LEGATUM INSTITUTE

BRIEFING:

The poverty impact of Autumn Statement 2022

17 NOVEMBER 2022

SUMMARY

This November 2022 briefing considers the poverty impacts of the Autumn Statement 2022, using original analysis from the Legatum Institute based on the Social Metrics Commission's approach to poverty measurement. It provides projections of the likely poverty rate in the 2023-24 financial year, in light of the announced changes to Government policy. This includes consideration of:

- Changes to personal taxes.
- The uprating of working-age benefits, pension credit, and the state pension.
- The package of support for households to meet the cost-of-living crisis and, in particular the rising costs of energy.

Overall, we find that:

- Poverty in 2023/24 is likely to reach 15.6 million.
- However, compared to the case without the energy support package, and if pensions and working-age benefits had instead been uprated by earnings growth:
  - Poverty is 1.4 million lower.
  - One million fewer people will be in deep poverty.

In terms of the individual impacts of specific policies:

- The decision to continue to uprate benefits and pensions by CPI inflation, rather than earnings (as had been proposed by some), means that the number of people in poverty is half a million lower than it would have been. This includes:
  - 350,000 fewer working-age adults and children in poverty; and
  - 100,000 fewer pension-age adults in poverty.
- Overall, changes to personal taxes have a relatively small impact on poverty.
- The continuation of the energy support package means that that the number of people in poverty is 900,000 lower than it would have been. This includes:
  - 700,000 fewer working-age adults and children in poverty; and
  - 200,000 fewer pension-age adults in poverty.

Overall, the Autumn Statement has delivered a significant fiscal tightening, whilst protecting those on the lowest incomes from the worst impacts of this. Given the scale of the fiscal tightening required, this is to be applauded. However, poverty

rates remain higher than at any point so far this century. With headwinds from continuingly weak economic outlook and rising prices, there is a real chance that poverty could continue to rise.

There are also challenges for the future. The Autumn Statement announced significant real-terms cuts in public spending, with no increase in departmental Spending Review settlements to account for rising prices. These cuts will be partially offset by an additional £8 billion in NHS and social care funding, along with an additional £2.3 billion for schools.[i] While provision of public services and other in-kind income is not explicitly considered in the SMC measure, the SMC's Lived Experience Indicators provide a framework for assessing the resilience gap experienced by those in poverty. Using this framework, the Legatum Institute will continue to track the impact of real-terms reductions in spending on those living in poverty.

POVERTY IN 2023-24

Poverty projections for the 2023-24 financial year suggest that 15.6m people across the UK will be in poverty. The number of people in poverty prior to the pandemic stood at 13.9m. The increase is largely due to rising energy costs, and other increases in the cost of living.

Table 1: Poverty projections – number of people in poverty, FY 2023-24.

	Number in poverty
Overall	15,600,000
Working-age adults	8,950,000
Children	5,050,000
Pensioners	1,600,000
People in working families	9,900,000
People in (working age) non-working families	4,100,000
People in retired families	1,300,000
People in families that include a disabled person	7,750,000
People in families that do not include a disabled person	7,850,000

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.

UPRATING OF BENEFITS

Context

The government should be commended for committing to uprate all benefits, including the state pension, by the rate of inflation in September 2022 (10.1%).

The government had previously suggested that they may not uprate benefits in line with inflation.[ii] Instead, it was suggested that benefits be uprated in line with a measure of earnings – which would represent an increase of around 5.5%.

Our previous briefings have shown that decisions on benefit uprating can lead to significant impacts on poverty. In April 2022, 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.

This section considers the poverty impact, over the course of the 2023-24 financial year, of the government's decision to uprate benefits in line with inflation in April 2023, relative to a scenario in which benefits are instead uprated by 5.5% (the cost-saving option).

Results

This briefing finds that:

- Uprating benefits in line with inflation (10.1%) instead of earnings (5.5%) will reduce net poverty by 500,000 in 2023-24.
- The majority (350,000) of the reduction in poverty is seen amongst those households in which someone works.
- Over half (300,000) of the reduction 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.[iii] As such, this would disproportionately benefit those with disabilities.
- 350,000 fewer people will be in deep poverty. Deep poverty is defined as being more than 50% below the poverty line.

Table 2: Change in poverty (negative numbers represent decreases in poverty), relative to a scenario where benefits are uprated in line with earnings (5.5%), FY 2023-24.

	Impact of uprating in line with inflation (10.1%)
Overall	-500,000
Working-age adults	-200,000
Children	-150,000
Pensioners	-100,000
People in working families	-350,000
People in (working age) non-working families	-100,000
People in retired families	-100,000
People in families that include a disabled person	-300,000
People in families that do not include a disabled person	-200,000

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 3: Change in poverty depth (number of people), relative to a scenario where benefits are uprated in line with earnings (5.5%), FY 2023-24.

Distance below poverty line	Impact of uprating in line with inflation (10.1%)
Over 50% below the poverty line	-350,000
25.1% to 50% below the poverty line	-100,000
0.1% to 25% below the poverty line	-
0 to 10% above the poverty line	150,000
10.1 to 25% above the poverty line	100,000
25% above the poverty line	300,000

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.

COST OF LIVING AND ENERGY COST SUPPORT

Context

The government has extended the Energy Price Guarantee, capping energy costs at an average of £3,000 a year for the 2022-23 financial year. While this is higher than the level of the Energy Price Guarantee that is in operation currently, it is significantly lower than likely market prices.

In addition, several direct Cost of Living Payments have been announced:

- £900 Cost of Living Payment for households on means-tested benefits.
- £300 Pensioner Cost of Living Payment.
- £150 Disability Cost of Living Payment.

This section considers the combined poverty impact of this package of energy cost support over the course of 2022-23, relative to a scenario in which energy prices follow market prices[iv] and Cost of Living Payments are not introduced.

Results

Energy cost support significantly alleviates poverty in 2023-24. This briefing finds:

- The combined energy cost support reduces the number of people in poverty by 900,000 in 2023-24.
- The majority (550,000) of the reduction in poverty is seen amongst those households in which someone works.
- A quarter of a million (250,000) fewer children are in poverty, and 200,000 fewer pensioners are in poverty. The remaining poverty impact is among working-age adults, with 450,000 fewer in poverty.
- Half a million (500,000) fewer families that include a disabled person are in poverty.
- Over half a million (650,000) fewer people will be in deep poverty.

Table 4: Change in poverty (negative numbers represent decreases in poverty) due to energy cost support FY 2023-24.

	Impact of energy cost support
Overall	-900,000
Working-age adults	-450,000
Children	-250,000
Pensioners	-200,000
People in working families	-550,000
People in (working age) non-working families	-100,000
People in retired families	-200,000
People in families that include a disabled person	-500,000
People in families that do not include a disabled person	-400,000

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 5: Change in poverty depth (number of people) due to energy cost support, FY 2023-24.

Distance below poverty line	Impact of energy cost support
Over 50% below the poverty line	-650,000
25.1% to 50% below the poverty line	-250,000
0.1% to 25% below the poverty line	-
0 to 10% above the poverty line	100,000
10.1 to 25% above the poverty line	100,000
25% above the poverty line	650,000

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

ANNEX 2: MODELLING OF ENERGY COSTS

The briefing models the likely impact of increases in the energy price cap on poverty in the United Kingdom.

The Social Metrics Commission's (SMC) measure of poverty (detailed in Annex 1) does not include consideration of energy costs. The modelling completed for this briefing has required the definition of an SMC-like measure which considers energy costs as "inescapable, family-specific costs", alongside housing costs, childcare costs and the extra costs of disability. All poverty numbers presented in this briefing are based on this amended measure.

Households Below Average Income (HBAI) – the income survey used for poverty measurement – does not include information on household energy costs. Using the Living Costs and Food Survey (LCF), energy costs are imputed based on the size of a household, and on household income.

Table 1: Additional Energy consumed, relative to the consumption of a single-person household. For example, a four-person household consumes 57% more than a single-person household.

Number of people in household	Additional Energy consumed, relative to a single-person household
1	-
2	36%
3	51%
4	57%
5+	75%

Source: Legatum Institute, Living Costs and Food Survey (2019/20)

Table 2: Additional Energy consumed, relative to the consumption of a household in the bottom income quartile.

Gross income quartile	Additional Energy consumed, relative to a household in the bottom income quartile
1 (bottom)	-
2	15%
3	21%
4 (top)	38%

Source: Legatum Institute, Living Costs and Food Survey (2019/20)

For example, a household of four would be expected to use 57% more energy than a household of one. If this household is in the top income quartile, we would expect them to use 38% more energy than a household in the bottom quartile of the gross income distribution. Combining these two factors, we would expect a household of four in the top gross income quartile to consume 117% more energy than a one-person household in the bottom income quartile.[v]

Energy costs for households in the HBAI dataset are then determined by the following:

1. Ratios between households are determined by the consumption scales inferred from the 2019/20 LCF survey.[vi]
2. Overall levels are determined so that average annual household consumption matches the Ofgem direct-debit[vii] price cap for the period.[viii]

Table 3: Energy price cap for direct debit consumers, presented as average annual energy costs. Energy price caps are averaged across financial years.

Period	Energy Price Cap (£ per annum)
FY 2019/20	1,180
FY 2020/21	1,084
FY 2021/22	1,208
FY 2022/23	3,219

Source: Ofgem[ix] [x] and Cornwall Insight[xi]

Where multiple families live in the same household, energy costs are allocated between families proportionally to their equivalisation factors.

Once energy costs are imputed for families, energy costs are deducted the from SMC's measure of disposable income – total resources available (TRA).[xii] Poverty levels, rates and numbers are then calculated according to this adjusted definition of TRA.

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). Chancellor delivers plan for stability, growth and public service. See: https://www.gov.uk/government/news/chancellor-delivers-plan-for-stability-growth-and-public-services. Accessed 17/11/2022.
[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] 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.
[iv] Cornwall Insight (2022). Predicted fall in the April 2023 Price Cap but prices remain significantly above the EPG. See: https://www.cornwall-insight.com/predicted-fall-in-the-april-2023-price-cap-but-prices-remain-significantly-above-the-epg/. Accessed 17/11/2022.
[v] It is assumed that the income gradient in energy consumption applied equally across different household sizes.
[vi] Note that this assumes that consumption differentials between households in 2019/20 are applied to future years. This could be incorrect in either direction: low income households may reduce their consumption by more than high income households when subject to higher prices; alternatively, high income households may have a greater latitude to reduce their energy consumption than low-income households that have already economised on their energy consumption.
[vii] The analysis presented assumes all households are direct-debit consumers, with costs smoothed over the full financial year.
[viii] The Ofgem price cap is presented as the annual costs for the average household, so some households will pay more than the cap amount presented.
[ix] Ofgem (2022). Default Tariff Cap. See: https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/default-tariff-cap. Accessed 31/08/2022
[x] 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
[xi] 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

[xii] Social Metrics Commission (2019). Measuring Poverty 2019 (pg. 15). See: https://socialmetricscommission.org.uk/wp-content/uploads/2019/07/SMC_measuring-poverty-201908_full-report.pdf. Accessed 31/08/2022