures taken from DWP's expenditure tables up to 2002/03.
- Child Trust Fund and Health in Pregnancy Grant data comes from HM Treasury's Country and Regional Analyses⁶, except for the 2010/11 which is taken from the HMRC memorandum to accompany the 2011/12 Main Supply Estimate..

All figures for HMRC payments are converted from a United Kingdom to Great Britain basis using HM Treasury's Country and Regional Analyses. In common with DWP's responsibility for benefit payments overseas, HMRC payments to people resident outside the UK have been included under "Great Britain".

Taking account of price inflation

Over a long time period comparisons of nominal expenditure (how much money is actually paid out in a year) can be misleading, since general inflation over time means that the purchasing power of a given amount of money diminishes. Therefore an established statistical approach is to convert expenditure into "real terms" – the prices of a given year. Since prices generally increase over time, making adjustments to convert spending to 2012/13 prices increases spending in past years (relative to their nominal values), but in turn means that the growth rates observed in the past are lower.

Standard practice for deflating Government expenditure by prices is to use the "GDP deflator"⁷, which is a wider measure of inflation than the Consumer Prices Index

³ http://statistics.dwp.gov.uk/asd/asd1/adhoc_analysis/2013/gb_tax_credit_estimates.pdf

⁴ <http://research.dwp.gov.uk/asd/asd4/index.php?page=expenditure>

⁵ <http://www.hmrc.gov.uk/statistics/receipts/receipts-stats.xls>

⁶ http://www.hm-treasury.gov.uk/d/pesa_2011_database_tables_chapter9.xlsx

⁷ http://www.hm-treasury.gov.uk/d/gdp_deflators.xls, based on ONS figures.

(CPI), and this approach is used in this note. However, the GDP deflator is subject to periodic revision, meaning that the current year values of past nominal spending can change. Figures will also change whenever the current year moves on.

Analyses

The analyses include real changes in spending since 1997/98, both as a percentage and expressed in 2012/13 prices, and year-on-year growth rates.

Also, spending is converted into a “cost per household” figure, with household estimates for Great Britain taken from figures published by the Department for Communities and Local Government⁸. This includes projections from 2009 onwards. Note that these figures refer to all households, and therefore do not reflect the average amounts paid to households receiving benefits or tax credits, which will be higher.

Spending is also shown as a share of Total Managed Expenditure⁹ (essentially total Government spending), and Gross Domestic Product.

Caveats

The main caveat with this analysis is the exclusion of the Children’s Tax Credit, a tax allowance that was incorporated into Child Tax Credit as the Family Element. Definitive costs of this tax credit are difficult to obtain, but the 2001 Budget documents suggest it cost around £2.23 billion in 2002/03, equivalent to around £2.85 billion in 2012/13 prices. Spending in 2001/02 was lower than this as the allowance was less generous.

If account was taken of this then real spending growth between 2002/03 and 2003/04, would have been lower than that shown in the results table. However, growth in spending in the previous two years would have been correspondingly higher, and since there was no Children’s Tax Credit or equivalent in 2000/01, total growth in spending between 2000/01 and 2003/04 would be exactly the same.

⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/10624/table401.xls

⁹ http://www.hm-treasury.gov.uk/d/public_finances_databank.xls

Results

Full results are in the associated Excel table.

Key results are:

- Between 1997/98 and 2010/11 benefit and tax credit spending in Great Britain increased from £122 billion to £197 billion, in 2012/13 prices.
- This represents a real increase of £75 billion, or 62 per cent over the whole period.
- Within this, the increase in spending for working age people and children was 60 per cent, and for pensioners it was 63 per cent.
- Expenditure on tax credits and their equivalent benefits increased by 343 per cent in real terms over the period.
- Cost per household in Great Britain rose from under £5,300 in 1997/98 to over £7,600 in 2010/11.
- The real increase of £75 billion between 1997/98 and 2010/11 is equivalent to an extra £2,900 cost per household in Great Britain. Without this spending increase, the cost per household would have fallen to £4,700 due to an increase in the number of households.
- Benefits and tax credits have accounted for around 26 per cent to 28 per cent of Government spending across the whole period, except in 2000/01 when Government spending was distorted by a one-off impact on net investment.
- Within this, in most years spending on working age people and children accounted for between 12 per cent and 13 per cent of Government spending (around £1 in every £8 of public expenditure), and spending on pensioners between 14 per cent and 15 per cent of Government spending.
- Benefits and tax credits accounted for around 10 per cent to 11 per cent of GDP up until 2007/08, then rose rapidly to almost 13 per cent by 2009/10. This change in the latter two years was due both to an increase in spending, and a decline in GDP.

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