



**BRIEFING:**

# The poverty impact of Budget 2023

15 MARCH 2023

## SUMMARY

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This March 2023 briefing considers the poverty impacts of the 2023 Budget, 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. This briefing also provides indicative estimates of the potential long-term poverty impact of reforms intended to increase labour force participation.

In the next financial year, we find that:

- There are projected to be **15.15 million** people in poverty in 2023-24. This is 450,000 people lower than we projected at the time of the Autumn Statement 2022.
- The extension of the Energy Price Guarantee from April 2023 will result in:
  - **90,000** fewer people living in poverty;
  - **40,000** fewer people living in deep poverty.
- The remaining fall in our projection comes from a range of macroeconomic effects, including the softening of prices in the energy market.

Consistent features in tackling poverty in the UK have been the challenge of supporting more disabled people who want a job to get into one, and helping parents to meet the childcare costs which would allow them to work. More recently, output in the economy has been constrained by increased labour market inactivity following the pandemic. The Budget contains a number of policies intended to address these challenges by removing obstacles to employment for those who would like to enter employment or work longer hours.

Over time, reforms to Universal Credit childcare payments, removal of the Work Capability Assessment (WCA) in Universal Credit and tightening of Universal Credit conditionality rules are all likely to have an impact on labour supply. These dynamic effects are hard to estimate with certainty, however, we might reasonably expect that:

- A 5% increase in the flow of people in early stages of a disability benefit claim back into work, might reduce poverty amongst families that include a disabled people by 110,000.
- 100,000 inactive adults (in couple families with working partners and children) entering employment as second earners might reduce poverty amongst working families by 70,000.

## POVERTY IN 2023-24

Poverty projections for the 2023-24 financial year suggest that 15.15 million people will be living in poverty. This is fewer people than previously projected: in response to Autumn Statement 2022, the Legatum Institute estimated that 15.6 million people would be living in poverty in the 2023-24 financial year.<sup>i</sup>

The difference is largely driven by lower-than-expected consumer energy prices: wholesale energy prices having fallen markedly,<sup>ii</sup> and accordingly forecasts for the Ofgem price cap have been revised downwards. Additionally, the extension of the Energy Price Guarantee at the level of £2,500 a year for the average household (see the next section) will further reduce financial pressure on low-income families, bearing down on the number in poverty.

**Table 1: Poverty projections (including extension of Energy Price Guarantee) – number of people in poverty, FY 2023-24.**

	Number in poverty
Overall	15,150,000
Working-age adults	8,800,000
Children	5,000,000
Pensioners	1,350,000
People in working families	9,850,000
People in (working age) non-working families	3,950,000
People in retired families	1,100,000
People in families that include a disabled person	7,350,000
People in families that do not include a disabled person	7,750,000

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.

## EXTENDING THE ENERGY PRICE GUARANTEE

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### Context

Before the announcement in Budget 2023, the government Energy Price Guarantee was scheduled to be increased from the previous level – equivalent to £2,500 per annum for the average household – to the equivalent of £3,000 per annum for the average household in April 2023. Households were therefore facing a 20% increase in their bills at the beginning of the 2023-24 financial year.

From Q3 2023, the Ofgem tariff cap is projected to fall below the level of the Energy Price Guarantee, even at the lower level of £2,500 per annum.<sup>iii</sup> Accordingly, the government’s policy will only affect household finances in the first quarter of the 2023-24 financial year, preventing a sharp but temporary increase in household bills.

### Results

Table 2 shows the poverty impact of extending the Energy Price Guarantee at the lower average level of £2,500 per annum for Q2 2023.<sup>iv</sup>

We find that as a result of this policy:

- There are **90,000** fewer people living in poverty in 2023-24.
- There are **30,000** fewer children living in poverty, and **10,000** fewer pensioners.
- A majority (**70,000**) of those affected are in families where someone works.
- Nearly half (**40,000**) of those affected are in families with a disabled person.

The policy is also anticipated to reduce the number of people living in deep poverty by **40,000**, and increase the number more than 25% clear of the poverty line by **120,000**.

**Table 2: Change in poverty in 2023-34 (negative numbers represent decreases in poverty), relative to a scenario where the Energy Price Guarantee is increased to £3,000 in April 2023.**

	Impact of extending Energy Price Guarantee at £2,500 per annum.
Overall	-90,000
Working-age adults	-50,000
Children	-30,000
Pensioners	-10,000
People in working families	-70,000
People in (working age) non-working families	-10,000
People in retired families	-10,000
People in families that include a disabled person	-40,000
People in families that do not include a disabled person	-50,000

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 in 2023-24 (number of people), relative to a scenario where the Energy Price Guarantee is increased to £3,000 in April 2023.**

Distance below poverty line	Impact extending Energy Price Guarantee at £2,500 per annum.
Over 50% below the poverty line	-40,000
25.1% to 50% below the poverty line	-40,000
0.1% to 25% below the poverty line	-10,000
0 to 10% above the poverty line	-50,000
10.1 to 25% above the poverty line	30,000
25% above the poverty line	110,000

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.

## ECONOMIC INACTIVITY

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### Context

The UK has a long-term, structural disability employment gap, with disability employment rates 30 percentage points below the employment rate for non-disabled people. The UK's female activity rate is lower than in the best-performing countries in the OECD, with many women highlighting the lack of adequate affordable childcare as limiting their ability to balance work and family life in a way that suits their family.<sup>v</sup>

Economic inactivity also increased materially during and after the COVID-19 pandemic, with the rate of inactivity having risen by around 1 percentage point since 2019 Q4, despite many of these people still wanting to work.<sup>vi</sup> This has presented a significant, and UK-specific, drag on the economy during the recovery from the pandemic.<sup>vii</sup>

Measures announced in the 2023 Budget attempt to reverse trends in labour market participation by increasing incentives to work and removing barriers to employment faced by households. This briefing focuses on measures that are likely to have a material poverty impact: specifically, those that target disadvantaged groups. Reforms to the tax treatment of pensions are not considered because they will only affect the very highest earners, for example.

### Disabled people

Additional support has been announced to close the disability employment gap. The Universal Support programme is intended to match sick and disabled people who want to work with existing vacancies and to support them into work. In Universal Credit, Work Coach support will be voluntarily extended to those with limited capacity for work and work-related activity who do not currently see Work Coaches. Announced measures to improve occupational health are intended to allow people to remain in employment.

A wide range of evidence has demonstrated that the Work Capability Assessment (WCA) disincentivises disabled people who want to work, to actively seek to do so. Plans to remove the Work Capability Assessment (WCA), set out in the Health and Disability White Paper, are intended to tackle this issue.

Because of the uncertainty in the behavioural response, it is impossible to estimate the precise impact of these policies on the disability employment gap. The Office for Budget Responsibility (OBR) estimates that these policies could

increase employment by 20,000 by 2027-28, however notes the uncertainty around these projections.<sup>viii</sup>

For simplicity, and to demonstrate a feasible impact of the policy, we assume that the proposed reforms could prevent 5% of the annual flow from employment onto long-term disability benefit claims. This would mean that, over the course of ten years, 90,000 more disabled people would be in employment. By considering the heightened poverty risk faced by those in receipt of income-replacement disability benefits, relative to those in work, we find that the reform would reduce the number in poverty by 110,000 ten years after implementation.

**Table 4: Change in poverty due to increased labour force participation among disabled people – 10 years after implementation.**

	Impact of Increased Participation
Cumulative increase in employment for disabled people	90,000
Number in affected families	210,000
Change in number in poverty	-110,000
Change in number in deep poverty	-50,000

Source: Legatum Institute, Family Resources Survey and HBAI dataset (1998/99 – 2019/20), IPPR tax and benefit model, DWP Stat-Explore, Sissons, P., & Barnes, H.<sup>ix</sup> Labour Force Survey.

### Families with children

Childcare costs are a significant barrier to employment for many parents, with net costs representing nearly 30% of the average wage for a couple with two children.<sup>x</sup> Announced measures include 30 hours a week of free childcare for working parents of nine-month to two-year olds, subject to eligibility criteria.

Significant reforms announced to Universal Credit childcare payments, including payment in advance and increases in maximum payments to £951 a month for one child (up from £646) and to £1,630 for two children (up from £1,108), will support more people with children to enter work by making childcare support within UC more accessible and comprehensive. Additionally, changes to conditionality rules will require more people with working partners to engage with work coaches.

The OBR estimates an increase in employment of 75,000 due to these measures, while again noting the uncertainty around these projections. For transparency, and in order to estimate the poverty impact of any potential changes in

employment, we make the assumption that, over 10 years, these reforms result in 100,000 second-earners in couple households with children entering the workforce. By considering the difference in poverty risk between single-earner households (on means-tested benefits, with no childcare costs) and their two-earner counterparts, it is estimated that 70,000 fewer people would be in poverty 10 years after implementation.

**Table 5: Change in poverty due to increased labour force participation amongst families with children – 10 years after implementation.**

	Impact of Increased Participation
Cumulative increase in employment for second-earners in couple families with children	100,000
Number in affected families	410,000
Change in number in poverty	-70,000
Change in number in deep poverty	-40,000

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

### Summary

This analysis, while necessarily speculative due to the uncertain impact of the announced reforms on employment, serves to show that long-run increases in employment across these two key groups could have a significant poverty impact.



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

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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

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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.<sup>xi</sup>

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.<sup>xii</sup>
2. Overall levels are determined so that average annual household consumption matches the Ofgem direct-debit<sup>xiii</sup> price cap for the period.<sup>xiv</sup>

**Table 3: Energy price cap for direct debit consumers, presented as average annual energy costs, before application of government Energy Price Guarantees. 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<sup>xv</sup> <sup>xvi</sup> and Cornwall Insight<sup>xvii</sup>

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

Once energy costs are imputed for families, energy costs are deducted the from SMC's measure of disposable income – total resources available (TRA).<sup>xviii</sup> 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](https://doi.org/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](https://doi.org/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](https://doi.org/10.5255/UKDA-SN-8803-2)

**Labour Force Survey:** Office for National Statistics. (2022). *Quarterly Labour Force Survey, July - September, 2022*. [data collection]. 2nd Edition. UK Data Service. SN: 9027, [DOI: 10.5255/UKDA-SN-9027-2](https://doi.org/10.5255/UKDA-SN-9027-2)

**Labour Force Survey:** Office for National Statistics. (2022). *Quarterly Labour Force Survey, April - June, 2022*. [data collection]. UK Data Service. SN: 8999, [DOI: 10.5255/UKDA-SN-8999-1](https://doi.org/10.5255/UKDA-SN-8999-1)

**Labour Force Survey:** Office for National Statistics. (2022). *Quarterly Labour Force Survey, January - March, 2022*. [data collection]. 3rd Edition. UK Data Service. SN: 8957, [DOI: 10.5255/UKDA-SN-8957-3](https://doi.org/10.5255/UKDA-SN-8957-3)

**Labour Force Survey:** Office for National Statistics. (2022). *Quarterly Labour Force Survey, October - December, 2021*. [data collection]. 2nd Edition. UK Data Service. SN: 8915, [DOI: 10.5255/UKDA-SN-8915-2](https://doi.org/10.5255/UKDA-SN-8915-2)

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<sup>i</sup> Legatum Institute (2022). Autumn Statement will shield over a million from poverty. See: <https://li.com/reports/autumn-statement-will-shield-over-a-million-from-poverty/>. Accessed 14/03/2023.

<sup>ii</sup> Resolution Foundation (2023). New Budget, same problems. See: <https://www.resolutionfoundation.org/publications/new-budget-same-problems/>. Accessed 14/03/2023.

<sup>iii</sup> Cornwall Insight (2023). Our final forecast for the April price cap. See: <https://www.cornwall-insight.com/our-final-forecast-for-the-april-price-cap/#:~:text=Our%20forecasts%20show%20that%20raising,would%20be%20C2%A329.4bn>. Accessed 14/03/2023.

<sup>iv</sup> Energy prices are assumed to follow projected Ofgem tariff caps from Q3 2023 onwards, and are annualised for the purpose of poverty measurement.

<sup>v</sup> HM Treasury (2023). Spring Budget 2023. See: <https://www.gov.uk/government/publications/spring-budget-2023>. Accessed 15/03/2023

<sup>vi</sup> Bank of England (2023). Monetary Policy Report – February 2023. See: <https://www.bankofengland.co.uk/monetary-policy-report/2023/february-2023>. Accessed 14/03/2023

<sup>vii</sup> Institute for Fiscal Studies (2022). Is worsening health leading to more older workers quitting work, driving up rates of economic inactivity? See:

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<https://ifs.org.uk/articles/worsening-health-leading-more-older-workers-quitting-work-driving-rates-economic>. Accessed 14/03/2023

<sup>viii</sup> Office for Budget Responsibility (2023). Economic and fiscal outlook – March 2023. See: [https://obr.uk/docs/dlm\\_uploads/OBR-EFO-March-2023\\_Web\\_Accessible.pdf](https://obr.uk/docs/dlm_uploads/OBR-EFO-March-2023_Web_Accessible.pdf). Accessed 15/03/2023

<sup>ix</sup> Sissons, P., & Barnes, H., (2013), 'Getting back to work? Claim trajectories and destinations of Employment and Support Allowance claimants', *Journal of Poverty and Social Justice*, vol. 21 (3) (2013): 233-246. Cited in Holmes, E., Pickles, C., & Titley, H., (2015), *Employment and Support Allowance: the case for change*. Reform, London

<sup>x</sup> HM Treasury (2023). Spring Budget 2023. See: <https://www.gov.uk/government/publications/spring-budget-2023>. Accessed 15/03/2023

<sup>xi</sup> It is assumed that the income gradient in energy consumption applied equally across different household sizes.

<sup>xii</sup> 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.

<sup>xiii</sup> The analysis presented assumes all households are direct-debit consumers, with costs smoothed over the full financial year.

<sup>xiv</sup> 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.

<sup>xv</sup> 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

<sup>xvi</sup> 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

<sup>xvii</sup> 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

<sup>xviii</sup> 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](https://socialmetricscommission.org.uk/wp-content/uploads/2019/07/SMC_measuring-poverty-201908_full-report.pdf). Accessed 31/08/2022