

## **Living Standards**

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Analysis and policy advice

July 2021

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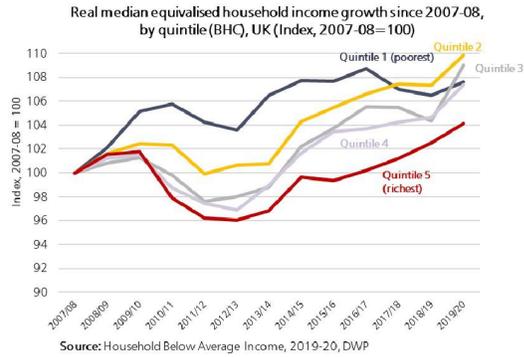
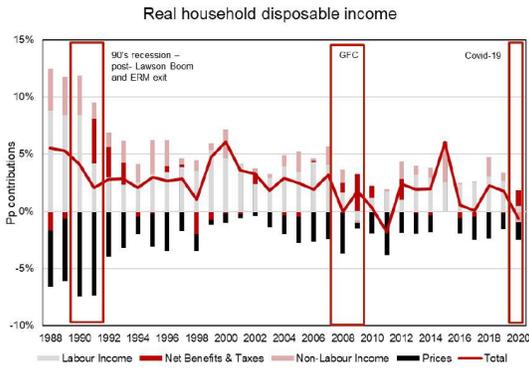
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## Summary of recommendations

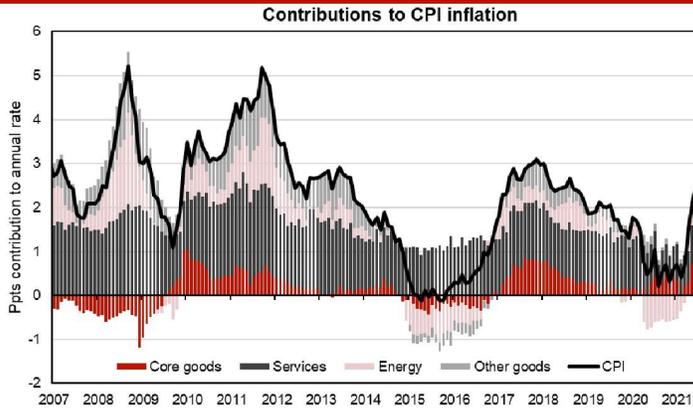
- **Recommendation 1:** that you do not take any high cost fiscal measures to try to offset the effects of higher inflation for households overall. **Do you agree?**
- **Recommendation 2:** that we work with comms and your private office to develop high profile options to demonstrate you are working with Secretaries of State (e.g. BEIS, DIT, DfT) and business on global and domestic supply chain issues. **Do you agree?**
- **Recommendation 3:** that you provide a steer on whether you would like us to conduct further sectoral analysis on shortages and if there is merit to press HO on updating the shortage occupation list or consider other options to bring in workers in sectors/occupations with high vacancy rates. **Do you agree?** *[also recommendation 4 in labour market strategy advice]*
- **Recommendation 4:** that we engage BEIS on options for further action on prompt payment. **Do you agree?**
- **Recommendation 5:** that we work with OGDs to develop announcements on the Competition and Consumer Reforms consultation, and smart data (B(i) and B(ii) on slide 19) to a Budget/SR timetable and provide further advice. **Do you agree?**
- **Recommendation 6:** that you provide a steer on whether you would like us to consider other options on competition/consumers, e.g. possible steers to the CMA to prioritise work addressing living costs, or take specific market investigations. **Do you agree?**
- **Recommendation 7:** that we work up a package of further support to help the most vulnerable. **Do you agree? Are there any options you would like us to focus on?**
- **Recommendation 8:** that you plan, subject to final SR trade-offs, to make an In-Work Progression offer focused on employees a (small) part of your labour market and cost of living strategy and narrative. **Do you agree?** *[also recommendation 6 in labour market strategy advice]*
- **Recommendation 9:** that we work up longer term measures on options to reduce cost of living, e.g. around obesity/food taxes and net zero pressures. **Do you agree?**
- **Recommendation 10:** that you provide a steer on whether you would like us to work up a women/children/families package. **Do you agree?**

## Growth in living standards – as measured by real household disposable income – was weak in the decade after 2010, particularly among low income households

- Real household disposable income growth (RHDl) was exceptionally weak in the decade after 2010, driven by weak wage growth that reflected subdued productivity, and several external shocks that pushed up inflation.
- Lower income households (bottom quintile) saw almost no income growth between 2013-14 and 2019-20, as higher employment amongst was largely offset due to reductions in working-age benefits.
- Material deprivation (a measure of a household’s ability to afford basic goods or services) amongst children has generally followed a steady downward trend following a slight increase in 2011. Similarly, for pensioners it has broadly decreased since 2009 [see annex for detail]. Evidence from the IFS indicates that various measures of deprivation have not drastically changed relative to pre-pandemic, but certain groups have been hit hard according to these measures (e.g. those who were in poverty pre-pandemic and ethnic minorities)



## Rapidly rising inflation will increase the focus on living standards again and squeeze real incomes for some



Components of CPI	1997-2007	2008-2019	June 2021
Headline rate (YoY)	1.6%	2.3%	2.5%
<b>Ppts contributions from:</b>			
Core goods	-0.6ppts	0.1ppts	0.9ppts
Services	1.6ppts	1.4ppts	0.9ppts
Energy	0.3ppts	0.3ppts	0.6ppts
Other goods	0.3ppts	0.5ppts	0.1ppts

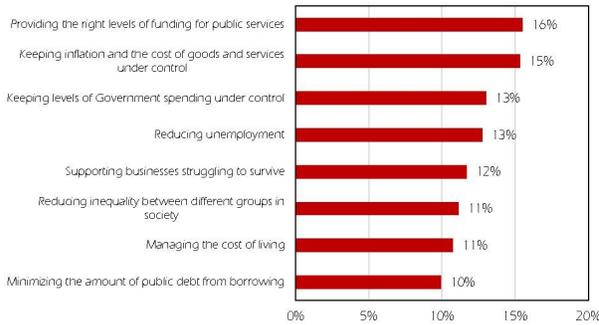
- CPI inflation was 2.5% in June – its highest rate since August 2018 – having risen faster than expected in recent months.
- Inflation has risen sharply due to:
  - **Higher energy prices:** global prices have recovered this year and their contribution to YoY inflation has been amplified by comparing to lows during the pandemic.
  - **Higher global manufactured goods prices:** Strong demand and bottlenecks in supply across the global economy have pushed up manufactured goods prices and which have fed through to consumer goods prices.
  - **Some domestic services prices normalising as the economy reopened:** For example, the contribution of catering services to the headline rate more than doubled between March and June.

## HMG polling highlights inflation is a key concern, particularly among older age groups. Concerns are highest for energy bills, everyday goods and transport.

- The headline figures from the Insight and Evaluation team’s polling show that **inflation was most ranked as the second highest concern for the Government’s top economic priority**. Inflation was the most selected – by 49% - as among respondents’ top three concerns.
- There are notable differences across age groups, with **inflation more of a concern among older age groups (55+)**, while younger people (18-34) rank ‘managing the cost of living’ relatively more highly.
- Among items, respondents were most concerned about **gas and electricity bills, everyday goods and transport costs**

“Which of the following do you think should be the Government’s top economic priority over the next few months?” Percentage of people who ranked as number 1

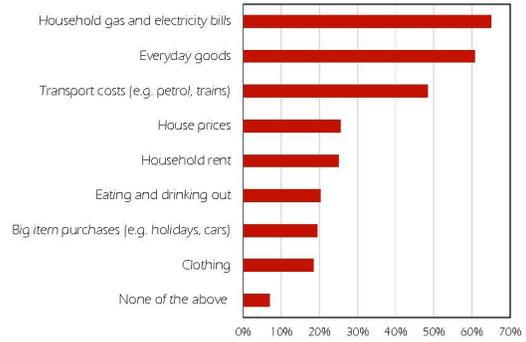
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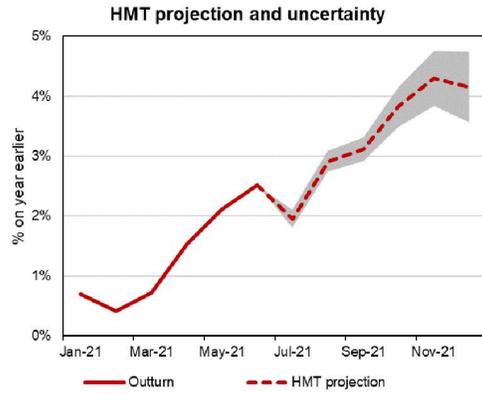
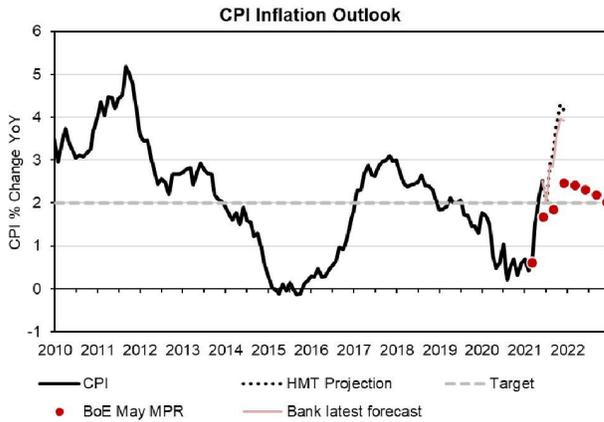
Source: HMT Insights and Evaluation Team. Conducted 16-19 July with a sample of c.1,500

Thinking specifically about inflation, what price rises are you most concerned about? Select all that apply. (n= 737)

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The short-term outlook is for annual CPI inflation to rise sharply again in the coming months, peaking at around 4¼% in November

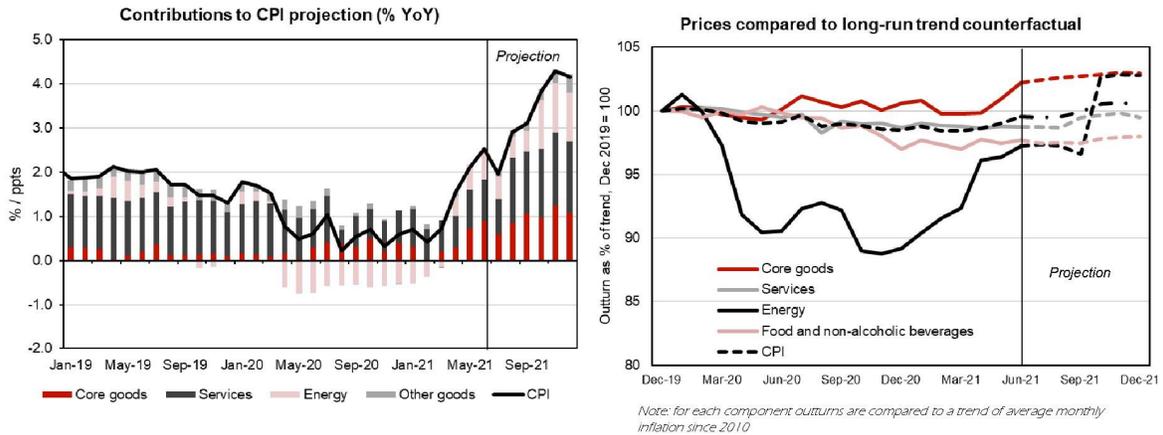


Note: swathe provides a measure of projection uncertainty, based on pre-Covid projection errors. This likely underestimates the levels of uncertainty currently

- We expect inflation to rise to around 4¼ % in November, its highest rate since 2011. Our projection is based on a top-down assessment, and so is more uncertain than usual, and will continue to evolve.
- The Bank's initial (*internal*) forecast following June's data release was marginally lower than our projection, with inflation peaking at 4.1% in November 2021 (the Bank do not yet know the new level of the Ofgem price cap).

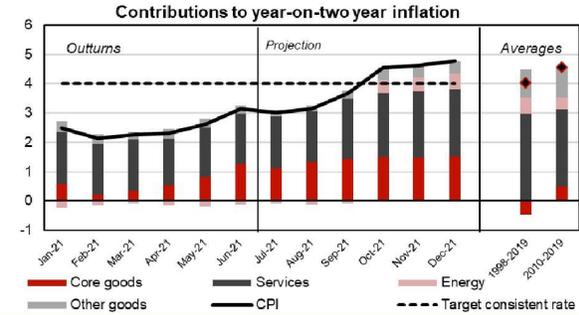
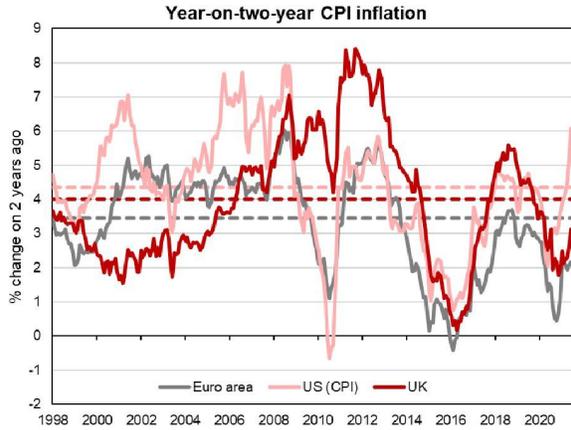
## While inflation has risen across the basket, and particularly due to rising energy costs, price levels remain below long-run trends

- Despite rising annual inflation, aggregate prices are currently below a counterfactual of post-2010 inflation. This is because prices have risen sharply but from low levels during 2020. Core goods the only major category above trend – largely driven by a large rise in global manufactured goods prices, due to strong demand and supply bottlenecks.
- Strength in our projection is broad-based across the basket, but driven in particular by a large rise in energy as the Ofgem price cap increases in October. We also expect further rises in goods prices, due to the pass through from global costs and a continued normalisation of services inflation. Food prices remain below their trend in our projection.



Similarly, year-on-two year inflation – which looks past the low prices last year – is not unduly elevated and may peak below post-2008 highs.

- Yo2Y inflation is below its historic averages and the rate in the US. Our projection implies only a modest overshoot to past averages in autumn; an indicative profile in which monthly inflation normalises to be consistent with 2% YoY implies a further rise, but peaking below rates seen after the financial crisis.



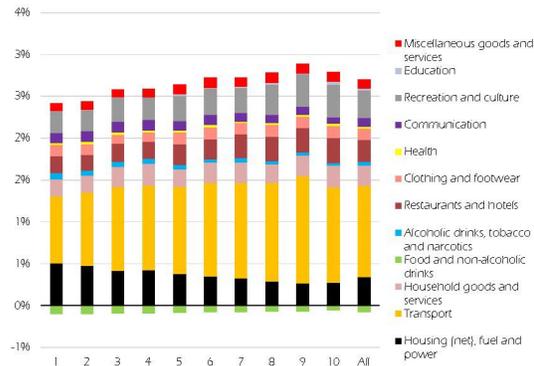
On balance, we continue to judge that higher inflation will be transitory, although there is considerable uncertainty.

Factor	Required for CPI to fall back in 2022	Assessment of risks
<b>Commodity prices</b>	Commodity prices level out	<ul style="list-style-type: none"> <li>Commodity prices have risen sharply, but remain below historic highs. Prices tend to be cyclical, so should slow as the pace of recovery eases.</li> <li>Supply should also adjust to higher prices, and in some cases there is a risk of an overshoot that reduces inflationary pressure.</li> <li>Most recently, oil prices have fallen from their peak, following OPEC's agreement to increase supply to match strong global demand.</li> </ul>
<b>Mismatch of supply and demand in global markets</b> <i>e.g. for manufactured components and in global shipping</i>	Supply and demand rebalance in global markets	<ul style="list-style-type: none"> <li>Strong demand and constrained supply that have led to rapid inflation for some goods and in global shipping could persist, or pass through of costs could be higher than anticipated.</li> <li>Broadly though, these frictions should prove temporary, leading to downward pressure on inflation, as supply adjusts to higher prices.</li> </ul>
<b>Domestic balance of supply and demand</b>	Supply keeps pace with returning demand domestically	<ul style="list-style-type: none"> <li>Taking a signal on the output gap, and the extent to which slack is providing a drag on inflation currently, is extremely difficult.</li> <li>It is likely that some of the upside news to GDP since the OBR's forecast is in both supply and demand. But there is a downside risk if slack is larger or more persistent than we judge currently.</li> <li>There is an upside risk to inflation of further supply weakness, but also from a stronger recovery in demand – e.g. as household spend more excess savings – that supply does not keep pace with.</li> </ul>
<b>Inflation expectations</b>	Inflation expectations remaining anchored	<ul style="list-style-type: none"> <li>Inflation expectations have remained anchored since MPC independence, and during previous periods of above-target inflation.</li> <li>Longer-term market implied expectations have risen recently, and the uncertainty around medium and long-term expectations is higher than normal</li> <li>There is a risk longer-term expectations drift higher the longer an above-target overshoot persists.</li> </ul>

## The rise in inflation so far has not been regressive; however by the autumn higher energy prices will put increasing pressure on lower-income households

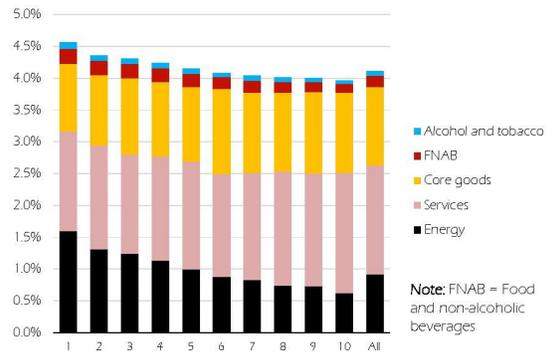
- Households on lower incomes tend to spend proportionally more of their overall income on fuel (i.e. energy) and core goods and less on services compared to those on higher incomes *[annex for detail]*
- Unless income growth is considerably higher amongst lower-income households, the rise in inflation in the autumn is likely to put more pressure on lower-income households as a proportion of their income/budget, primarily due to higher energy prices.

Estimated change in expenditure due to June 2021 annual CPI inflation as percentage of total 2019/20 expenditure, by income decile



Source: ONS CPI data, ONS Family spending data, HMT analysis

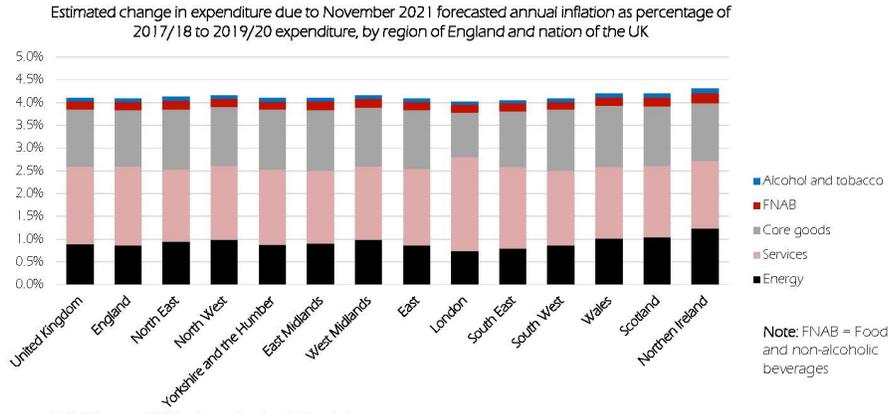
Estimated change in expenditure due to November 2021 forecasted annual CPI inflation as percentage of total 2019/20 expenditure, by income decile



Source: HMT CPI forecasts, ONS Family spending data, HMT analysis

## Overall, higher inflation is expected to have a fairly even impact on households across different regions and nations of the UK

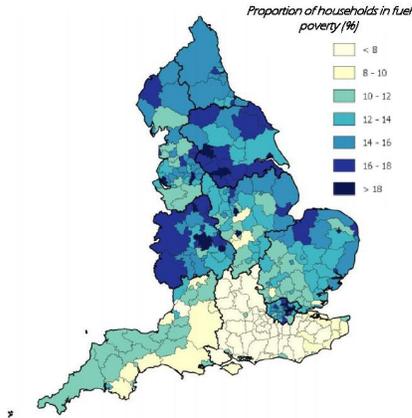
- Higher inflation, at the peak in November 2021, is likely to have a fairly even impact on households in different regions.
- However, there are some differences how particular items will impact, with London being impacted more by changes to the prices of services compared to other regions or nations, and less so by energy or core goods.
- We are unable to do this particular analysis at a more detailed geographical level due to data availability, but we would probably expect some slightly greater variation. We also do not have information on regional variation in prices.



Source: HMT CPI forecasts, ONS Family spending data, HMT analysis

## Fuel poverty is more prevalent in areas in the West Midlands and Yorkshire & the Humber in England, leaving them particularly vulnerable to rises in energy prices

Proportion of households in fuel poverty, by local authority, England, 2019



Source: Sub-regional Fuel Poverty Experimental statistics 2019, BEIS

- Higher fuel/energy prices are expected to be a significant driver of inflation in the coming months, meaning those in fuel poverty may be particularly vulnerable.
- Fuel poverty is measured in England using the Low Income Low Energy Efficiency (LJLEE) measure, whereby a household is considered 'fuel poor' if both:
  - it is living in a property with an energy efficiency rating of band D, E, F or G
  - and its disposable income (income after housing costs (AHC) and energy needs) would be below the poverty line.
- The West Midlands has the highest rate of fuel poverty (17.5%) followed by Yorkshire and the Humber (16.8%) and London (15.2%).
- All of Local Authorities in the South East had below average fuel poverty levels, whilst of 21 Local Authorities with a fuel poverty rate of 18% or above, 8 were in the West Midlands, 5 in London and 3 in Yorkshire and the Humber.
- This differs slightly from the regions that have highest prevalence of food insecurity – where the North West and North East of England have the highest proportion of households in food insecurity (see annex for detail).
- Fuel poverty is defined slightly differently\* in each of the nations of the UK so cross-nation comparisons of figures should not be made. Nonetheless, their respective latest figures show that in Wales 12% of households are fuel poor (2018), 25% in Scotland (2019), and modelled estimates indicate that 18% of households in Northern Ireland are fuel poor (2018).

\*In Wales a household is fuel poor if they would have to spend more than 10% of their income to maintain a 'satisfactory heating regime'. In Scotland it is if total fuel costs for the home are more than 10% of household's income (after housing costs) to maintain a 'satisfactory heating regime' and after deducting those costs the household's remaining net income is insufficient for an 'acceptable standard of living' (90% of UK's Minimum Income Standard). In Northern Ireland, it is if a household has to spend excess of 10% of household income on fuel use in order to maintain a 'satisfactory level of heating'.

Prospects for income growth are uncertain, although unemployment is still forecast to peak at a much lower level than previously thought

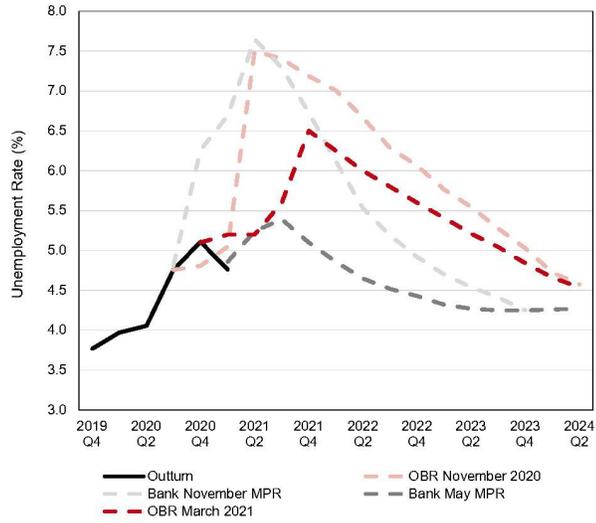
Wages are a key uncertainty:

- Underlying wage growth is hard to disentangle from other effects, but seems to be relatively strong in the latest data, given economic conditions
- Prospects for real wages for individuals are uncertain. They will depend partly on drivers of inflation and the outlook for productivity in the long run, which is particularly uncertain at present.

**Employment:** unemployment is still expected to rise in the autumn, and peak in Q3/4 – though at much lower levels than forecast earlier in the crisis.

**Taxes and benefits:** will be a drag overall, and especially in 21/22 for those on working-age welfare which was uprated by 0.5%.

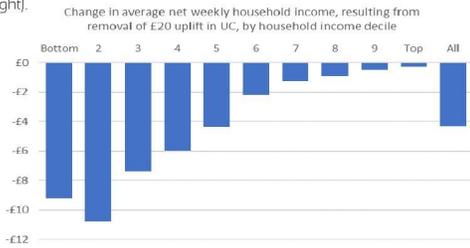
Comparison of Unemployment Rate Forecasts



NB The OBR March forecast had non-labour income making a positive contribution to RHDl over the forecast period.

## Removal of the UC uplift will affect poorest households the most

- There are currently 4.4m households in payment on UC (and 1.5m households received the WTC one-off payment). 37% of individuals receiving UC are in work (and WTC households are in work).
- In November DWP and CST will set benefit levels for 22-23, usually updated from the previous year by Sept CPI rate. Any rise in prices after Sept won't be picked up in the level of benefits until April 2023, so a rise could compound the effect of the removal of the uplift.
- The removal of the **£20 uplift in UC** will have the biggest impact on lower income households (as shown in the bottom-left chart).
- The proportion of affected households varies across regions: Based on Spring 2021 stats, London & the North of England had the highest proportion of families on UC or Tax Credits, benefiting from the **£20 uplift in UC** (or equivalent in Tax Credits) - and lowest in the SE, SW and East of England (detail in annex).
- Ending the UC uplift will interact with the ending of CJRS and SEISS: as well as reducing income for those who lose their jobs, for some families who return to work, ending the UC uplift will largely offset the income gains they will experience from moving from 80% CJRS back to full-time employment (as shown in the table to the right).



### Weekly net income for example families (not intended to be representative)

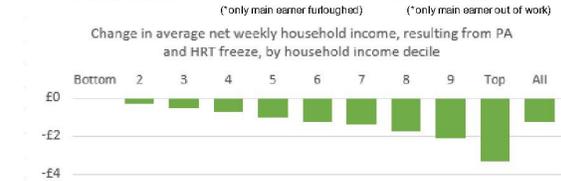
2021-22, current prices	Current policy, furloughed	End UC £20, back in work	Keep £20, end CJRS, not in work	End £20, end CJRS, not in work
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**Single adult working 37.5hrs pw on NLW, private renting 1 room at non-London median**

Net earnings	£252	£298	£0	£0
Total UC	£44	£0	£202	£182
<b>Net income</b>	<b>£296</b>	<b>£298</b>	<b>£202</b>	<b>£182</b>
% change in income		1%	-32%	-38%

**Couple working 37.5hrs at £10ph and 20hrs at NLW, 2 young children, private rent 2 rooms at non-London median**

Net earnings	£457	£508	£0	£0
Total UC	£145	£93	£321	£301
<b>Net income</b>	<b>£638</b>	<b>£637</b>	<b>£534</b>	<b>£514</b>
% change in income		0%	-16%	-19%



- NB while increases to the NLW are more progressive than general earnings rises, they benefit the middle of the distribution more than the very bottom [annex for detail]

## Summary of analysis

- As inflation rises again this year, the focus on living standards is likely to intensify.
- We expect annual CPI inflation to peak around 4¼% in the autumn – its highest rate since 2011 – which is likely to generate significant scrutiny on the implications for living standards.
- Although inflation is rising sharply, there are reasons to be less concerned than the post-financial crisis squeeze on living standards:
  - We continue to expect the rise in inflation to be transitory, as it is being predominantly driven by higher energy prices and global costs from manufactured goods.
  - The extent of the rise in inflation is less significant than implied by headline CPI inflation: many prices are below the levels implied by their long-term trends and Yo2Y inflation – which abstracts from unusually low prices last year – is likely to peak below post-2008 highs.
- On the other hand, by the autumn lower income households may be more adversely affected by inflation, due to a further sharp rise in energy prices.
- This will be compounded among lower income households by the withdrawal of the UC uplift and an expected fall in real working-age benefit income.

## Policy implications

The analysis points to two, related, challenges on cost of living and living standards this autumn:

1. A general squeeze on living standards from higher, but largely transitory, inflation; and
2. A significant squeeze on low income households, from a combination of: the likely regressive skew of higher inflation; and the removal of temporary welfare support measures.

The following slides set out proposed narratives, and potential options for further, relatively low cost, policy interventions at SR/Budget (though these would not fully offset impacts of other support being withdrawn). If you wanted to announce additional in-year support in September, to coincide with the ending of Covid support, you could consider a top up of Local Welfare Assistance or Discretionary Housing Payments.

You also commissioned advice on low-cost policy options to **benefit women/children and families**. The options that follow address this commission as well as the request on cost of living as there is substantial overlap. There is also some overlap with separate advice you are receiving on labour market strategy and childcare/early years policy options.

The NLW uprating decision will also likely form a key part of your narrative (noting the impacts are spread quite across the distribution-see annex, slide 28). This year's decision will be tricky with the wage and inflation outlook, but we will provide detailed advice in early September, ahead of making the decision in October.

*NB*

- *In principle you could also reconsider some of the policy options currently in play for Budget that will contribute to higher inflation, but we have assumed they are out of scope for this advice*
- *DWP SoS is taking forward work coming out of a **cross-government taskforce on poverty/cost of living** which is also considering some of these options.*

## Challenge 1: A general squeeze on living standards from higher, but transitory, inflation

### Key points for narrative (assuming no further policy apart from annual NLW uprating):

- The period of increased inflation is expected to be temporary.
  - *The higher inflation we have seen so far largely reflects prices for energy and manufactured goods. Both are globally set and inflation in these areas should prove temporary.*
  - *Further, inflation was unusually low during 2020, and so looking over the two years since the pandemic prices are not unduly elevated [although I recognise people will have concerns, such as with energy prices going up]*
  - *The Bank of England and most external forecasters expect that inflation will return to target in the medium term. And inflation expectations remain anchored.*
- Unprecedented government policy interventions have protected jobs and incomes
  - *overall households have built up significant savings and unemployment is forecast to be much lower than feared*
  - *this is on top of increases to the NLW, personal allowance and NICs thresholds since 2010 [and the NLW is set to increase by a further xx% in April 2022]*

Options to go further: there are 3 possible routes to go further in the autumn to boost this narrative:

- A. **Short-term upstream action:** HMG has limited influence over the main, global, drivers. However there are presentational, and potentially substantive, actions to demonstrate government is taking supply issues seriously. We think these could be worthwhile. Options are on slide 19.
- B. **Low cost, longer-term policy options:** we have identified some regulatory/competition options that could in principle reduce the cost of living, and so support your narrative, though *won't take effect in the short term*. Options are on slide 19. Any narrative would likely also reference any policies you adopt to support low income households (from slide 20).
- C. **High cost policy options:** directly offsetting the impact of inflation on households would require high cost (£bns) fiscal measures (e.g. cuts/freezes to consumption taxes). We don't think this would be justified given the expected transitory nature of the shock, strength of household balance sheets overall, and the risks from a looser fiscal stance.

**Recommendation 1:** we recommend that you do not take any high cost fiscal measures (C) to try to offset the effects of higher inflation for households overall. **Do you agree?**



## Challenge 1: options to go further

**A: short-term upstream action:** you could consider 3 channels for upstream action:

- **Global supply issues and commodity prices:** this is the main channel and there are no (near term) direct government levers. But there could be value in you asking relevant SoSs to convene businesses, ports etc to discuss short- and long-term responses to bottlenecks
- **Labour shortages:** as set out in parallel labour market strategy advice, the scale of this issue is unclear and furlough taper and exit, ALMPs and self-isolation policy will all be important. The key business ask is on migration. The scale of migration flows, and extent to which specific skills issues are widespread, is uncertain but more flexibility could reduce pressures.
- **Prompt payment:** likely a more minor issues, but sometimes raised by businesses and an area government has taken action (e.g. the Prompt Payment Code).

**Recommendation 2:** that we work with comms and your private office to develop high profile options to demonstrate you are working with Secretaries of State (e.g. BEIS, DIT, DfT) and business on global and domestic supply chain issues. Do you agree?

**Recommendation 3:** that you provide a steer on whether you would like us to conduct further sectoral analysis on shortages and if there is merit to press HO on updating the shortage occupation list or consider other options to bring in workers in sectors/occupations with high vacancy rates. **Do you agree?** (also recommendation 4 in labour market strategy advice)

**Recommendation 4:** that we engage BEIS on options for further action on prompt payment. Do you agree?

**B: low cost, longer-term options:** long-term impacts limit narrative benefits, but they are effectively no regrets:

**B(i): Publish consultation response on Competition and Consumer Reforms (BEIS led):** this would announce government's intention to act on some specific issues (e.g. subscription traps, fake reviews, Christmas savings clubs) and to strengthen the CMA to promote competition and look out for consumers' interests. No cost. Could be published in the autumn.

**B(ii): Smart data announcement:** proposed BEIS SR bid of circa **£5million p/a for 3 years** to increase consumer power and choice through data sharing (e.g. better access to credit, help tackle loyalty penalties).

**Recommendation 5:** that we work with OGDs to develop announcements on the Competition and Consumer Reforms consultation, and smart data (B(i) and B(ii)) to a Budget/SR timetable and provide further advice. **Do you agree?**

**Recommendation 6:** that you provide a steer on whether you would like us to consider other options on competition/consumers, e.g. possible steers to the CMA to prioritise work addressing living costs, or take specific market investigations. **Do you agree?**

## Challenge 2: A significant squeeze on low income households

### Key points for narrative (assuming no further policy apart from annual NLW uprating):

- Covid crisis has been unprecedented and we have put in place unprecedented economic support. The priority now is getting the economy to bounce back. Government support has protected jobs and incomes – highlighted by (e.g.) IFS.
- Work is the best and most sustainable route out of poverty. The Plan for Jobs is helping people get into work, invest in skills and increase their earnings.
- On top of this we are supporting the most vulnerable with the cost of living and to address the root causes of disadvantage.

Options to go further: there are 3 possible routes to go further in the autumn to boost this narrative:

- A. Further support to help the most vulnerable with the cost of living and to address the root causes of disadvantage. Options are on slide 21.
- B. Further measures to streamline and strengthen support to enter work, and to improve in-work progression, as noted in the labour market strategy and Help back to Work advice you are receiving. Options are on slide 22.
- C. Announcement of longer-term measures (won't take effect straight away) to mitigate new pressures on the cost of living (arising from, for example, obesity/food taxes, Net Zero). Options are on slide 23.

In addition, you could consider a package of measures specifically aimed at **supporting women/families/children**. This could include measures to meet the manifesto commitments on making it easier to take Paternity Pay and supporting women's in-work progression. Options are on slide 24.

## Challenge 2: options to go further (A)

Option	Indicative cost	Timing/ Delivery
1. <b>Strengthen Local Welfare Assistance</b> – option to target to the cost of living (e.g. food/bills) and specific groups (e.g. those eligible for welfare).	Scalable – stakeholders calling for £250m p/a.	<b>Possible to provide in-year funding alongside Covid support ending</b> (subject to LA delivery).
2. <b>In year top-up of Discretionary Housing Payments or Homelessness Prevention Grants</b> – the number of people in the private rented sector in arrears has increased from around 3% pre-pandemic to around 7-9% (MHCLG/DWP modelling).	Scalable – departments likely to bid for ~£100m in-year funding.	<b>Possible to provide in-year funding alongside Covid support ending.</b>
3. <b>Reform Child Maintenance</b> – 44% of separated families currently have no CM arrangement, due to the absence of contact between ex-partners and a lack of awareness about CM. Extending CM to all separated families could lift 270,000 children out of absolute poverty (before housing costs). DWP SoS is exploring reforms, such as a stronger UC referrals system or reformed fee structure.	Small DEL cost to implement reforms (~tens of millions).	Announcement could be made in Autumn. Would require third session bill in 2022 to implement.
4. <b>Extend Holiday Activities and Food programme</b> – DfE expected to bid at SR.	~£220m p/a.	FY 22/23- consider bid at SR
5. <b>Announcement on long-term direction of Statutory Sick Pay – removing the Lower Earnings Limit and increasing rate</b> – a consultation could be announced/ published in the Autumn if there is HMG agreement on the future rate and structure of SSP.	TBC – low cost to govt but up to high £100ms p.a. for businesses.	Primary legislation – DWP won't be able to secure until 22/23 at the earliest.
6. <b>Announcement encouraging LAs to use existing powers to bring empty properties back into use</b> – around 268,000 empty homes could be used by LAs in particular to reduce reliance on expensive Temporary Accommodation.	No significant costs to government, may be some for homeowners.	Announcement could be made in Autumn.
7. <b>Work Coaches becoming Money Guiders / Job Centres becoming Money Advisor Network referral partners</b> – increasing financial resilience.	Small DEL cost to DWP (likely in low millions).	Consider bid at SR from DWP.

**Recommendation 7:** that we work up a package of further support to help the most vulnerable. **Do you agree? Are there any specific options you would like us to focus on?**

## Challenge 2: options to go further (B)

The importance of work as a route out of poverty is a key part of the narrative. However, in-work poverty is also a challenge, and the removal of the UC uplift will affect families in work as well as out of work. As set out in parallel labour market strategy advice, we think there is scope to go further this autumn on both:

- Getting people into work – where further details are set out in *Help back to Work* advice
- Supporting people on low incomes to progress in work. The table below provides some more detail on 3 areas of possible focus

Option	Indicative cost	Timing/ Delivery
<b>1. Allocation of money on Bus Strategy</b> The PM has committed £3bn of funding for buses and decisions on its allocation can be expected at SR in order to deliver on transformational Bus Strategy objectives and deliver more frequent, lower-fare bus services	£3bn- already committed	FY 22/23
<b>2. Further support for in-work progression</b> Support those on UC who are in work to progress and increase their earnings through: a) dedicated progression work coaches; and b) working with employer bodies to encourage the development of transparent progression pathways.	Scalable, requires reprioritising work coaches.	Consider bid at SR. DWP likely to push for small scale offer
<b>3. Early years and childcare package– being considered through separate commission</b> Options being put to you for consideration include: expansion of Breakfast Clubs, pay UC Childcare upfront rather than in arrears, improve awareness of childcare offers, issue refunds to parents with unspent childcare vouchers on Employer Supported Childcare.	£10ms - £100m	FY 21/22 or 22/23

**Recommendation 8:** We recommend that you plan, subject to final SR trade-offs, to make an In-Work Progression offer focused on employees a (small) part of your labour market and cost of living strategy and narrative. **Do you agree?** [also recommendation 6 in labour market strategy advice]

## Challenge 2: options to go further (C)

Option	Indicative cost	Timing/ Delivery
<b>1. Announcement on opt-in/ opt-out switching for energy customers</b> BEIS currently consulting on plans to introduce opt-in (by 2024) and opt-out (from 2024) switching to help consumers get the best energy tariff.	Low cost to government, cost to energy companies.	Opt-in switching: by 2024 Opt-out switching: from 2024  Requires primary legislation
<b>2. Apply the Right to Repair scheme to white goods</b> Marginal impact on cost of living but may lower the cost of replacing white goods.	No significant costs to government	Not clear on timelines- subject to legislation.
<b>3. Introduce further Private Rented Sector minimum energy efficiency standards.</b> BEIS have consulted on policies to upgrade homes to an Energy Performance Certificate Band C by 2030. This will reduce energy costs for those who privately rent.	Low cost to government, but potential cost to landlords.	2025-2028

### Measures already in progress:

Option	Indicative cost	Timing/ Delivery
<b>1. Energy Company Obligations (ECO) 4</b> BEIS currently consulting on plans to extend ECO from 2022 to 2026 and expanding its value to £1bn per annum. ECO requires obligated energy suppliers to install energy efficiency and heating measures in low income homes.	No cost to government Energy providers pay.	2022-2026
<b>2. Warm Homes Discount</b> BEIS currently consulting on plans to expand and reform the scheme in England and Wales until 2026 which will oblige participating energy suppliers to provide £150 rebates to low-income customers.	No cost to government Energy providers pay.	2022-2026

**Recommendation 9:** that we work up longer term measures on options to reduce cost of living, e.g. around obesity/food taxes and net zero pressures. **Do you agree?**

## Options to support women/children/families

Option	Indicative cost	Timing/ Delivery
<p><b>1. Make Paternity Pay and Shared Parental Leave more flexible (manifesto commitment)</b>            Make paternity leave and shared parental leave a day one right (parents currently entitled after 26 weeks of continuous employment), or lower-cost changes on paternity pay such as reducing the notice period employees have to give before taking leave.</p>	Not costed, but likely to be tens of millions (AME). Additional costs for businesses	Intent could be announced in Autumn Through Employment Bill (timing tbc, possibly third session)
<p><b>2. Launch consultation to extend flexible working rights (manifesto commitment)</b>            BEIS are preparing a consultation to consider extensions to flexible working rights (such as entitlement at the point of hire and allowing employees to make more requests for flexible working).</p>	Some administrative cost to businesses	Could be announced in Autumn
<p><b>3. Publish Consultation Response on Leave Entitlement for Unpaid Carers (manifesto commitment)</b>            BEIS are currently working on a consultation response to an unpaid leave entitlement of five days, which can be taken flexibly, for carers.</p>	Small DEL and AME costs	Employment Bill (timing tbc, possibly third session)
<p><b>4. Improve transparency and evidence on female participation and gender pay gap</b>            Reinstate gender pay gap reporting requirements as part of official Government statistics and company reports (allow better data on redundancies and show the combined impact of sex and age).</p>	No additional funding, some cost to businesses	Could be announced in Autumn
<p><b>5. Increase the Benefit Cap</b>            DWP SoS is required to review the Cap at some point in this Parliament. As of Feb 21 59% of households capped were single parent families. This was higher (around 70%) before the pandemic.</p>	Scalable. Removing cap would cost ~£0.6bn p.a.	Could ask SoS to review in Autumn to implement in 22-23
(Any package to support women/children/families is likely to include childcare/early years measures, being developed separately)		

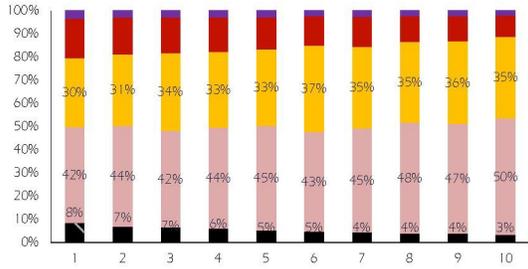
**Recommendation 10:** that you provide a steer on whether you would like us to work up a women/children/families package.

## **Annex: further analysis**

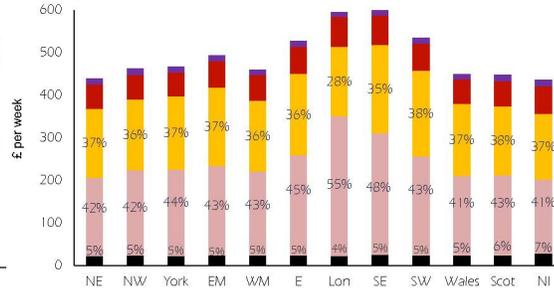
# Pre-pandemic spending patterns across the income distribution and across regions and nations of the UK

Pre-pandemic Spending Patterns		
	Household Income Distribution	Regional Distribution
<b>Core Goods &amp; Energy</b>	Low income households spend ~25% of total expenditure on Fuel and Core Goods. High income households spend ~ 12% of total expenditure on Fuel and Core Goods.	The East Midlands, the South West and Wales spend more as a proportion of income on core goods
<b>Services</b>	Higher income households spent almost five times more on services. Enabling higher savings during the pandemic.	Total expenditure on services is higher in London, East and the South East regions.

Spend on different items as a proportion of total expenditure, by income decile, 2019/20



Expenditure on different items, by region of England

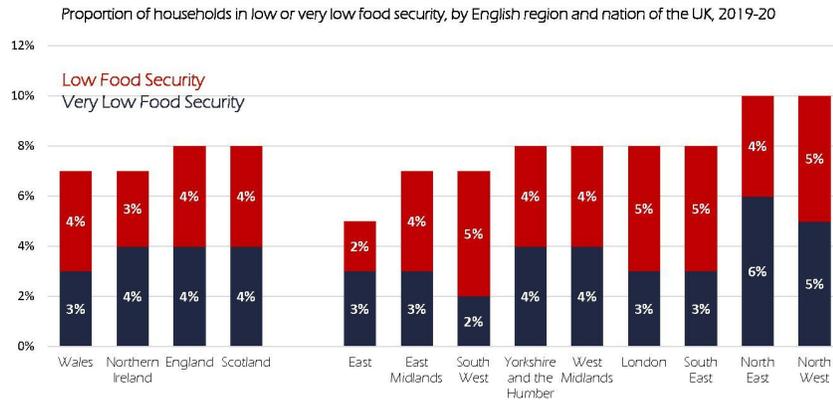


Source: ONS Family spending data, 2019/20

■ Energy ■ Services ■ Core goods ■ FNAB ■ Alcohol and tobacco

## Food insecurity is most prevalent in the North East and North West of England

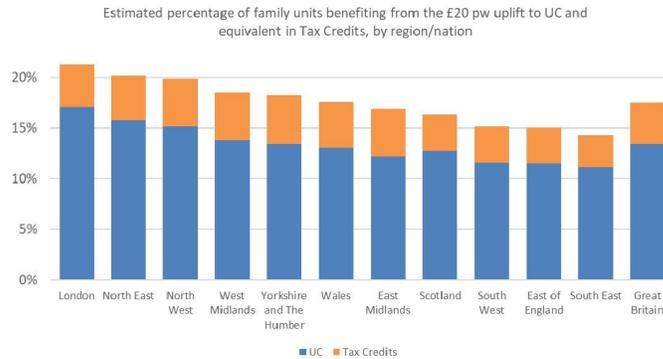
- Food security is measured by asking respondents a number of questions to assess the extent to which they are able to afford food to eat. They are then allocated a score which puts them into one of four categories of food security: (1) high food security, (2) marginal food security, (3) low food security and (4) very low food security. A household is considered 'food insecure' if they have low or very low food security.
- The North East and North West of England have the highest prevalence of food insecurity meaning these regions are likely to be particularly vulnerable to food price increases.



Source: Family Resources Survey, 2019/20, DWP

## The proportion of families benefiting from the £20 pw UC uplift (and equivalent in Tax Credits), varies across regions

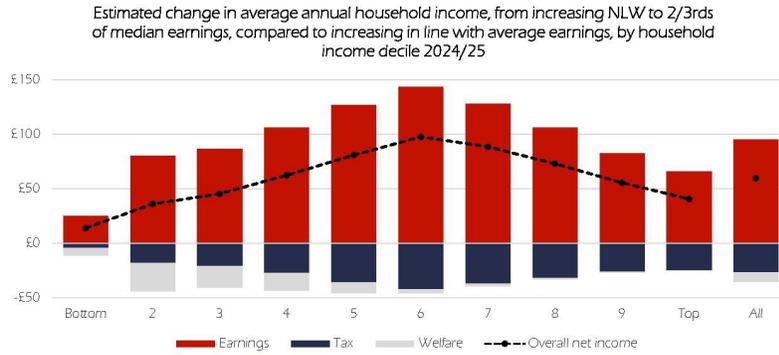
- London & the North of England are the areas with the highest proportion of families on UC who are benefiting from the £20 pw uplift to UC (and the equivalent amongst Tax Credit recipients)
- Areas in the South & East of England have the lowest proportion of families on these benefits



- Proportions shown are based on provisional UC figures for the number of family units where UC is in payment (DWP, February 2021); provisional figures for tax credit recipients, excluding those who aren't in work (HMRC, April 2021); divided by internal estimates for the number of family units in each region. Figures are approximate and unpublished

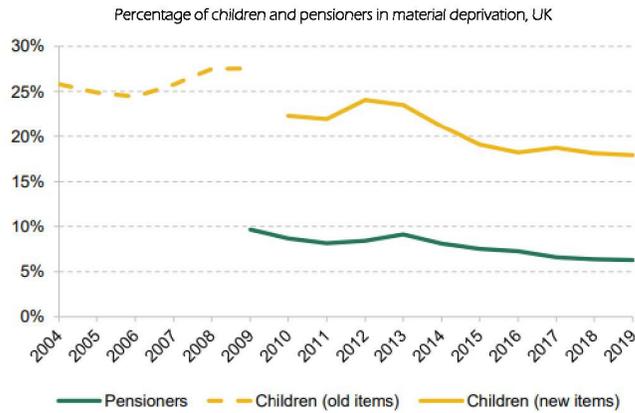
## The biggest average gainers from increases in the NLW tend to be in the middle of the household income distribution

- As the graph below shows, increases in the NLW benefit households across the household income distribution and don't necessarily benefit those in the bottom deciles the most (who may be out of work). Moving towards the 2/3<sup>rd</sup> target, we would expect to see the biggest average gains around the 6<sup>th</sup> household income decile.



Source: HMT distributional analysis, SB21 assumptions

## Material deprivation amongst children and pensioners has broadly followed a downward trend in recent years



Source: IFS Living standards, inequality and poverty in the UK, 2021 (authors' analysis of Family Resources Survey, 2019/20, DWP).

Note: The questions asked to measure material deprivation differ for pensioners and children so it is not accurate to compare across groups.

- Material deprivation is a measure of a household's ability to afford basic goods or services. It is measured by asking households whether they can afford certain basic goods / services and then gives them a score based on their responses. More weight is given to items that most families have.
- Material deprivation amongst children has generally followed a steady downward trend following a slight increase in 2011. However, the rate of decrease has slowed in the last few years.
- Similarly, material deprivation for pensioners has generally decreased since 2009, aside from a slight increase from 2011-2013.