WBG Initial response to the Budget

March 2021

Public service cuts will hit women and poorest hardest, while business stands to receive 'biggest tax cut in modern history'

The Covid-19 pandemic has exposed and exacerbated inequalities within our economy and society. Years of cuts and underspending on health, education, local government and public services left our health, care and education services weakened and made us more vulnerable to the impacts of the pandemic, leaving the UK with the 4th highest mortality from Covid-19 in the world.[1]

This Budget was a missed opportunity to rebuild the economy so that it works for everyone and builds resilience into the future.

Public services

Rather than investing to build back better, this Budget cuts spending on public services: departmental spending will be £4 billion lower in 2021/22 than pre-pandemic levels and between £14 and £17 billion lower every year from 2022 onwards.[2] This follows a £10bn cut to departmental budgets in 2021/22 in the 2020 Spending Review[3], and will weaken vital public services just when they are needed most to deal with the long-lasting impacts of the pandemic.

In terms of health, the Red Book indicates that the NHS England budget will decline from £148 billion in 2020/21 to £139 billion in 2021/22.[4] The OBR notes further that there is no 'explicit provision for virus-related costs' beyond 2021/22, even though significant costs are expected due to ongoing annual vaccinations and ongoing Covid-19 pandemic.[5]

And while the Chancellor claimed in his speech that the government's response to Covid had been 'fair' and that 'our approach to fixing the public finances will be fair',[6] we know from previous research that women and those on low incomes, as well as those from BAME backgrounds, will be hit hardest from cuts to public services.[7]

The government has not published a comprehensive Equalities Impact Assessment, despite being required to do so. Yet we know from spending cuts over the past decade that cuts to public services hurt women, those on low incomes and BAME households the most.[8]

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1 Office for Budget Responsibility (2021) Economic and fiscal outlook – March 2021 (https://bit.ly/3uV8Brg)
2 IFS (2021) Budget 2021: Initial IFS Response (https://bit.ly/388J2cA); see also Office for Budget Responsibility (2021) Economic and fiscal outlook – March 2021 (https://bit.ly/3uV8Brg)
3 WBG (2020) Austerity in the Place of Ambition: Response to the 2020 Spending Review (https://bit.ly/3bgNcRy)
4 HM Treasury (2021) Budget 2021 (https://bit.ly/30cS8kq), p. 32
5 Office for Budget Responsibility (2021) Economic and fiscal outlook – March 2021 (https://bit.ly/3uV8Brg)
6 HM Treasury and Rt Hon Rishi Sunak MP (2021) Budget Speech 2021 (https://bit.ly/3e8HqDM)
7 WBG and Runnymede (2017) Intersecting Inequalities: the impact of austerity on Black and Minority Ethnic women in the UK (https://bit.ly/30hKYuV)
8 Analysis by WBG and the Runnymede Trust (2017) of cuts to public services found that households in the poorest quintile (20%) saw their living standard fall by between 9% (white) and 14% (mixed households) as a proportion of their income

Social care

The Chancellor was again silent on social care, despite the urgent need for a new settlement to fix a system that was already broken prior to the pandemic and had left 1.5 million people with unmet care needs.[9]

Detailed analysis of the Red Book indicates that funding for social care from central government will actually be lower in 2021/22 than in the current year. While Department for Health and Social Care spending had been forecast to be £199.2 billion this year, DHSC spending will fall to £169.1 billion in 2021/22, largely due to a reduction in the additional funds (£58.9 billion) the department was allocated for Covid-related costs.[10] As with health, there is no specific Covid-related funding beyond 2022.

Already there are indications that care homes have been pushed to the brink of collapse, with higher costs due to Covid and lower occupancy rates.[11] Women are disproportionately affected by the crisis in social care: they are both more likely to be in receipt of care and to be providing care, either paid or unpaid.[12] The number of unpaid carers has increased from 4.5 million to 13.6 million in the last year,[13] with the majority women and significant consequences for those that are also in paid work.

Investing in care ensures the wellbeing of our society *and* makes economic sense. Research by WBG has shown that investment in the care sector could create 2.7 times as many jobs as investment in construction and contribute to a low-carbon recovery.[14]

Childcare

There was nothing in the budget on childcare, despite the crisis in the sector:

- 58% of local authorities expect some childcare providers in their area to shut permanently[15]
- 46% of mothers being made redundant said that lack of childcare was a factor in their selection for redundancy[16]
- 72% have worked fewer hours and cut their earnings due to lack of childcare.[17]

Childcare is a vital form of infrastructure, enabling parents to enter or stay in employment. Much like social care, it also makes good economic sense at a time when unemployment is expected to rise.[18]

between 2010 and 2020, while those in richest quintile only saw living standards fall by 2% (white) to 3% (mixed households). For full details of the research, see here: https://bit.ly/30ackDp

[9] Age UK (2019) Estimating need in older people: Findings in England (https://bit.ly/3sSgfkF)
[10] HM Treasury (2021) Budget 2021 (https://bit.ly/30cS8kq)
[11] Booth, R. (2021) UK's largest care homes provider to sell off 52 facilities (https://bit.ly/30adkr9)
[12] WBG (2021) Social care, gender and Covid-19 (https://bit.ly/3uVabJI)
[13] UK Carers (2020) Forgotten families in the coronavirus outbreak (https://bit.ly/3fk4kGQ)
[14] WBG (2017) Investing in the Care Economy (https://bit.ly/3sLRdDF)
[15] Coram Family and Childcare (Dec 2020) Over half of local authorities in England anticipate permanent closure of childcare providers after Covid funding ends (https://bit.ly/2NkoFlq)
[16] Pregnant Then Screwed (2020) Covid, Childcare and Career (https://bit.ly/3jUKu5p)
[17] Ibid.
[18] WBG (2017) Costing and funding free universal childcare of high quality (http://bit.ly/2lHHGeH)

Incomes, jobs and poverty

UC and benefits

The decision to extend the £20 uplift to Universal Credit for only another six months, rather than make it permanent, will leave millions of families facing a cut to their income at a point when unemployment is expected to peak.

The rise in UC last year was effectively an admission that social security levels are too low. The increase should be made permanent and extended to the 2.2 million people still claiming contributory and other benefits that pre-date UC, 75% of whom are disabled[19]. At the same time, the Government should end the benefit cap which is costing affected families with children an average of £62 a week[20], and the two- child limit, which is a measure that penalises children for being born into larger families. Taken together this would lift 200,000 children out of poverty. [21]

Even with the uplift, our social security system is among the least generous among OECD countries in relation to lost earnings. In the longer term our social security system needs fundamental reform to ensure that it can prevent poverty, end destitution and provide security of income at an adequate rate to allow people to live with dignity and agency.

Statutory Sick Pay

There was nothing in the budget to address the problems of statutory sick pay. The low rate of SSP has led to reports that people are avoiding getting tested for Covid because they can't afford the time off work. Moreover, 15.5% of women and 10.6% of men in employment do not earn enough to qualify for SSP at all (around 2 million workers in total).[22] As the lockdown restrictions lift, it is vital that people are able to afford to isolate if they become ill. The failure to address the problems with SSP is not just a problem for workers, it is bad for public health, which in turn is bad for society and the economy.

Furlough

We welcome the decision to extend the furlough scheme, which has prevented unemployment for many, to September. However, job losses are expected when the furlough scheme ends and it is vital that there is an investment in training to help those, who are likely to lose their jobs, find new work.

WBG is concerned that, without such action, women will be disproportionately impact. Overall, more women than men have been furloughed across the UK, with estimates for the end of January 2021 reaching 2.32 million for women, and 2.18 million for men.[23] Women are also the majority of those working in sectors – retail, accommodation and food services – that have been most severely affected by successive lockdowns and Covid-19 restrictions.

Self Employment Income Support Scheme (SEISS)

The extension of the SEISS to newly self-employed is welcomed. However, the Chancellor has chosen not to remedy the way in which the payment calculation currently disadvantages women who have

[19] Trust for London (2021) Why the £20 uplift in Universal Credit must be extended to those on legacy benefits (https://bit.ly/2OjHtl5)
[20] CPAG (2021) 170,000 households hit by the benefit cap (https://bit.ly/308GneN)
[21] CPAG (2021) 2021 Budget Submission (https://bit.ly/3sOS4ne)
[22] WBG (2020) WBG responds to recovery roadmap (https://bit.ly/3e66ivA)
[23] WBG (2021) Women and employment during Covid-19 (https://bit.ly/3sSiRPv)

recently taken maternity leave, impacting a potential 69,200 women negatively.[24] Payments under the scheme are calculated based on average trading profits in the preceding three tax years with no exemption made for periods of maternity leave. As a result, women who have taken maternity leave, can be left with significantly lower payments through the scheme than claimants who have not. This would have been a simple matter to fix and it is disappointing that the Chancellor has again failed to do so, despite the fact that the Women and Equalities Committee had urged for an Equality Impact Assessment to be undertaken and for women's disadvantage in the scheme to be addressed.[25]

Violence against Women and Girls (VAWG) services

The additional £19 million, on top of £125million in the 2020 Spending Review, for VAWG services falls far short of the £393 million, including £173 million for refuges, that Women's Aid[26] estimate is needed to provide sufficient funding for a 'safe and sustainable' national network of women's domestic abuse services. VAWG services have been underfunded for decades, and are now struggling even more with demand for their services having risen as a result of the Covid-19 pandemic.[27]

Housing

We have a housing crisis in this country which the budget did little to address. The cut in stamp duty has had an inflationary impact on house prices, which have increased by 8.5% in the 12 months to December 2020.[28] Extending the cut risks pushing houses further out of reach of many. The Government guarantee on 95% of mortgages will not help those who cannot afford to buy because of the gap between high prices and low earnings. In both cases it would be better to invest in building more social housing.

Tax

Personal Tax Allowance (PTA)

We have long argued against above inflation increases to the personal tax allowance, introduced by successive governments since 2010, as these are regressive and disproportionately benefit men. 63% of the benefit of increases to the personal tax allowance and higher rate tax allowance have gone to men.[29] So, we are relieved that the Chancellor has moved away from this policy, by freezing existing allowances to 2025/26. HMRC's own analysis indicates that 69% of those brought into the higher tax rate as a result of the freeze are men.[30] Income tax is the fairest tax that we have and, in the longer term, a better way to raise more revenue from personal tax would be to be have more progressive tax bands and increase tax rates for those on higher incomes.

Corporation Tax

We have also argued against the cuts to Corporation tax since 2010 from 28% to 19%. The announcement by the Chancellor that corporation tax will rise to 25% in 2023 is welcome. However,

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[24] Ng, K. (2021) Covid support scheme 'disproportionately prejudicial' against new mothers, High Court told (https://bit.ly/2OpqYUv)
[25] UK Parliament (2021) Government must assess equality impact of every policy (https://bit.ly/2MJnADA)
[26] Women's Aid (2019) Funding Specialist Support for Domestic Abuse Survivors (https://bit.ly/3uFDuA6)
[27] WBG (2021) Violence against women and girls (https://bit.ly/38aJqrf)
[28] ONS (2021) UK House Price Index: December 2020 (https://bit.ly/3edtUyJ)
[29] WBG (2021) Taxation and gender (https://bit.ly/3uVdUXI)
[30] HMRC (2021) Income Tax Personal Allowance and the basic rate limit from 6 April 2022 to 5 April 2026 (https://bit.ly/3rfaygb)

we are concerned by the introduction of the small profits exemption, which will mean that only 10% of companies are subject to the full 25% rate. There is no evidence that such a measure will be progressive, with lower profit companies not necessarily corresponding to lower incomes for their owners. In fact, such a measure introduces distortions in the tax system that may encourage avoidance behaviours and, thereby, reduce the tax base.

Super Deduction

The 'Super Deduction' announced by the Chancellor will allow companies to make an unprecedented 130% deduction against taxable income for investments. Expected to cost £25 billion over the two years it is in operation, the Chancellor declared it to be the 'biggest business tax cut in modern British history'.[31] Not only does this seem at odds with the Chancellor's aim of repairing public finances, it is questionable to what extent this will encourage genuine new investment that would not otherwise have taken place (in some cases, it may bring forward investment, thereby leading, as IFS notes, to a 'hangover' in subsequent years)[32]. With little in the Budget to support a green recovery, the 'Super Deduction' could have been used to incentivise investment in the transition to a low carbon economy.

Freeze on inheritance tax threshold, pension lifetime allowance, and CGT exemption

WBG welcomes the freeze of the inheritance tax threshold, pension lifetime allowance and the CGT exemption. These allowances and exemptions are regressive, benefitting those on higher incomes and with greater wealth, the majority of whom are men.[33] Over time, we would urge the Chancellor to go further to remove, and or reform, these allowances and exemptions in the interest of building a fairer, more progressive tax system.

Freeports

The announcement of eight freeports is a concerning development. Businesses that set up in these zones will be subject to less restrictive planning, lower customs duties, and lower taxes. In fact, Treasury documents indicate that employers operating in a freeport tax site would pay no Employer National Insurance Contributions (ENICs) for employees earning up to £25,000 for the first three years of their employment.[34] It is questionable whether freeports would encourage new investment rather than simply displacing investment from other sites and, thereby, reducing the overall revenue base. This is concerning for women, who stand to benefit the most from the public spending that is enabled from taxation. There are also concerns that freeports will become 'sleaze ports' – a magnet for money laundering and trafficking in fake goods[35].

Windfall tax on companies that have profited during the pandemic

Some companies have made huge profits over the last year as a result of Covid, and it is right that they contribute to the recovery through an excess profits tax, as occurred at the end of World War 2. This would not impede recovery and it is disappointing that the Chancellor has chosen not to levy such a tax.

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[31] HM Treasury and Rt Hon Rishi Sunak MP (2021) Budget Speech 2021 (https://bit.ly/3e8HqDM)
[32] IFS (2021) Budget 2021: Initial IFS Response (https://bit.ly/388J2cA)
[33] WBG (2021) Taxation and gender (https://bit.ly/3uVdUXI)
[34] HM Treasury and HM Government (2020) Freeports prospectus (https://bit.ly/3kKt2ms)
[35] Tax Justice UK (2021)
Local councils should beware the false promise of freeports (https://bit.ly/30dBHnG)

Equality Impact Assessments

The Treasury has yet again failed to publish a comprehensive Equality Impact Assessment of the 2021 Budget. The only impact assessment relating to protected characteristics in the Budget documents are the Tax Information and Impact Notes (TIINS) produced by HMRC.[36] Only a few measures were recognised to have any equalities impact at all and even here the analysis is cursory, based on limited evidence and with a poor understanding of equality impact.

In the absence of a meaningful cumulative equality impact assessment of the budget as a whole it is impossible to judge whether the Treasury has met its obligation under the Public Sector Equality Duty to have 'due regard' to equality. The Equality and Human Rights Commission, Treasury Select Committee and Women and Equalities Select Committee have all called on the Treasury to do more to demonstrate that it has met its obligations under the PSED.[37] We join these calls and urge the Treasury to undertake robust Equalities Impact Assessments.

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Further reading: For a comprehensive analysis of the impact of Covid-19 on women's economic position check out the latest WBG research **here**.

WBG pre budget briefings for 20201 are available here

Sign up to our Covid- 19 newsletter and receive regular updates on the gendered impact of the pandemic. **Sign up here**

About Women's Budget Group

The **Women's Budget Group** (WBG) is an independent network of leading academic researchers, policy experts and campaigners. Our vision is of a caring economy that promotes equality between women and men.

[36] HMRC (2021) Tax information and impact notes: Budget 2021 (https://bit.ly/3sLVhUr)
[37] WBG (2020) Equality Impact Assessments published with the 2020 Budget (https://bit.ly/3e90DoO)