House of Commons

Treasury Committee

Autumn Statement 2022 – Cost of living payments

Eighth Report of Session 2022–23

Report, together with formal minutes relating to the report

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The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue and Customs and associated public bodies.

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Committee reports are published on the Committee's website at www.parliament.uk/treascom/ and in print by Order of the House.

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Summary

In his Autumn Statement, the Chancellor announced one-off payments to people on means-tested benefits for 2023–24, building on the 2022–23 system. While these types of payments will provide much-needed relief at a time of rising cost of living, they will also create ‘cliff-edges’: those who earn one pound too much, or become eligible for a benefit one day too late, may not receive it. While focussing on providing cost of living payments through the benefits system enabled the Treasury to act quickly, it means that some who are on low-incomes may miss out on this support.

This has implications for fairness, and for work incentives. We therefore recommend that the Treasury spread the cost of living payments across the colder winter months, as it has done with the Energy Bill Support Scheme—a payment each month for six months—and work on minimising these distortions in the future.

Cost of living payments

1. The Government has introduced a number of measures to support households with the rising cost of living, and the cost of energy in particular. Those measures have included cost-of-living payments, the energy price guarantee and council tax rebates. This report deals specifically with the cost-of-living payments provided to those in receipt of means-tested benefits (rather than to those given to all pensioners and those on non-means tested disability payments).

One-off cost-of-living payments in 2022

2. On 3 February 2022, the then Chancellor, Rt Hon Rishi Sunak MP, announced household support measures including two one-off payments:

- A £150 Council Tax rebate for households in England in bands A-D
- An up-front £200 discount on household energy bills, that would be reclaimed from households in later periods.[1]

3. On 26 May 2022, Mr Sunak announced additional new measures to support households with the rise in the cost of living. They included:

- A £650 cost of living payment to those on means tested benefits[2]
- A £300 one-off payment to all pensioners
- A £150 one-off disability cost of living payment to those on non-means tested disability payments
- A £400 grant payment to all households for help with their energy bills (replacing the previously announced £200 up-front energy discount).[3]

4. The £650 payment to those on means-tested benefits was disbursed as two lump sums. For most of those receiving benefits-related measures above, the payments were made in July 2022 and November 2022, except for Tax Credits, where the payments were made in September 2022 and November 2022. Eligibility for these lump sum payments was normally based on being eligible for any amount of the relevant means-tested benefit in a defined time period.[4]

1 HC Deb, 3 February 2022, col 472 [Commons Chamber]; Department for Levelling Up, Housing & Communities, 'Council tax energy rebate: information leaflet for households in council tax bands A-D (24 February 2022)', Accessed 8 December 2022

2 The means-tested benefits that qualified for the £650 cost of living payment were Universal Credit, income-based Jobseeker's Allowance (JSA), income-related Employment and Support Allowance (ESA), Income Support, Pension Credit, Child Tax Credit and Working Tax Credit (see Department of Work and Pensions, Guidance: Cost of Living Payment (Updated 24 November 2022), Accessed 8 December 2022

3 HC Deb, 26 May 2022, cols 451–453 [Commons Chamber]

4 Department of Work and Pensions, Guidance: Cost of Living Payment (Updated 24 November 2022), Accessed 8 December 2022

Announcement in the Autumn Statement 2022

5. In his Autumn Statement in November 2022, the current Chancellor, Rt Hon Jeremy Hunt MP, said that "for the most vulnerable"[5], further support would be provided again in 2023–24, again via additional one-off payments. HM Treasury's *Autumn Statement 2022* provided the following details on those payments:

> The government will provide households on means-tested benefits with an additional £900 Cost of Living payment in 2023–24. Pensioner households will receive an additional £300 Cost of Living payment, and individuals on disability benefits will receive an additional £150 Disability Cost of Living payment in 2023–24. These payments will be made on a UK-wide basis.[6]

Potential issues

Coverage

6. In his evidence to us on the 23 November on the Autumn Statement, the Chancellor gave the following rationale for the use of the benefits system for providing support via these one-off payments:

> The challenge we had, or have, is that, if we want to help people quickly, the benefits system is a way that we can do that. We know who everyone is and we have a good idea of the circumstances of the people we are helping through the benefits system, so it is an efficient way to get people help quickly.[7]

7. In its written analysis of the Autumn Statement measures the Resolution Foundation wrote that "targeting payments at those receiving means-tested benefits is not a perfect way of targeting those in need, as four-in-ten (or 2.4 million) of the poorest fifth of households do not receive means-tested benefits."[8] This analysis was based on net-equivalised household income, once housing costs had been paid.[9] In part, this may be due to a lack of take up of means-tested benefits: DWP data published in February 2022 for financial year 2019–2020 showed that "up to 850 thousand families who were entitled to receive Pension Credit did not claim the benefit".[10]

8. The lowest quintile may also include those who are ineligible for such benefits, such as students, and households who earn more than the welfare payment thresholds.

9. The Chancellor told us that should energy prices remain high he did not think "that support through the benefits system is the optimal way".[11] Given that, he explained that the Treasury was working on a different system to operate from 2024–25:

5 HC Deb, 17 November 2022, col 854 [Commons Chamber]
6 HM Treasury, Autumn Statement 2022, CP 751, November 2022, para 5.7, p 48
7 Q477
8 Resolution Foundation, Help today, squeeze tomorrow, November 2022
9 Resolution Foundation, A chilling crisis, August 2022
10 Department for Work and Pensions, Income-related benefits: estimates of take-up: financial year 2019 to 2020 (24 February 2022), Accessed 8 December 2022
11 Q477

> What I said in my comments in the autumn statement is that, while we will be using that system this year and next year, from April 2024 we want to work towards a social tariff or social discount approach whereby we reach all people equally on low incomes. That means a lot of complicated work to marry the information held by HMRC with the information held by DWP on benefits. That is a very big operational challenge, but that is the direction of travel we want to go in.[12]

10. One of the ways in which the Government has attempted to reach people in need of support but who are outside of the benefits system has been the Household Support Fund. In its guidance to councils who disperse the Fund, the Government stated that "the expectation is that The Fund should be used to support households in the most need; particularly those who may not be eligible for the other support government has recently made available but who are nevertheless in need."[13] In his Autumn Statement, the Chancellor announced that "We will also provide an additional £1 billion of funding to enable a further 12-month extension to the household support fund, helping local authorities to assist those who might otherwise fall through the cracks."[14]

11. **While the additional payments to households in receipt of means-tested benefits are welcome, they will not reach all low-income households. We recommend that the Treasury provide us with further analysis of those low-income households who will not receive cost of living payments in 2023–24, and the extent to which the Household Support Fund has supported them, and is expected to support them in the coming financial year.**

Cliff-edges

12. The Treasury told us their expectation was that the one-off payments would be given in a similar pattern to this year (in which two payments were given).[15] The use of fixed one-off payments supplementing the means-tested benefit system also means there were so-called 'cliff-edges' in support. One pound in additional income may make a household ineligible for the means tested benefit, and in turn, the one-off payment. The Resolution Foundation has also cited other potential ways households may find themselves being ineligible:

> For example, the existing Government cost of living payments gave £326 to those people who were receiving some Universal Credit in the period 26 April 2022 to 25 May 2022, but nothing to someone whose claim began a day later. Even harder to justify is that those people who were receiving UC before and after that period, but not during that period, purely because of the unfortunate timing of their pay packets, received nothing.[16]

Carl Emmerson, of the Institute for Fiscal Studies, told the Committee that such cliff-edges were also present for legal aid and free school meals.[17]

12 Q477

13 Department for Work and Pensions, Household Support Fund (1 October 2022 to 31 March 2023): final guidance for county councils and unitary authorities in England (Updated 24 October 2022), Accessed 8 December 2022

14 HC Deb, 17 November 2022, col 854 [Commons Chamber]

15 Q483

16 Resolution Foundation, A chilling crisis, August 2022, Footnote 47, p33

17 Q240

13. These cliff-edge effects have implications for fairness, in that households only differentiated by very small amounts of income, or the precise time period in which they are in need, may or may not receive a payment.[18]

14. These cliff edges also have implications for work incentives, in that households face missing out on additional payments by increasing their income via additional work when they are within the assessment periods for eligibility.

15. In contrast, the gradual tapered removal of Universal Credit as household earned income increases, is an example of how recent benefits policies have been designed to try to ensure that as people work more, they take more income home.[19] In November 2010, when launching the White Paper on Universal Credit, Rt Hon Sir Iain Duncan Smith MP, then Work and Pensions Secretary, noted that "At its heart, the Universal Credit has a simple ambition–to make work pay, even for the poorest. This will finally make it easier for people to see they will be consistently and transparently better off for each hour they work and every pound they earn."[20] Carl Emmerson noted that "Normally we want something that is tapered away. Universal credit, by design, is supposed to have a smooth taper—that is what we would want."[21]

16. These potential work disincentive effects from one-off payments come at a time when the number of Universal Credit claimants with work requirements are higher than before the pandemic[22], and the Government is considering obstacles to workforce participation rates through the review by the Work and Pensions Secretary.[23]

18 Another element of fairness raised with us related to fixed payments regardless of household size and energy use (see Q240).

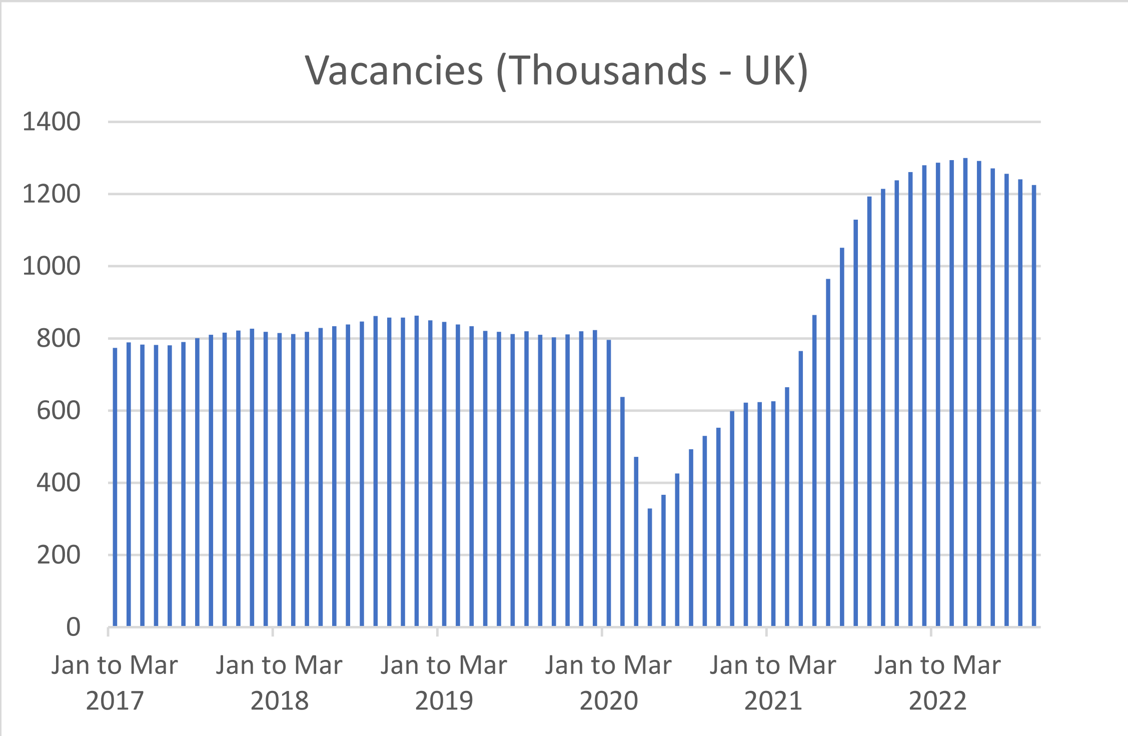
19 Department for Work and Pensions, Guidance: Universal Credit work allowances (Updated 11 April 2022), Accessed 8 December 2022

20 "Welfare Reform White Paper: Universal Credit to make work pay: Radical welfare reforms bring an end to complex system", Department of Work and Pensions Press Release, 11 November 2010

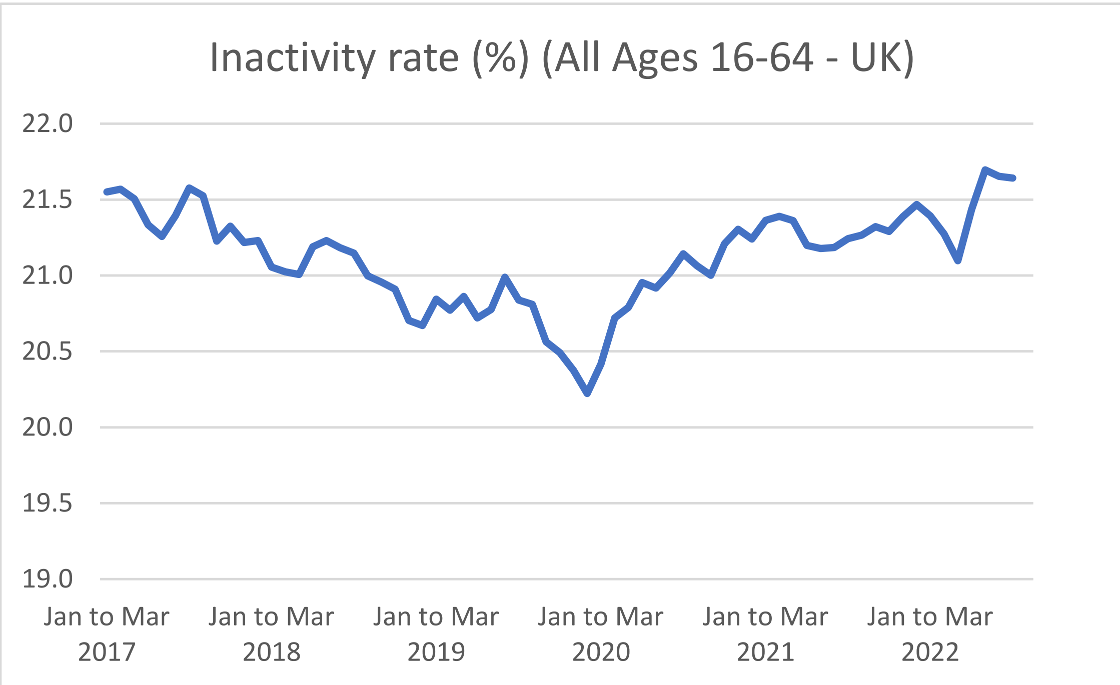
21 Q240

22 Department for Work and Pensions, Universal Credit statistics, 29 April 2013 to 13 October 2022 (15 November 2022), Accessed 8 December 2022

23 HC Deb, 17 November 2022, col 848 [Commons Chamber]



Source: ONS. Note: Headline vacancy estimates are based on a three-month rolling average. Seasonally adjusted.



Source: ONS. Note: The inactivity rate is based on a three-month rolling average. Seasonally adjusted.

17. As noted earlier, some households may miss out on support as their time of need does not coincide with the assessment period for eligibility for a one-off payment. The Office for Budget Responsibility forecasts that from Q2 2023 to Q2 2024—the period when these payments are likely to be implemented—unemployment will be on a rising trajectory.[24]

24 Office for Budget Responsibility, November 2022 Economic and fiscal outlook – supplementary economy tables, Table 1.6, 24 November 2022, Accessed 8 December 2022

People might, for example through unemployment, find themselves suddenly eligible for a means-tested benefit but ineligible for the one-off payment because they lost their job outside the relevant assessment period.

18. Mike Brewer, of the Resolution Foundation, noted that how the payments were provided would affect both their fairness and the disincentives they create to work. He told us that "The more payments that are made, the less unfairness is generated from each payment, but perhaps the longer the disincentive effect is prolonged."[25]

19. Larger, occasional payments could create substantial cliff-edges and therefore relatively severe disincentive effects during their assessment periods. Smaller, more regular payments would smooth the cliff-edges, but spread the reduced disincentive effects over more time.

20. The Treasury told us that it was currently considering how to schedule the payments during 2023–24. Dan York-Smith, Director of Strategy, Planning and Budget, HM Treasury, acknowledged that concerns about people missing eligibility dates had influenced the payment pattern for support for people on means-tested benefits in 2022–23. He told us:

> The £650 was made in two separate payments with two different eligibility dates, recognising the fact that people move in and out of eligibility as they claim or move off universal credit, for example.[26]

He also told us that the decision was still to be made on the number of the payments for 2023–24, but added that "I do not think it will be one payment."[27]

21. Mike Brewer said "I would hope they make three or four payments, and I would also hope they skew them towards the winter months."[28] The £400 Energy Bills Support Scheme for 2022–23 is being deployed in six instalments over the colder winter months.[29]

Recommendations

22. **The Government provision of additional support to those on low incomes through one-off payments presents a problem of cliff-edges to that support. If someone doesn't match the criteria required of the means-tested benefits, both in terms of income and the time they are being assessed for eligibility, they will not receive this significant lump sum support when a very similar household may do so. That appears unfair. It may also create a disincentive to work, as it may be in someone's interests to reduce their hours at key periods to ensure their eligibility for the benefit at the required time.**

23. ***We recommend that the Government consider a greater number of lump-sum payments than the two in 2022–23, which would better ensure that more households have support at the time of their greatest need, and would reduce the severity of the disincentives to work within each relevant assessment period. We recommend mirroring the payments model used in the Energy Bill Support Scheme—a payment each month for six months—which provided regular help over the colder winter period.***

25 Q242
26 Q483
27 Q484
28 Q242
29 "£400 energy bills discount to support households this winter", Department for Business, Energy & Industrial Strategy Press Release, 29 July 2022

24. ***We would also welcome analysis from the Treasury of:***

- ***the work disincentive effects of different sizes and frequencies of lump sum payments, and***
- ***whether a taper might better incentivise work as part of any subsequent payments from 2024–25.***

25. **Cliff-edges remain present elsewhere. Certain income levels also attract unusually high marginal tax rates or the loss of means-tested entitlements. Such features are distortionary. The Treasury should endeavour to smooth them wherever possible, in areas of its own responsibility, and when considering funding requests from departments. We will return to this issue in future.**

Conclusions and recommendations

1. While the additional payments to households in receipt of means-tested benefits are welcome, they will not reach all low-income households. We recommend that the Treasury provide us with further analysis of those low-income households who will not receive cost of living payments in 2023–24, and the extent to which the Household Support Fund has supported them, and is expected to support them in the coming financial year. (Paragraph 11)

2. The Government provision of additional support to those on low incomes through one-off payments presents a problem of cliff-edges to that support. If someone doesn't match the criteria required of the means-tested benefits, both in terms of income and the time they are being assessed for eligibility, they will not receive this significant lump sum support when a very similar household may do so. That appears unfair. It may also create a disincentive to work, as it may be in someone's interests to reduce their hours at key periods to ensure their eligibility for the benefit at the required time. (Paragraph 22)

3. *We recommend that the Government consider a greater number of lump-sum payments than the two in 2022–23, which would better ensure that more households have support at the time of their greatest need, and would reduce the severity of the disincentives to work within each relevant assessment period. We recommend mirroring the payments model used in the Energy Bill Support Scheme—a payment each month for six months—which provided regular help over the colder winter period.* (Paragraph 23)

4. *We would also welcome analysis from the Treasury of:*

   - *the work disincentive effects of different sizes and frequencies of lump sum payments, and*
   - *whether a taper might better incentivise work as part of any subsequent payments from 2024–25.* (Paragraph 24)

5. Cliff-edges remain present elsewhere. Certain income levels also attract unusually high marginal tax rates or the loss of means-tested entitlements. Such features are distortionary. The Treasury should endeavour to smooth them wherever possible, in areas of its own responsibility, and when considering funding requests from departments. We will return to this issue in future. (Paragraph 25)

Formal minutes

Monday 12 December 2022

Members present:

Harriett Baldwin, in the Chair

Rushanara Ali

John Baron

Anthony Browne

Dame Angela Eagle

Danny Kruger

Andrea Leadsom

Anne Marie Morris

Draft Report (*Autumn Statement 2022 - Cost of living payments*) proposed by the Chair, brought up and read.

Ordered, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 25 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Eighth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 13 December at 9.30 am.

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

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4th	Jobs, growth and productivity after coronavirus	HC 139
5th	Appointment of Marjorie Ngwenya to the Prudential Regulation Committee	HC 461
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6th	Lessons from Greensill Capital	HC 151
7th	Appointment of Sarah Breeden to the Financial Policy Committee	HC 571

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8th	The appointment of Dr Catherine L. Mann to the Monetary Policy Committee	HC 572
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6th Special	Economic impact of coronavirus: gaps in support and economic analysis: Government Response to the Committee’s Eleventh Report	HC 1383