WBG Spring Statement Response March 2022

This year's Spring Statement took place against the background of a rapidly growing cost of living crisis. The Office for Budget Responsibility (OBR) is forecasting that inflation will reach a high of 8.7% in the fourth quarter of 2022 - its highest rate for 40 years.[1] This crisis will disproportionately impact the poorest people in the UK, and women in particular since they have lower levels of savings, are more likely to be in debt and spend a higher proportion of their expenditure on essential goods.[2]

In this context the Chancellor's response was extremely disappointing and fell far below what was needed to provide support to those who need it most. This is not just a crisis of rising prices, it is also a crisis of incomes. Over a decade of austerity policies, low wage rises and cuts to social security have left many people in poverty. While the richest households saved money during the pandemic, the poorest fell further into debt, with no cushion to cope with rising prices now.

The most effective way to provide support to low and middle earners would have been to increase the level of social security payments. Instead the Chancellor chose to target support on the better off through tax cuts, with further cuts promised in 2024.

Rising inflation will also reduce the value of the cash settlements announced for Government departments in the autumn 2021 Spending Review. The IFS has calculated that this means public spending will be more than 10% less than planned, with the NHS England Budget set to grow by 3.6% rather than the 4.1% planned in October and the schools budget down from 2.2% to 1.7%.[3] The Chancellor did not announce any additional spending to make up for this shortfall.

In many ways this Spring Statement marked a return to the priorities of austerity budgets since 2010. 2021 saw an increase in tax and plans to put real terms spending per head back up to 2009/10 levels by 2024. This year the Chancellor made the decision to allow public spending and social security to fall in real terms and made it clear that his priority was further cuts to taxes. It was this combination of tax cuts and cuts to spending since 2010 that left the UK economy in a weakened position to respond to the Covid 19 pandemic and left women, particularly poor, disabled and Black and minority ethnic women, more vulnerable to poverty now.

Economic forecast

Inflation

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[1] OBR (2022) Economic and Fiscal Outlook - March 2022 (https://bit.ly/3iAdQIc)
[2] WBG (2022) The gendered impact of the cost-of-living crisis (https://bit.ly/359aqsJ)
[3] IFS (2022) Spring Statement 2022 (https://bit.ly/3NgJN6p)

fourth quarter of 2022 and will average 7.4% in the 2022/23 financial year - its highest rate for 40 years.[4] This is nearly double the inflation forecast in October 2021. This will have severe consequences to people's incomes, with the cost of essentials like food and energy going up, and to public services and public sector pay, as departmental cash settlements were agreed back in the autumn when inflation forecasts were expected to be half of today's rates.

Public finances

Despite the inflationary pressures, public finances have continued to recover from the pandemic. Tax receipts were 4% higher than forecast in October 2021 and despite higher interest costs, public debt is now set to halve in 2021-22 from its post-World-War-II highest in 2020-21.[5] Public finances are therefore stronger than expected and the Chancellor had fiscal room to intervene further to support families' incomes with no detriment to the public purse.

Earnings

The OBR predicts that nominal earnings will rise by 5.3% in 2022. But wage growth is not expected to fully compensate for higher inflation, much of which is externally driven, meaning that real wages are expected to fall in both 2022 and 2023[6].

The announcement in October of a 6.6% increase in the National Living Wage in April 2022 was welcome and will make a difference to the finances of low-earners and many low-income families. As women are more likely to fall in these two groups, this was a positive impact that would push women's pay upwards. However, what sounded like a generous rise back in October is now set to be a cut in real terms, as the 6.6% increase doesn't match the forecast 7.4% inflation rate for 2022-23.

After 16 years of no real earnings growth, the pay landscape looks bleak. Wages are set to recover to 2007 levels only at the end of 2023.[7]

Standards of living

With inflation outpacing growth in nominal earnings and net taxes due to rise in April, real living standards are set to fall by 2.2% this year – their largest financial year fall on record – and not recover their pre-pandemic level until 2024-25.[8]

It remains to be seen the impact of inflationary pressures on public services, which along with incomes are essential to living standards and gender equality.

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[4] OBR (2022) Economic and Fiscal Outlook - March 2022((https://bit.ly/3iAdQIc)
[5] Ibid
[6] Ibid
[7] Resolution Foundation (23 Mar 2022) Chancellor prioritises his tax cutting credentials over low-and-middle income households with £2 in every £3 of new support going to the top half (https://bit.ly/3ujgKq0)
[8] Ibid

Social security

The Chancellor announced an increase of £500 million to the Household Support Fund, which is administered at the discretion of local authorities, but failed to increase social security rates in line with inflation.

Prior to the spring statement there were widespread calls for the Chancellor to increase the level of social security payments in line with rising inflation, rather than the 3.1% due in April this year. Instead Rishi Sunak increased the Household Support Fund by £500million. This does not come close to providing low earners, disabled people, unpaid carers and unemployed people with the support they need in the face of rising prices. Asking struggling families to apply for discretionary, temporary funding from their local authority is not the best way to give people security. The £0.5bn extra for the Household Support Fund also does not offset the £11bn benefit cut estimated from not raising benefits in line with inflation.[9]

This real-terms cut comes on top of a series of cuts to social security since 2010, that cost claimants over £37bn a year by 2020. During the Covid pandemic universal credit was increased by £20 a week (although other benefits, including disability benefits did not benefit from this increase). This uplift was removed in autumn 2021. As a result benefits are reaching their lowest level in real terms since 1985[10]. Not only are some benefits increasing at bellow the rate of inflation, others are frozen altogether including:

- Working Tax Credits - childcare expenditure element
- Child Tax Credits - family element
- Sure Maternity Grant
- Best Start Grants
- UC - family element
- UC - childcare costs elements
- Benefit Cap

The best way to help families up and down the country struggling to buy enough food to eat and heat their homes is to strengthen our social security system, which was purposefully built for this. Increasing all benefits by an extra 4 percentage points this April would have cost £9 billion in 2022-23[11]. This uprating would not have provided a rise in real-terms - it would have just ensured that the value of benefits kept pace with price rises between April 2021 and April 2022. Benefit uprating is the best way to target support at low- and middle-income households.

For more information see our pre-budget briefing on social security and gender.

[9] Resolution Foundation (2022) Inflation Nation - Putting Spring Statement 2022 in context (https://bit.ly/3D9iaYm)
[10] JRF (2022) UK Poverty in 2022 (https://bit.ly/3idFnPp)
[11] Resolution Foundation (2022) Softening The Blow (https://bit.ly/3IE4W79)

Fuel Duty

The Chancellor announced that fuel duty will be cut by 5p a litre from 6pm on the day of the statement (23 March 2022) until March 2023. Cutting fuel duty as the first measure of this Spring Statement clearly set out the Chancellor's priorities of cutting taxes rather than boosting benefits.

As well as having severe revenue and environmental costs, cuts in fuel duty primarily benefit men, who are more likely to drive and drive longer distances than women. They also benefit better-off households, as the top fifth of households spend almost five times as much on motor fuel each year as the bottom fifth.[12]

The Treasury will benefit from higher-than-expected income from fuel duty, as a result of rising prices: a better option would be to invest it in public transport. This would help the environment and keep prices low for those on low incomes, including women, who are more likely to rely on public transport for everyday activities.

For more information see our pre-budget briefing on taxation and gender.

Energy Costs

Energy efficiency: only some items currently qualify for 5% VAT relief with complex rules over who is eligible. In the next 5 years, homeowners investing in materials such as solar panels, heat pumps and insulation will pay 0% VAT. This measure is welcome but it will mostly benefit wealthier households who can afford to pay for energy improvements already. It will do nothing for private renters, as there is no incentive for landlords to invest in retrofitting if the benefit of lower energy costs will be reaped by the tenants.

The Government would do better to target support through the creation of more grants. In Italy, as of 2020, the government provides 110% of the cost of home energy improvements, which it pays as a five-year tax credit (the 10% covers financial and transaction costs). This superbonus scheme pays for everything: insulation, ventilation, new windows and doors, solar panels, heat pumps[13].

Energy costs: the £200 energy loan announced in February 2022 and due in October is manifestly insufficient to support households with a catastrophic 54% increase in energy bills due in April and a further estimated 29% rise in October.[14] There was no further support announced in the Spring Statement, even though energy costs are set to increase even higher since Russia's invasion of Ukraine a month ago.

For more information see our report on Rethinking Housing Design and Supply.

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[12] ONS (Mar 2021) Family spending workbook 1: detailed expenditure and trends (https://bit.ly/3wuzW78)
[13] Governo Italiano (March 2022) Superbonus 110% (https://bit.ly/36Jp0HK)
[14] Cornwall Insight (2 Mar 2022) Jump in energy prices leaves price cap predictions at £2,900 a year (https://bit.ly/3NjKR9G)

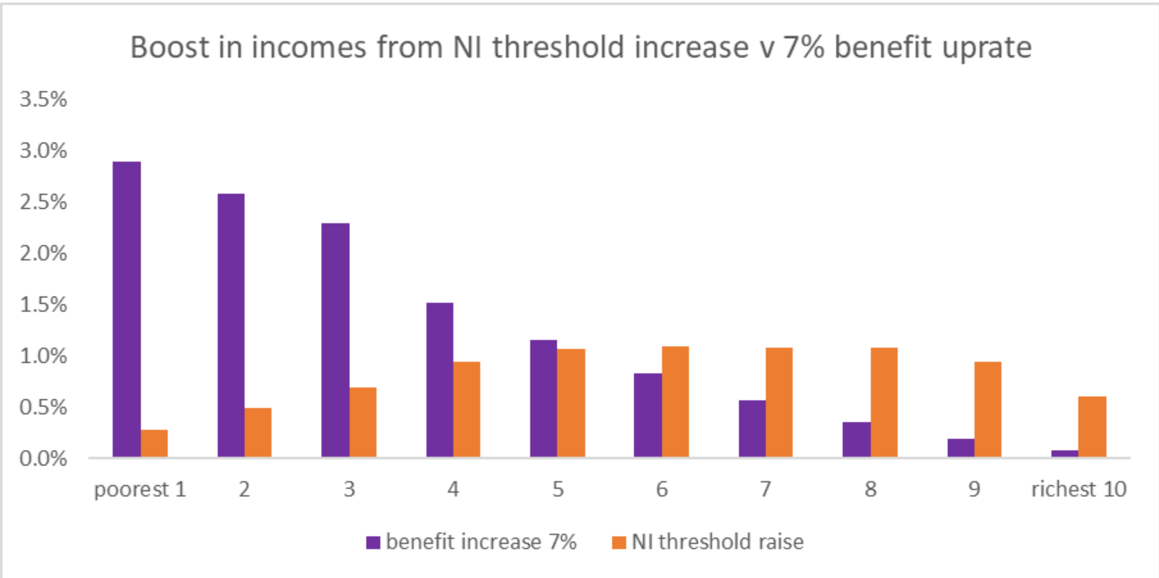
NIC Threshold Increase

In the Spring Statement, the Chancellor announced that the National Insurance threshold will go up by £3,000, equivalised with the income tax threshold (£12,570). This is a progressive step as it means lower earners will keep more of their wages: it will mean an extra £250 for low-to-middle income families.

However, this policy will do nothing for people who are not in paid work (often due to a disability or for caring responsibilities) or for those who earn very little - both of which are more likely to be women. Uprating benefits in line with inflation would mean £530 more to those families[15], and would particularly benefit single mothers, pensioners and low-income families more[16].

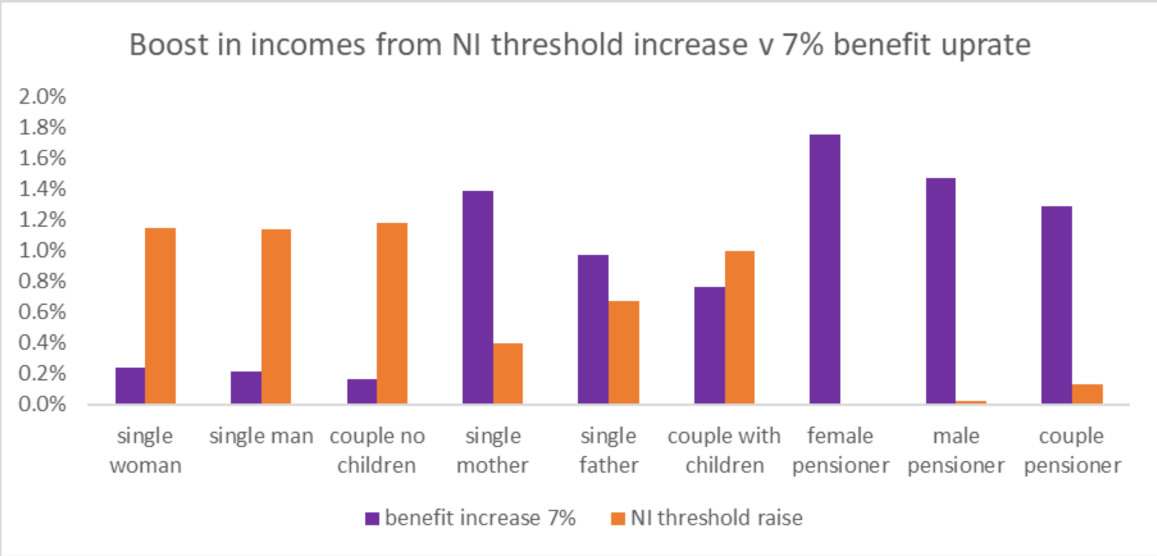
Like many other measures announced by the Chancellor, this support will not target the people who are being hit hardest by the cost of living crisis, those on the lowest incomes and those who cannot work - only £1 in every £3 will go to the poorest half of the population[17]. This measure makes NICs more progressive, but uprating benefits by the current rate of inflation would have much better targeted those who most need support, including those on lower incomes (see chart 1) and single mothers (see chart 2).

Chart 1.



[15] Resolution Foundation (2022) Softening The Blow (https://bit.ly/3IE4W79)
[16] WBG (2022) The gendered impact on incomes of two measures to tackle cost-of-living crisis (https://bit.ly/3wElgCn)
[17] Resolution Foundation (23 Mar 2022) Chancellor prioritises his tax cutting credentials over low-and-middle income households with £2 in every £3 of new support going to the top half (https://bit.ly/3ujgKq0)

Chart 2.



For more information see our [gendered analysis of two policies to support incomes during the cost of living crisis](#).

Income Tax

The Chancellor announced that the basic rate of income tax will be cut from 20% to 19% in 2024. Tax is the necessary financial contribution that individuals and companies make to a well functioning society. The Chancellor's decision to cut it sends a message that taxes are not desirable, nor is public spending.

Cutting income tax will benefit men more than women, as men are more likely to earn and earn more. The decisions the Chancellor made today, to promise tax cuts while keeping benefits low, mirrors decisions taken by previous Chancellors under austerity policies that we were told were over. Under austerity successive tax cuts cost £41bn a year by 2020, while social security was cut by £39bn a year in the same period. As with austerity policies, a decision to cut taxes while cutting public spending will negatively impact women, with poor, disabled and Black and minority ethnic women losing out, while better off men gain the most.

Cutting income tax while increasing national insurance contributions will further widen the difference in the treatment of unearned and earned income for tax purposes. Workers will pay more tax, while people who receive income from rents and other income sources will be better off.

Total tax revenue as a share of national income is low in the UK compared with similar European countries, due to less being raised from income taxes and social security contributions (15% of national income, compared with an average of 20% across G7 countries and 25% in Scandinavia)[18]. In particular

[18] M. Conte, H. Miller and T. Pope (2019) How do other countries raise more in tax than the UK? IFS Report R160 (https://bit.ly/35K0F1u)

with an exceptionally large tax-free allowance, 42% of UK adults no longer pay income tax, eroding the tax base on which the government can hope to raise revenue in the future[19].

Public Services

The OBR is now expecting inflation to average 7.4% in 2022/23 and peak at 8.7%, nearly double their forecast in October 2021. This means that the cash spending settlements agreed with departments in the autumn are now worth less in real terms: planned average spending growth of 3.3% per year has dropped to 2.9%.[20] That's an unintended cut in generosity of more than 10%.

This means departmental budgets will be squeezed and if no additional money is announced then there will be hard choices between spending on public sector pay increases or on the delivery of public services. Women are over two-thirds of public sector employees, and public servants have seen their wages frozen for most of the last decade.[21] Women are also more likely to use public services for themselves or people they care for, as well as plug the gap with unpaid work when these services are cut. Squeezed public sector budgets are therefore a gendered problem.

For more information see our public services and local government report [Triple Whammy: the impact of local government cuts on women].

What was left out of the Statement?

Childcare Costs

In his Spring Statement, the Chancellor prioritised interventions that will support mostly those who are in paid work. Our means-tested benefit system is also heavily geared towards moving people into paid work. Yet the Chancellor provided no additional support for the childcare sector or for families to face childcare costs. Childcare is an essential service without which parents - especially mothers - cannot work. As the UK has the second most expensive childcare system amongst the richest countries, childcare is a very large chunk of many household bills. In the ten years to 2022, childcare costs increased at twice the rate as wages (35.6% compared to 17.8%) and have been rising over inflation for most of these years.[22]

As the cost of childcare rises, the childcare element of Universal Credit remains frozen this year and has been since 2016. The Government's efforts to encourage families off benefits and into work are at odds with the lack of support with childcare costs that parents face.

For more information see our [pre-Budget briefing on childcare].

[19] Ibid
[20] IFS (23 Mar 2022) Spring Statement 2022 - An initial response from IFS researchers (https://bit.ly/3NgJN6p)
[21] WBG (2022) Women and employment (https://bit.ly/3JANyBD)
[22] WBG calculations based on Coram's Annual Childcare Surveys 2012-22, UK's annual rate of inflation 2012-22, and ASHE's earnings index.

Recommendations

Prior to the Spring Statement, we made a series of recommendations for the Chancellor to support families with the cost-of-living crisis. The measures announced are not well targeted to those who will feel this emergency more acutely. So we continue to call for:

- an increase in benefits to keep pace with inflation;
- the abolition of the benefits cap and the two-child limit;
- the conversion of Universal Credit advances into non-repayable grants;
- increases in ESA, Jobseekers' Allowance and Statutory Sick Pay;
- an increase in Child Benefit to £50;
- and an end to the 'No recourse to public funds' condition, which excludes many migrant women from support.

Furthermore, the bulk of the increases in cost of living should fall on those more able to shoulder them. We continue to call for:

- a windfall tax on energy companies to tax the steep profits resulting from the increase in energy prices, to help support families struggling to pay their energy bills.

In the longer-term, we call for investment in public services that support people in bearing these costs:

- investment in retrofitting homes, to reduce energy costs;
- investment in public transport, particularly in rural areas, to reduce transport and fuel costs;
- investment in social housing, to reduce housing costs;
- investment in social infrastructure, particularly care services, to support people with care needs and so that unpaid care becomes truly a choice.

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