CENTRE FOR SOCIAL POLICY STUDIES REPORT

The Poverty Impact of the 2023 Autumn Statement

3rd January 2024

Summary

Context

This new briefing considers the poverty impacts of the Autumn Statement 2023, using original analysis based on the Social Metrics Commission's poverty measurement framework. This briefing first considers the specific poverty impact of changes to National Insurance Contributions – the first of which, a cut in the main employee rate, will take effect on the 6th of January. The briefing then considers the overall impact of the larger package unveiled by the Chancellor at the Autumn Statement.

On the 22nd of November, the Chancellor announced the details of the 2023 Autumn Statement. The Autumn Statement contained several policies that will affect families who are in poverty, or who are at risk of falling into poverty.

The Chancellor announced significant changes to National Insurance Contributions (NICs):

- The main rate of Class 1 Employee NICs will be cut from 12% to 10% on the 6th of January 2024.
- The main rate of Class 4 self-employed NICs will be cut from 9% to 8% from the 6th of April 2024.
- Class 2 self-employed NICs will be abolished.

The Autumn Statement also featured confirmation that, from the 1st of April 2024, the National Living Wage (NLW) will increase by 9.8% to £11.44 an hour for all eligible workers aged 21 or older.

The Chancellor also announced significant changes to the UK's system of benefits. Of most significance in the short term, Local Housing Allowance (LHA) rates, which act as a cap on housing payments within Universal Credit, will be reset to the 30th percentile of local rents in April 2024. Changes to back-to-work support within Universal Credit were also announced, with expansions to Additional Jobcentre Support building on reforms announced at the Spring Budget 2023, which increased work coach support for claimants. Reforms are accompanied by a strengthening of the existing system of conditionality and sanctions.

The Autumn Statement also contained confirmation of the regular uprating of working-age benefits, in line with the September 2023 CPI figure of 6.7%, and of the regular uprating of the state pension by average earnings growth, of 8.5%, in line with the triple-lock.

Results

We find that changes to National Insurance Contributions are projected to reduce the number of people in poverty by **175,000**, with the number of children in poverty reduced by **80,000**.

The full package of the Autumn Statement is projected to reduce the number of people in poverty by **430,000**. This is most felt by those in working families, with the number of people in poverty in working families falling by **390,000**. As a result of this package, there will be **185,000** fewer children living in poverty.

The Poverty Impact of Cuts to National Insurance Contributions

Cuts to National Insurance Contributions are projected to reduce the number of people in poverty by **175,000**.

We find that, under this policy:

- **The number of children in poverty falls by 80,000.** There are 110,000 fewer working-age adults in poverty, but the number of pensioners in poverty increases by 10,000.
- **There are 165,000 fewer people in working families in poverty.** This change overwhelmingly affects people who work.
- **There are 60,000 fewer people in a family that includes a disabled person in poverty.** The number of people in a family that does *not* include a disabled person in poverty falls by 120,000.

Table 1 – Change in the number of people in poverty (negative numbers mean a reduction in poverty) due to announced changes to National Insurance Contributions, in FYE 2025.

	Change in the number in poverty
Overall	-175,000
Working-age adults	-110,000
Children	-80,000
Pensioners	+10,000
People in working families	-165,000
People in (working age) non-working families	-25,000
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: WPI Economics, Family Resources Survey (2021/22), Households Below Average Income (2021/22), IPPR tax and benefit model.

The Overall Poverty Impact of the Autumn Statement

The overall package of reforms announced in the Autumn Statement, including the reduction in NICs modelled above, reduces the number of people in poverty by **430,000**.

We find that, under this overall package:

- **The number of children in poverty falls by 185,000**. The number of working-age adults in poverty falls by a quarter of a million (250,000), while the number of pensioners in poverty increases by 10,000.
- **There are 390,000 fewer people in working families in poverty.** The number of people in poverty in workless families of working-age is reduced by 50,000, while the number of people in poverty in retired families increases by 15,000.
- **There are 155,000 fewer people in a family that includes a disabled person in poverty.** The number of people in a family that does *not* include a disabled person in poverty falls by 265,000.

Table 2 – Change in the number of people in poverty (negative numbers mean a reduction in poverty) due to all announced changes at the 2023 Autumn Statement (including changes to NICs), in FYE 2025.

	Change in the number in poverty
Overall	-430,000
Working-age adults	-250,000
Children	-185,000
Pensioners	+10,000
People in working families	-390,000
People in (working age) non-working families	-50,000
People in retired families	+15,000
People in families that include a disabled person	-155,000
People in families that do not include a disabled person	-265,000

Source: WPI Economics, Family Resources Survey (2021/22), Households Below Average Income (2021/22), IPPR tax and benefit model.

Methodology

The poverty impact estimates above are based on modelling using the Social Metrics Commission approach to poverty measurement. For more details on this measure, and on the Social Metrics Commission, please see Annex 1.

This modelling considers a subset of the Autumn Statement, outlined in table 3. Note that the confirmation of the regular uprating for both working-age and pensionable-age benefits, is significant in protecting the living standards of the poorest in society. However, we include this in our baseline modelling, rather than as an impact of the Autumn Statement as the announcement only reconfirms the expected and legislated expectation of CPI uprating.

The impact of policies was modelled using a microsimulation framework. This is based on use of the 2021-22 Family Resource Survey, uprated to the financial year 2024-25 using the IPPR tax and benefit model.

Table 3 – summary of policies from Autumn Statement 2023 that were modelled as a part of this analysis.

Policy	Description	Scenario
Reduction in employee (Class 1) NICs	The main rate of employee (Class 1) NICs reduced from 12% to 10% on the 6th of January 2024.	NICs & Autumn-Statement
Changes to self-employed NICs	The main rate of Class 4 self-employed NICs reduced from 9% to 8% on the 6th of April 2024; Class 2 self-employe NICs abolished altogether on the 6th of April 2024.	NICs & Autumn-Statement
Raising Local Housing Allowance (LHA) Rates	LHA rates to be restored to the 30th percentile of local rents for FYE 2025.	Autumn Statement only
Back to Work Plan	New investment in a process to support and incentivize UC claimants to find work.	Autumn Statement only
Increase in the National Living Wage (NLW)	The NLW to increase to £11.44 for FYE 2025, age threshold lowered to 21.	Autumn Statement only

Source: HM Treasury.

Modelling of Cuts to National Insurance Contributions

We model both the static impact of cuts to NICs, and the longer-term employment impacts. Static effects are modelled using the IPPR tax and benefit model and consist entirely of greater take-home pay for the employed and self-employed.

The employment impacts of reforms to NICs, estimated by the Office for Budget Responsibility, are outlined in table 4. To model these impacts, we:

1. Move 28,000 people (assumed to be UC claimants and ILO-unemployed) into employment, working 35 hours at the National Living Wage rate.
2. Increase the hours of 462,000 people by five hours a week, at their current wage rate.

Table 4 – employment impact of changes to National Insurance Contributions, by FTE 2029.

Policy	Increase in Employment	Increase in Hours Worked (Full-Time Equivalent; FTE)
Reforms to National Insurance Contributions	28,000	94,000

Source: Office for Budget Responsibility.[i]

Modelling the Increase in Local Housing Allowance Rates

Increasing Local Housing Allowance is projected to cost £1,285 million in FYE 2025.[ii] As we do not know the outcome of the eventual recalculation of LHA rates, a simplifying assumption is made to allocate this spend between UC claimants who are in the private rented sector, proportional to their current rental payment.

Modelling the Back to Work Plan

Modelling of the Back to Work Plan is based on estimates of its employment impact, produced by the Office for Budget Responsibility. These are below, in table 5.

It is projected that an additional 50,000 will move into work, with an increase in hours worked of 28,000 FTE. This suggests that those moving into work are, on average, working part-time. To model the impact of this, we:

1. Move 50,000 people (assumed to be UC claimants and ILO-unemployed) into employment, working 19.6 hours a week at the National Living Wage.

Table 5 – employment impact of the Back to Work Plan, by FTE 2029.

Policy	Increase in Employment	Increase in Hours Worked (Full-Time Equivalent; FTE)
Reforms to National Insurance Contributions	50,000	28,000

Source: Office for Budget Responsibility.[iii]

Modelling the increase in the National Living Wage

The static impact of increasing the National Living Wage is considered: that is, the immediate-term increase in people's earnings, with no changes to levels of employment or to people's behaviour. The impact of the 9.8% increase in the National Living Wage is modelled relative to an uprating in line with projected 2024 Q2 CPI (3.7%).[iv]

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. The Commission 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, 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 March 2023, the Department for Work and Pensions announced plans to resume work on new measures of poverty using the Social Metrics Commission's framework for poverty measurement.[v] The first publication of these official statistics in development is due in the coming months.[vi]

More details of the SMC approach to poverty measurement can be found here: https://socialmetricscommission.org.uk/

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[i] Office for Budget Responsibility (2023). Economics and Fiscal Outlook – November 2023. See: https://obr.uk/efo/economic-and-fiscal-outlook-november-2023/. Accessed 18/12/2023.
[ii] HM Treasury (2023). Autumn Statement 2023. See: https://www.gov.uk/government/publications/autumn-statement-2023. Accessed 18/12/2023.
[iii] Office for Budget Responsibility (2023). Economics and Fiscal Outlook – November 2023. See: https://obr.uk/efo/economic-and-fiscal-outlook-november-2023/. Accessed 18/12/2023.
[iv] Office for Budget Responsibility (2023). Economics and Fiscal Outlook – November 2023. See: https://obr.uk/efo/economic-and-fiscal-outlook-november-2023/. Accessed 18/12/2023.
[v] Department for Work and Pensions (2023). Development of a new measures of poverty: statistical notice. See: https://www.gov.uk/government/statistics/development-of-a-new-measure-of-poverty-statistical-notice/development-of-a-new-measure-of-poverty-statistical-notice#:~:text=DWP%20has%20announced%20plans%20to,our%20plans%20in%20due%20course. Accessed 18/12/2023.
[vi] Department for Work and Pensions (2023). Development of a new additional measure of poverty. See: https://www.gov.uk/government/statistics/announcements/development-of-a-new-additional-measure-of-poverty. Accessed 18/12/2023.