

WOMEN'S BUDGET GROUP

Response to the 2002 Budget

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The Women's Budget Group

The Women's Budget Group (WBG) is an independent organisation bringing together academics and people from non-governmental organisations and trades unions to promote gender equality through appropriate economic policy.

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1. Overview

- We welcome the introduction of a seamless payment for children and the decision to pay support for children directly to the main carer, mainly the mother. Money paid to women is more likely to be spent on children than money paid to men.
- We are pleased that some of the WBG's concerns about incentives for second earners to enter employment have been taken on board and we encourage the Government to continue to lower barriers to women's employment.
- We urge the Government to work towards a similarly seamless system of support for childcare costs so that the short-term unemployed and those seeking employment also benefit.
- Having made considerable progress in the support of childcare costs, more attention needs to be paid to the undersupply of childcare places.
- We welcome the commitment to continue to pay for health care from general taxation. This will benefit women, most of whom lack the independent income to pay for care privately.
- The delivery of the Government's ambitious plans for the NHS depends upon the improvement of the pay of the NHS workforce, the majority of whom are women. We call for ring-fenced funds to enable the NHS to remove gender pay inequality.
- The changes introduced to simplify the running and profitability of small businesses are welcome and we urge the Government to reduce the barriers faced by women in setting up small businesses.
- Opportunities for training remain closely tied to employment and we call again for the Government to extend these to women who wish to return to the labour market after a period of caring.
- We encourage the Government to reconsider its pensions policy in light of high rates of pensioner poverty, which has a disproportionate effect on women. The move towards more private pension provision is particularly worrying for women who are less likely to be able to save an adequate amount for old age.

2. Tax Credits

2.1 Payment to the main carer

The Women's Budget Group welcomes the introduction of the new Child Tax Credit as a seamless form of financial support for children. We particularly welcome the principle of paying this to the main carer and recognise that this will become an important source of income for many women.

We are anxious that this principle is translated into practice. This is an issue of growing importance. In the implementation of Automatic Credit Transfer, which replaces payment by giro, and the development of a Universal Banking Service, attention needs to be paid to women's access to and control of resources held in joint bank accounts. In addition, the WBG is concerned that clear guidance should be drawn up about what is meant by the 'main carer', and groups such as the WBG should be consulted on the content of such guidance.

2.2 Extended eligibility to and increased generosity of Child Tax Credit

We particularly welcome the breaking of the link between employment and payments of CTC and the fact that CTC will be available to all parents on low incomes.

We also welcome the higher than expected level at which CTC will be paid and the policy to raise the child rates at least in line with earnings for the rest of this parliament. However, the intentions with respect to the family element of CTC remain unclear. We would hope that this too would be raised at least in line with earnings.

There is no indication that Child Benefit will be raised by more than price inflation in 2003 or in future years. We would emphasise that we believe universal Child Benefit to be a key benefit for women and children and that it too should be raised in line with earnings.

2.3 Increased employment incentives for second earners

We are delighted that the design of the Working Tax Credit has taken on board some of WBG's concerns about the need to increase incentives for second earners to enter employment.

The lowering of taper rates and the option for couples to claim the 30 hours premium on the basis of their combined hours in the labour market constitute unambiguous gains for second earners. These will reduce, though not remove, work disincentives for women whose partners are low paid. We urge the Government to monitor closely the effects of these changes and to continue to lower barriers to women's employment.

2.4 The childcare element of Working Tax Credit

The extension of help with childcare costs to those with higher levels of income is to be welcomed. Some parents will now be eligible for just the childcare element of WTC. It is important that they are made aware of this entitlement and we suggest that the Inland Revenue should publicise this change with a tailored campaign.

Even with the Government's increased support overall, it is important that the proportion of childcare costs that have to be met by parents is kept under review. We are concerned that low earning parents, those with younger children and those with large families will have difficulties meeting the 30% contribution.

We welcome the principle of supporting the costs of approved childcare in a child's own home and support the notion that shift workers and those caring for children with disabilities have specific childcare needs. However, we believe that the supply of such childcare remains the principal problem for these groups.

We are also concerned that the childcare tax credit remains closely tied to employment and that financial support for childcare ceases if a parent is out of work. This has a number of serious effects:

- Childcare is disrupted to the detriment of the child;
- Parents who lose entitlement to the childcare tax credit may find that they are not able to fulfill contractual obligations with their childcare providers;
- There will be deleterious effects on the supply of childcare if providers are wary of entering into contractual arrangements with parents who may not be able to fulfill them. In some areas, where many parents are recipients of childcare tax credit, this may have significant effects on the supply of childcare. In addition, it introduces a risk that childcare suppliers will 'cream-skim' and provide only to those parents who they think have the lowest risk of unemployment;
- Parents will have more difficulty finding new employment if, in order to start work, they will have to find new childcare.

It should be noted that these effects will be more widespread as the range of parents eligible for the childcare element of WTC increases.

2.5 The principle of independent taxation

The WBG remains concerned that tax credits breach the principle of independent taxation. Joint assessment and the need for partners to disclose information about their incomes in order to make a claim threaten the financial autonomy of claimants although independence is enshrined in the remainder of the tax system. The Chancellor's statement about moving towards an integrated tax and benefit system suggest that this anomaly will become more apparent over time.

3. Childcare

In light of the continuing shortfall in the supply of childcare places, we regret that childcare and improvements in the funding of childcare were not given a greater place in the 2002 Budget. We welcome the Government's support for the costs of childcare for some parents through the tax credit system. However, without increases in the supply of childcare few parents will, in reality, be able to take advantage of this support. Indeed, only 16% of children under the age of three are currently able to make use of a registered nursery or child-minder.¹

A key component of undersupply lies in the childcare workforce. Childcare is competing and losing out to other shortage occupations, in particular nursing, teaching and social work. These trends will continue until the issues of pay and career development are addressed. We ask the government to make these problems a priority and suggest they look to other EU countries for examples and lessons in establishing a unified Early Years profession.

We anticipate that the Childcare Review, conducted by the Performance and Innovation Unit, will address the issues we raised in our response to the Pre-Budget Report. We urge the Government to make the findings of the review available in the public domain as a wide debate on these issues is long overdue.

4. Women and Health

4.1 Increased funding of the NHS

The Chancellor's announcement of substantial extra funding for the NHS is especially welcome. The NHS is critical to the health and economy of the country and plays a particularly important role in the lives of women, who are the majority of users of, and employees in, the NHS.

The WBG also supports the decision to continue funding the NHS through general taxation. A system of healthcare funding which pools risk and is free at the point of use is important for women who earn less on average than men and hence are less able to pay for private health insurance.

The WBG also welcomes extra resources for local authorities to improve care for the elderly. Too many elderly women are stuck in beds in acute wards when they would be better off being cared for elsewhere. However, we are disappointed that the Government continues to refuse to pay for the personal care element of long term care costs in England, as women are more likely to be recipients of long term care than men. We therefore urge the government to extend its principle of risk pooling to long term care.

¹ All our futures – putting childcare at the centre of every neighbourhood, Daycare Trust, April 2001.

4.2 Spending money effectively

We welcome the Government's commitment to ensuring that extra money for health delivers value for money through improved mechanisms for auditing and inspection. We fully support the decision to have an annual report to Parliament prepared by the new independent auditor. It is essential that gender is taken into account in this auditing process to ensure that resources are spent in such a way that women and men enjoy equivalent levels of good health.

In addition, the audit must give a clear report of the division of resources between private and public providers of healthcare to ensure that the principle of best value is applied. It is our concern, in particular, that an account be given of the proportion of financing that is channeled through private providers and paid out as shareholder profits.

Local services should not only be made accountable to central Government: they must also be made far more accountable to local users and communities. The WBG believes the Government should pay particular attention to this issue in the year ahead.

4.3 The NHS workforce

The Chancellor's call for prudent wage rises within the public sector should not overlook the urgent need to tackle pay inequality between women and men. The Kingsmill Review reported that women working in the public sector only earn 86% of the mean hourly earnings taken home by men in the public sector.²

Large numbers of women are employed in the Health Service and other public sector organisations, frequently in low paid and part-time work. Historically, caring work undertaken by women has been undervalued and lower paid than other occupations, and this is one reason for the recruitment and retention crisis facing the caring professions such as nursing, teaching, childcare and social services.

The modernisation programme cannot succeed without tackling pay inequalities between women and men. The WBG welcomes the gender pay audits beginning to be undertaken in the civil and public services, but these will need to be backed up by ring-fenced Treasury funds to enable departments and public services to remove pay inequalities.

The WBG believes that Treasury spending to improve women's pay in the public services and remove pay inequalities is an essential investment if the Government is to achieve its long term goals. With increased competition for staff from the private sector, public services can no longer rely upon a supply of women willing to accept relatively poorer pay. Nor will men be attracted to careers in the caring and teaching professions.

² The Kingsmill Review, Women and Equalities Unit, 2001

Expansion in the health service and increased spending in education will be undermined unless recruitment and retention issues are resolved - ensuring equal pay is one important way forward.

Improving women's pay in public services will also in the long term reduce demands upon the Treasury through enabling women to make better pension provision for their retirement. It will also assist with the Government's aim of reducing child poverty.

5. Increases in National Insurance

The 1% increase in National Insurance contributions is welcome as a signal of the government's appreciation of the value of collective insurance against risk. This increase will boost the NI Fund, which already has a comfortable surplus of over £20bn. We would urge the Government to use this surplus to improve state pensions. The 1% levy on earnings above the Upper Earnings Limit is a move in the right direction and we encourage the Government to search for the most progressive forms of taxation in future.

It should be noted, however, that the increase in employers' NI contribution, which is related not to profitability but to payroll size and cost, may create further disincentives to both public and private employers to make long-term commitments to staff, and reinforce the trend to a gradual loss of permanent jobs, over the next few years. It runs the risk of amplifying the trend for 'ageist' employment policies, as senior staff are substituted for younger, 'cheaper' staff.

6. Employment and Productivity

6.1 Support for small businesses

We welcome the changes announced to simplify the running of small businesses and the reduction in corporation tax for some small businesses. The lifting of onerous VAT reporting regulations and the raised VAT registration threshold as well as provisions for bad-debt VAT recovery will make it easier to work on a self-employed basis. However, we would encourage the Government to examine and reduce the barriers that women in particular face in setting up small business or when they become self-employed. For example, women are less likely to have access to credit and the necessary IT skills that are essential to set up a business today.

6.2 Lone parents

The WBG recognises the importance of personalised and tailored support for those seeking employment and so welcomes the introduction of a mentoring service for lone parents. However, we are concerned by the use of compulsion in this programme and are particularly worried by any penalties that might be attached to non-attendance at a personal adviser meeting.

6.3 Training and opportunities in the labour market

The Women's Budget Group welcomes the initiative in the Budget to assist the least qualified to acquire basic skills. However, we regret that the initiative appears to be restricted to those already in employment, indeed to employees. Women who wish to return to employment after a period of caring thus will not be able to benefit from this until they have found employment. We recommend that a way be found to extend these pilot schemes or equivalent subsidised training opportunities to other workers and to those who are not in employment. This would enable those returning to employment after childcare to do so to more productive employment. The lessons from US experience, which underlie the decision to restrict the schemes to those already in employment, are not necessarily applicable in the different circumstances of the UK, and deserves testing in these pilots. It is also important to ensure that the principle of equal treatment for part-time workers, is implemented, so as to ensure that those employed part-time, who are among the least skilled section of the workforce in the UK, will have access to such training. The access to schemes by part-time workers needs to be monitored closely and alternative, tailored schemes put in place if differences are revealed.

6.4 Corporate Social Responsibility

The Chancellor says "Britain can in this Parliament build a consensus that we advance enterprise and fairness together". The work on Corporate Social Responsibility within and outside the government is concerned to build fairness and best practice at the centre of British enterprise. In order to do this we need to ensure that British business is fair to women in all areas of work, and we again call on the government to put gender at the centre of its work on Corporate Social Responsibility. The recommendations of the Kingsmill Review are particularly important here, specifically the recommendations for employment and pay reviews in all organisations.

In addition, the recommendation that an inquiry be set up to provide input to the Standards Board proposed by the Company Law Review, and that the inquiry advise on incorporation of human capital management information, including information on women's employment and pay, as part of the mandatory requirements of the Operating and Financial Reviews, is vital to achieving successful and fair enterprise in the UK.

7. Pensions and Income Provision for Older People

7.1 The level of the British state pension

The Chancellor opened his budget statement with illustrations of how well the British economy was faring by international standards. However, when we examine pension provision, the UK falls consistently behind other advanced economies. Pensioners in the UK are at a higher risk of poverty than many of their EU counterparts, and the majority of poor pensioners are women. Indeed the Department for Social Security reported that in

the year 2000, 31% of single old women risk falling into poverty compared to 25% of the male counterparts.³ The indignity and health-damaging effects of poverty are of particular concern in later life when poverty is most likely to be persistent.

7.2 The Budget's failure to address pensioners' needs

In a Budget that is redistributive in many other respects, it is regrettable that there has been no substantial improvement in state pensions this year to allow older people to share in rising national incomes and to lift more pensioners off means-testing.

The April 2002 rise in the basic pension (£3 per week for non-married pensioners with a full pension and £4.80 per week for couples) barely exceeds inflation. The commitment to raise the basic pension in future in line with inflation or at least by £100 pa leaves pensioners to fall ever-further behind average wage levels and living standards. The risk of poverty is particularly acute for those without private pension income, which is the case for two thirds of women pensioners.

The Chancellor announced that certain benefits (e.g. Child Tax Credit) would be linked to earnings for the remainder of this parliament. We now urge the Government to link the basic state pension to earnings growth.

For a single pensioner, the Minimum Income Guarantee will be worth £100 per week from 2003. However, for a single full-time employed person aged 25+ minimum income guaranteed by the Government is £154. We now urge an open debate about the reasons for such a wide disparity in the minima guaranteed to different sections of the population.

7.3 Income-related benefits

The planned rise in the personal allowance for pensioners aged up to 75 by more than inflation in 2003 (to £6,610pa) is welcome, although many women pensioners will gain nothing, since their income is below the current tax threshold.

The current 20 per cent gap between the basic pension and the MIG is set to widen and as such, more and more pensioners will be brought into means-testing. At present means-tested benefits help some of those with low incomes but low take-up means that many fall through the net. In 1999/2000 between 22% and 36% of pensioners entitled to the Minimum Income Guarantee were not making a claim, with non-married female pensioners making up the majority of eligible non-claimants.

7.4 Pension Credit

The Pension Credit, to be introduced in 2003, modifies the structure of means-testing by tapering the withdrawal of benefits as pension income

³ Households Below Average Income, DSS, 2000

rises. Although this will increase incomes for some pensioners, we believe that a number of issues remain unresolved.

The Pension Credit has particular disadvantages for women. By setting the Pension Credit threshold at the rate of the full basic pension, the Credit will not enhance the incomes of those with only a partial basic pension and a modest amount of additional savings or pension. Currently, 51% of women do not receive a Basic State Pension in their own right, and recent research suggests that as many as 22% of women aged 55-59 and 12% of those aged 50-54 will not reach full pension entitlement even though these cohorts of women will benefit from full Home Responsibilities Protection.

In addition, the Pension Credit will operate on a family means-test so there will be no individual reward to savings and occupational pensions. Many married or cohabiting women will either be rendered ineligible for Pension Credit because of their partner's incomes or will not receive the credit directly. Hence, the Pension Credit will do little to increase women's independent incomes in later life.

7.5 Private pensions

The Budget does not address the issues arising from the crisis in private pensions. As final salary defined benefit schemes close to new members, as investment returns in money purchase schemes remain stagnant, as providers renege on pension promises due to fraud or mismanagement and as annuity rates fall, confidence in private pensions is very low and the need for adequate state pensions is greater than ever.

Women face particular risks in relying on private pensions. Living longer, they may see their annuity income decline substantially relative to prices. Those who rely on a husband's private pension may find when widowed that he has paid in too little to provide an adequate annuity for them.

In addition, many individuals are put off by the complexity of pension provision, so that they save too little for retirement. This affects women in particular, who are less likely to be covered by occupational pension schemes.

7.6 An alternative pensions policy

Radical steps are needed to simplify the British pension system and to increase the level of state pensions. In particular, a basic pension set at a level that lifts most pensioners off means-tested benefits would make it much easier for working age individuals to appreciate the value of additional pension-building and saving. The growing gap between the MIG and the basic pension means it is difficult, especially for the low paid and those with interrupted employment, to be sure that saving and investing will make them better off in retirement. The Pension Credit, in substituting 40% effective taxation of a band of income for the present 100% rate, does not address this issue fully.

We believe that a better basic pension, raised to the level of the MIG and indexed to wages is the best way to tackle poverty among older women and ensure that all pensioners share in the general rise in economic prosperity.

8. Crime

The WBG welcomes the Chancellor's statement that no crime will be tolerated – especially violent crimes. We note that street crime was singled out as an area of particular concern. However, much crime that affects women is violence occurs in the domestic sphere. Further, women report to the British Crime survey that the crime that they most fear is rape. Crimes of physical and sexual violence against women are not primarily street crimes, but rather perpetrated by men that they know.

We recommend that funding priority is given not only to street crime, but also to violence against women, so that women can have their needs for protection and justice met. We ask that a fairer share of the money targeted at reducing violent crime is targeted at reducing the incidence of violence against women. Priority use of funds should be given to crimes of violence which take place in private not only those that take place in public.

9. Education

The WBG welcomes the Government's commitment to increasing Government spending in schools, colleges and universities. Investment in training and education is crucial to ensuring young people have the basic skills they need for a modern economy. However, there is also need to spend money on life-long learning, especially for women returning to employment after a period of intensive caring.

9.1 Educational segregation

In recent years women's educational achievements have improved, and girls are now obtaining more GCSEs and better A level results than boys. Although girls' performance has improved, girls' subject choice remains narrow. Girls continue to choose subjects traditionally dominated by women, such as languages and the arts, and are under-represented in the sciences, mathematics, engineering, technology and ITC where there are national skills shortages. These choices not only narrow women's career opportunities and earnings potential (and may be one reason why women graduates earn 15% less than men on average after leaving university), but may also inhibit national growth and productivity because of skill shortages.

The WBG recommends that increased budgets for education be accompanied by renewed efforts to combat gender stereotyping in subject and career choice and widen opportunities for women, especially in areas of skill shortages.