

BRIEFING:

The poverty impact of the government energy price guarantee, and announced tax cuts

23 SEPTEMBER 2022

SUMMARY

This September 2022 briefing presents original analysis from the Legatum Institute using the Social Metrics Commission's approach to poverty measurement. This briefing considers the poverty impact of:

- The Government's energy price guarantee, initially announced on the 8th of September 2022.
- Changes to tax levels announced in the Government's mini-Budget on the 23rd September.

This briefing finds that:

1. The policies announced by the Government to-date will shield over a million people from poverty. This is almost entirely due to the introduction of the Energy Price Guarantee, which will protect over a million people from falling into poverty over the course of 2022/23.
2. However, poverty rates remain historically high, with 15.5 million people in the UK living in poverty. This would represent over a million and a half more in poverty than in the pre-pandemic baseline.
3. The measures announced on the 23rd of September are likely to have a modest immediate impact on poverty upon their introduction in April 2023, reducing the number in poverty by 180,000. Longer-term growth effects of these policies could have impacts on poverty further down the line.

APPROACH

This briefing considers two potential scenarios for poverty over the 2022/23 financial year:

- A. Energy costs are fixed at £2,500 a year for the average household for the duration of the 2022/23 financial year. This corresponds to the Energy Price Guarantee, announced on the 8th of September 2022.ⁱ
- B. Energy costs rise to an average of £3,549 a year in October 2022ⁱⁱ and then to above £5,300 in January 2023, in line with the projected path of the energy price cap.ⁱⁱⁱ

By comparing these two scenarios, we can assess the likely poverty impact of the Government's decision to freeze energy prices at an average of £2,500 per annum, relative to a scenario in which prices followed their projected upward path.

Additionally, this briefing considers the poverty impact, over the course of the 2023/24 financial year, of the following tax cuts announced at the mini-Budget on the 23rd of September:^{iv}

- Removal of the Health and Social Care Levy, which was scheduled to be introduced at the start of the 2023/24 financial year.
- Reduction of the Basic Rate of Income Tax to 19%, from 20%.
- Removal of the Additional Rate of Income Tax, applied to personal incomes over £150,000.

In the analysis that follows, estimates of poverty are based on a version of the Social Metrics Commission's measure of poverty, amended to include energy costs directly.^v

IMPACT OF ENERGY PRICE GUARANTEE

The announced Energy Price Guarantee will protect over a million people from falling into poverty.

There will be 1,150,000 fewer people in poverty over the course of 2022/23 under the announced plan to freeze prices at £2,500 per annum for the average household, relative to a scenario in which energy prices rise as previously forecast.

Compared to the situation without the Energy Price Guarantee, the announced price freeze will lead to:

- **600,000 fewer working-age adults in poverty.**
- **350,000 fewer children in poverty.**
This largely reflects a fall in poverty in working-age families.
- **850,000 fewer people in working families living in poverty.**
Only 150,000 of those shielded from poverty are in working-age workless families.
- **550,000 fewer people in families that include a disabled person living in poverty.**
This represents nearly half the total number of people shielded from poverty.
- **600,000 fewer people in deep poverty.**
A family is said to be in deep poverty if they are more than 50% below the poverty line.

However, there will still be a million and a half more in poverty than before the pandemic.

The Social Metrics Commission has found that the poverty rate in the UK has been relatively stable since the year 2000/01 until the coronavirus pandemic. The total number of people in poverty in 2019/20 was 13.9 million. The total number of people in poverty in the UK has not exceeded 14.5 million since measurement began in 2000/01.^{vi}

Largely as a result of external factors impacting on the cost of living, this briefing finds that even after the announced Energy Price Guarantee, there will be 15.5 million in poverty over the course of 2022/23. This would represent the greatest number of people living in poverty this century, and would also be 1,600,000 greater than the number of people living in poverty in 2019/20.

Figure 1: Poverty (number of people) for 2022/23, with and without the Government Energy Price Guarantee. Comparison to 2019/20.

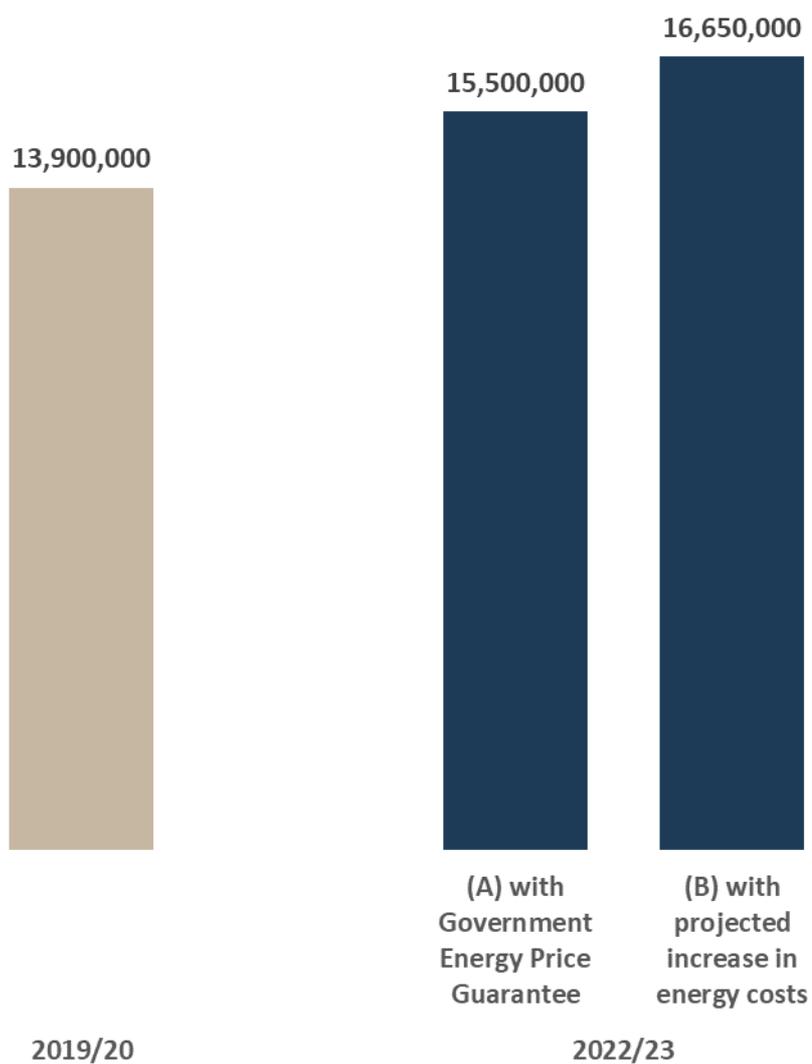


Table 1: Change in poverty due to announced Government Energy Price Guarantee, 2022/23

	Change in Poverty
Overall	-1,150,000
Working-age adults	-600,000
Children	-350,000
Pensioners	-150,000
People in working families	-850,000
People in (working age) non-working families	-150,000
People in retired families	-150,000
People in families that include a disabled person	-550,000
People in families that do not include a disabled person	-600,000

Source: Legatum Institute, Family Resources Survey and HBAI dataset (1998/99 – 2019/20), Living Costs and Food Survey (2019/20), IPPR tax and benefit model.

Table 2: Change in poverty depth due to announced Government Energy Price Guarantee, 2022/23

Distance below poverty line	Change in number of people
Over 50% below the poverty line	-600,000
25.1% to 50% below the poverty line	-100,000
0.1% to 25% below the poverty line	-450,000
0 to 10% above the poverty line	+200,000
10.1 to 25% above the poverty line	+50,000
25% above the poverty line	+900,000

Source: Legatum Institute, Family Resources Survey and HBAI dataset (1998/99 – 2019/20), Living Costs and Food Survey (2019/20), IPPR tax and benefit model.

IMPACT OF TAX CUTS

The announced tax cuts will have a modest impact on poverty upon their introduction in April 2023.

There will be 180,000 fewer people in poverty in 2023/24 than under a scenario in which the announced tax cuts do not take place.

The announcement will lead to:

- **200,000 fewer people in working families in poverty.**
As support is provided through tax cuts, only those who work will see any benefit.
- **130,000 fewer working-age adults in poverty.**
- **60,000 fewer children in poverty.**
- **No decrease in the number of pensioners who are in poverty.**
- **60,000 fewer people in families with a disabled person in poverty.**
However, the reform will disproportionately^{vii} help those in families that do not include a disabled person, with 120,000 such people protected from falling into poverty.
- **No decrease in deep poverty.**
The number of people in deep poverty (more than 50% below the poverty line) does not change. Almost the entire poverty alleviation impact is felt in the shallowest group – those who are up to 25% below the poverty line.

Reforms might be expected to alleviate poverty in the long term if they promote growth that benefits those on the lowest incomes.

The extent to which tax cuts alleviate poverty in the long term will depend on whether or not they promote increased economic growth and the extent to which this growth is felt by those in poverty.

For example, growth that promotes greater employment and that increases productivity and wages at the bottom of the income distribution would be expected to reduce the incidence of poverty.

Table 1: Change in poverty due to announced tax cuts, 2023/34

	Change in Poverty
Overall	-180,000
Working-age adults	-130,000
Children	-60,000
Pensioners	+10,000
People in working families	-200,000
People in (working age) non-working families	-
People in retired families	+10,000
People in families that include a disabled person	-60,000
People in families that do not include a disabled person	-120,000

Source: Legatum Institute, Family Resources Survey and HBAI dataset (1998/99 – 2019/20), Living Costs and Food Survey (2019/20), IPPR tax and benefit model.

Table 2: Change in poverty depth due to announced tax cuts, 2023/24

Distance below poverty line	Change in number of people
Over 50% below the poverty line	-
25.1% to 50% below the poverty line	-10,000
0.1% to 25% below the poverty line	-170,000
0 to 10% above the poverty line	+20,000
10.1 to 25% above the poverty line	+40,000
25% above the poverty line	+120,000

Source: Legatum Institute, Family Resources Survey and HBAI dataset (1998/99 – 2019/20), Living Costs and Food Survey (2019/20), IPPR tax and benefit model.

ANNEX 1: THE SOCIAL METRICS COMMISSION'S MEASURE OF POVERTY

This briefing uses the Social Metrics Commission's measure of poverty as the basis of its analysis. The SMC was established in 2016, as a response to the fact that the UK no-longer has official poverty measures agreed and used by Government. It is hosted by the Legatum Institute and is dedicated to helping policymakers understand and take action to tackle poverty and build prosperity. Its membership includes people from across the political spectrum as well as poverty and measurement experts. The Commission's primary goals have been to develop new poverty metrics for the UK which both:

- Have long-term political support; and
- Effectively identify both those who are in poverty and their experiences of poverty.

The SMC's landmark report in 2018 outlined a new approach to measuring poverty. As well as looking at incomes, this approach allows us to account for a range of inescapable costs that reduce people's spending power, and the positive impact of people's liquid assets on alleviating immediate poverty. These inescapable costs include rent or mortgage payments, childcare and the extra costs of disability. Liquid assets include savings, stocks and shares. The measure also takes account of overcrowding in accommodation. As well as a more accurate reflection of a family's ability to make ends meet, the SMC's poverty measure tracks:

- The degree to which a family is below the poverty line
- The length of time that a family is below the poverty line
- The experience of living in poverty.

Following the 2018 report, and an update in 2019, the Commission's approach received support from across the political spectrum and from a wide range of experts and people involved in taking action to tackle poverty.

In the summer of 2019, the Government committed to establishing Experimental Statistics for poverty based on the SMC's approach; this is the first step to developing new national statistics on poverty.

SMC methodology

More details of the SMC's approach to poverty measurement can be found here:

<http://socialmetricscommission.org.uk>

Data used in this briefing:

Family Resources Survey: Department for Work and Pensions, Office for National Statistics, NatCen Social Research. (2021). *Family Resources Survey, 2019-2020*. [data collection]. UK Data Service. SN: 8802, DOI: [10.5255/UKDA-SN-8802-1](https://doi.org/10.5255/UKDA-SN-8802-1)

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Living Costs and Food Survey: Office for National Statistics, Department for Environment, Food and Rural Affairs. (2022). *Living Costs and Food Survey, 2019-2020*. [data collection]. 2nd Edition. UK Data Service. SN: 8803, DOI: [10.5255/UKDA-SN-8803-2](https://doi.org/10.5255/UKDA-SN-8803-2)

ⁱ HM Government (2022). Government announces Energy Price Guarantee. See: <https://www.gov.uk/government/news/government-announces-energy-price-guarantee-for-families-and-businesses-while-urgently-taking-action-to-reform-broken-energy-market>. Accessed 08/09/2022

ⁱⁱ Ofgem (2022). Ofgem updated price cap level and tightens up rules on suppliers. See: <https://www.ofgem.gov.uk/publications/ofgem-updates-price-cap-level-and-tightens-rules-suppliers>. Accessed 31/08/2022

ⁱⁱⁱ Cornwall Insight (2022). Cornwall Insight comments on the announcement of the October price cap. See: <https://www.cornwall-insight.com/cornwall-insight-comments-on-the-announcement-of-the-october-price-cap/>. Accessed 04/09/2022

^{iv} HM Treasury (2022). Chancellor announces new Growth Plan with biggest package of tax cuts in generations. See: <https://www.gov.uk/government/news/chancellor-announces-new-growth-plan-with-biggest-package-of-tax-cuts-in-generations>. Accessed 23/09/2022

^v Legatum Institute (2022). Rising costs projected to push 2.75 million into poverty. See: <https://li.com/reports/energy-costs-to-push-1-45million-into-poverty/>. Accessed 22/09/2022

^{vi} Social Metrics Commission (2020). Measuring Poverty 2020. See: <https://socialmetricscommission.org.uk/wp-content/uploads/2020/06/Measuring-Poverty-2020-Web.pdf>. Accessed 23/09/2022.

^{vii} Approximately half of those in poverty are in families that include a disabled person. Social Metrics Commission (2020). Measuring Poverty 2020. See: <https://socialmetricscommission.org.uk/wp-content/uploads/2020/06/Measuring-Poverty-2020-Web.pdf>. Accessed 23/09/2022.