# BRIEFING:

# The poverty impact of different options for the uprating of benefits in April 2023.

9 OCTOBER 2022

## SUMMARY

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

Our previous briefings have shown that the current way in which benefits are uprated can lead to significant impacts on poverty. This is because benefits are typically uprated in April each year, based on the previous year's September CPI inflation rate. In April 2022, this means that benefits were uprated by 3.1% (the previous September's rate of CPI inflation). This had the impact of increasing poverty, as inflation rates in April 2022 had increased significantly (to 9.0%) since the previous September. Some of the impact of this was offset by one-off cost-of-living payments provided to claimants of means-tested benefits, disability benefits, and to recipients of Winter Fuel Payment.[i]

At the time, HM Treasury also committed to uprating benefits in April 2023 by the rate of inflation in September 2022. This would have ensured that benefits caught up with the value that they previously held before inflation began to rise rapidly.

Since then, the Government has suggested that they may not uprate benefits in line with inflation.[ii]

This briefing considers the poverty impact of selected options for the uprating of benefits in April 2023, for the 2023-24 financial year.

A. Uprate benefits by the rate of inflation in September 2022. It is assumed that this is equal to the rate of inflation in August 2022, at 9.9%.[iii]

B. Uprate benefits by the rate of annual earnings growth in July 2022. This would require a 5.7% uprating.[iv]

C. Freeze benefits at their 2022-23 levels.

The poverty implication of options B and C are estimated relative to scenario A, in which benefits are uprated in line with inflation.

This briefing finds that:
1. Uprating benefits by earnings (5.7%) instead of inflation (9.9%) will result in an additional 450,000 people in poverty in 2023-24.
2. Freezing benefits would result in 1,000,000 people more in poverty in 2023-24.

## DETAILED FINDINGS

**Uprating in line with earnings**

Uprating benefits in line with earnings – a real-terms cut in the value of benefits – would result in 450,000 more people in poverty in 2023-24, relative to a scenario in which benefits are uprated in line with September's assumed rate of inflation.

The majority (350,000) of the increase in poverty is seen amongst those households in which someone works.

Nearly half (200,000) of the increase in poverty is a result of more children being in poverty. A similar number are working-age adults. There is no net effect on pensioner poverty.

The majority (250,000) of the increase in poverty is seen amongst families that include a disabled person. Approximately half of those in poverty are in families that include a disabled person.[v] As such, this would disproportionately affect those with disabilities.

A quarter of a million more people would be in deep poverty. Deep poverty is defined as being more than 50% below the poverty line.

**Freezing benefits**

Freezing benefits at their 2022-23 levels will result in an additional one million people in poverty in 2023-24.

The majority (700,000) of the increase would be amongst families in which someone works. 200,000 are in working-age workless families, and 50,000 are in families that are pension-aged.

Nearly half a million (450,000) more children would be in poverty. Half a million more working-age adults and 100,000 more pensioners would be in poverty.

Over half a million (550,000) more people in families that include a disabled person would be in poverty. This represents over half of the overall increase in poverty. 450,000 more people in families that do not include a disabled person would be in poverty.

700,000 more people would be in deep poverty. There would be 200,000 more people between 25.1% and 50% of the poverty line. 600,000 fewer people would be comfortably clear of the poverty line (25% or more above the poverty line).

*Table 1: Change in poverty (positive numbers represent increases in poverty), relative to a scenario where benefits are uprated in line with inflation (9.9%), FY 2023-24.*

| | B. Uprating by earnings (5.7%) | C. Nominal freeze (0.0%) |
|---|---|---|
| Overall | +450,000 | +1,000,000 |
| | | |
| Working-age adults | +200,000 | +500,000 |
| Children | +200,000 | +450,000 |
| Pensioners | - | +100,000 |
| | | |
| People in working families | +350,000 | +700,000 |
| People in (working age) non-working families | +50,000 | +200,000 |
| People in retired families | - | +50,000 |
| | | |
| People in families that include a disabled person | +250,000 | +550,000 |
| People in families that do not include a disabled person | +150,000 | +450,000 |

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 (number of people), relative to a scenario where benefits are uprated in line with inflation (9.9%), FY 2023-24.*

| Distance below poverty line | B. Uprating by earnings (5.7%) | C. Nominal freeze (0.0%) |
|---|---|---|
| Over 50% below the poverty line | +250,000 | +700,000 |
| 25.1% to 50% below the poverty line | +150,000 | +200,000 |
| 0.1% to 25% below the poverty line | +50,000 | +100,000 |
| 0 to 10% above the poverty line | -100,000 | -200,000 |
| 10.1 to 25% above the poverty line | -100,000 | -150,000 |
| 25% above the poverty line | -250,000 | -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.

## 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

*Households Below Average Income:* Department for Work and Pensions. (2021). *Households Below Average Income, 1994/95-2019/20*. [data collection]. *15th Edition.* UK Data Service. SN: 5828, DOI: 10.5255/UKDA-SN-5828-13

*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

[i] HM Treasury (2022). Cost of living support factsheet: 26 May 2022. See: https://www.gov.uk/government/publications/cost-of-living-support/cost-of-living-support-factsheet-26-may-2022. Accessed 03/10/2022.

[ii] The Independent (2022). Minister suggests benefits may not be uprated in line with inflation. See: https://www.independent.co.uk/news/uk/home-news/chris-philp-inflation-benefit-tax-b2177695.html Accessed 30/09/2022

[iii] ONS (2022). Consumer price inflation, UK: August 2022. See: https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/august2022 Accessed 30/09/2022

[iv] ONS (2022). Average weekly earnings. See: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/averageweeklyearningsearn01 Accessed 30/09/2022

[v] Social Metrics Commission (2020). Measuring Poverty 2020. See: https://socialmetricscommission.org.uk/wp-content/uploads/2020/06/Measuring-Poverty-2020-Web.pdf. Accessed 30/09/2022.