Misguided plans for Austerity 2.0

Women's Budget Group Response to Autumn Statement 2022

The financial turmoil from the last couple of months has resurrected calls for a renewed wave of austerity. But with the UK economy now officially in recession and households, businesses and public services facing the biggest rise in costs in 40 years, government support is desperately needed.

The Chancellor has decided to provide some support to families and to some public services and planned cuts to public spending from 2025 onwards, in a bid to recover financial stability and credibility by "balancing the books".

We argue that the planned cuts are misguided and that a better way to get us onto a prosperity path would have been to strengthen the foundations of the economy by investing in public services and greening the economy, backed up by a progressive tax system. This would leave a greener and more resilient economy for future generations, saving them costs much higher than the fiscal debt that the Government is trying to avoid.

The Government announced a set of tax increases mainly through freezing tax thresholds. **This was a missed opportunity to reform the system and tax other sources of income such as wealth in the same way that earnings from employment are taxed.** Revenues from taxes are fundamental to funding public services. However, the Chancellor could have chosen to raise taxes in a more progressive way. Increasing tax rates, instead of freezing tax thresholds, would mean that everyone's contribution is proportional to their income. **A fairer tax structure would reduce gender inequalities and help fund public services.**

High energy and food prices have generated a cost-of-living crisis which has particularly impacted lower-income households, lone mothers, disabled people, large families and women. The increase to social security rates in line with inflation is a welcome measure, as is the extension of the support with energy bills for vulnerable households. However, millions of families will still be struggling during the coming months. **In order to tackle the energy crisis, we urge the government to implement an urgent investment in retrofitting homes and non-domestic buildings**. **In order to protect larger families, women and children from the cost-of-living crisis, we call for an increase in Child Benefit.**

Health, Social Care and Education are the "protected" sectors that received a top-up to keep pace with price increases until 2023/24. However, this extra funding will be just enough to keep them afloat, without the resources needed to overcome the staff crisis and the backlog in health and care services.

Strong and properly funded public services are the key to a healthy economy and for improving living standards. Instead of the spending cuts planned for after 2025, WBG calls on the government to invest in social infrastructure to restore standards of living, tackle gender inequalities and strengthen our economy.

Economic Outlook

What is happening to the economy, public finances, and household incomes

The UK economy is currently experiencing significant interlinked shocks with important consequences for living standards, businesses and public finances. How the government responds to these shocks has important consequences for equality.

We are now facing the highest level of inflation in 40 years, driven mostly by global causes, chief of which is unprecedented high energy costs. Combined with lower-than-inflation wage growth and battered public services from 12 years of austerity and a global pandemic, our living standards are now falling. The impact of this is stronger on those on low incomes who are more dependent on public services, spend a higher proportion of their income on essentials and have less savings, and on women as the "shock absorbers of poverty" within families.

Inflation is having an impact on interest rates, which push up housing costs and public borrowing costs, at a time when investment in a green and caring economy is most desperately needed.

Inflation

The biggest shock we are currently facing is inflation: at 11.1% the Consumer Price Index (CPI) is at a 40-year record. Inflation is being driven mostly by global causes: Covid-19 disrupted supply chains around the globe increasing prices of raw materials and consumables, and the Russian invasion of Ukraine and consequent reduction in gas supplies pushed energy prices to unprecedented levels. These global factors have combined in the UK with a smaller workforce and record job vacancies coming out of the pandemic, and the impact of Brexit both on a reduced number of migrant workers[1] and increased trade friction leading to higher food prices in particular.[2]

Cost-of-living crisis

Alongside inflation and higher prices, incomes have been stagnant in the last 12 years, with wages and benefits not keeping up with prices.[3] Incomes are being squeezed as a consequence and we are therefore experiencing a cost-of-living crisis. Higher inflation affects not just people's spending power but businesses and public sector services as well.

Sectors that have high energy costs such as certain manufacturing industries and small businesses that rely on people having additional money to spend like pubs, restaurants, and hairdressers, are facing a double whammy of enormous energy costs and reduced demand. This will likely lead to job losses, with the Office for Budget Responsibility (OBR) forecasting half a million more people unemployed in the second half of 2024.[4]

Public services are also affected by inflation,[5] as they are having to deliver the same level of services with less money in real terms, and face pressures to increase wages or face a recruitment and retention crisis. Staff shortages and retention problems are currently being experienced most acutely in healthcare, social care and childcare. Women are disproportionately affected by the squeeze in public services,[6] as they rely more on these

[1] M. Sumption, C. Forde, G. Alberti and P. W. Walsh (2022) How is the End of Free Movement Affecting the Low-wage Labour Force in the UK? The Migration Observatory
[2] J. D. Bakker, N. Datta, J. De Lyon, L. Opitz, and D. Yang (2022) Post-Brexit imports, supply chains, and the effect on consumer prices
[3] S. Reis (2022) The Income Crisis: a Gendered Analysis. WBG
[4] Office for Budget Responsibility (2022) Economic and fiscal outlook
[5] I. Pinto (2022) The gendered impact of the cost-of-living crisis on public services. WBG
[6] H. Wakefield (2019) Triple Whammy: the impact of local government cuts on women. WBG

services, are more likely to work in them and often end up filling gaps in provision with their unpaid labour[7].

Lower incomes and public services under strain are leading to lower living standards. We are experiencing a 7.1% reduction in disposable income, according to the OBR.[8] This takes us to 2013 income levels, which is an unprecedented fall in the money people have available to spend.

Interest rates

As a way of trying to curb inflation, central banks around the world have been increasing interest rates. The Bank of England has increased interest rates from 0.1% to 3% in the last year, a level last seen in the aftermath of the 2008 financial crisis. One of the most direct impacts has been on mortgage rates and therefore higher housing costs for mortgage holders and private renters, as landlords push up rents by an average of 10% in the last year.[9]

Higher interest rates have also meant higher costs of borrowing for the government. These costs shot up after the announcement of the "mini-Budget" in September and the package of tax cuts with no credible economic plan or scrutiny. This triggered financial turmoil and an intervention by the Bank of England in order to stabilise the pound and protect pension funds. The direct effects of Truss's tax decisions have largely subsided. But at a time when investment in a green and caring economy has never been more urgent, higher interest rates mean public borrowing remains more expensive.

FISCAL RESPONSIBILITY

The Government's plan to recover financial stability and credibility is to "balance the books" by lowering the level of debt in the medium term through cuts in public spending and higher taxes. We argue that the planned cuts are misguided and that a better way to get us onto a path to prosperity would be to strengthen the foundations of the economy by investing in public services and greening the economy. This would leave a greener and more resilient economy for future generations, saving them costs much higher than the fiscal debt the government is trying to avoid.

The financial turmoil of the last couple of months triggered calls for the need to "balance the books". The new Government announced that "difficult decisions" were going to be made in order to show fiscal responsibility and appease the financial markets. But an immediate backlash against a fresh wave of austerity grew, which the Women's Budget Group joined.

The Chancellor has decided to provide some support to families and public services now and delay planned cuts to public spending until 2025. This is intended to curb the worst of the economic recession now, and try to get public debt to start falling once the economy is in better shape. However, public spending cuts in the name of fiscal responsibility are wrong and they can have the opposite intended effect by weakening the economy and worsening public finances. We are also facing an existential crisis with climate change that makes large public investment urgent to get us onto a green and sustainable path.

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[7] Women's unpaid work is estimated to be worth £700 billion to the UK economy every year, based on calculations by the Young Women's Trust with ONS data, and inews.
[8] Office for Budget Responsibility (2022) Economic and fiscal outlook, p.18
[9] ONS (2022) Index of Private Housing Rental Prices, UK.

Fiscal rules have been the way successive chancellors since the late 1990s have tried to show they were being responsible with public money. But the current rules, on which the Chancellor has based his fiscal policy decisions, are misguided. The first rule focuses on getting debt falling as a share of GDP in a determined period of time (now five years, up from three). Even within this arbitrary target, public spending cuts are not inevitable. The Chancellor could have chosen to show fiscal responsibility by investing in the foundations of the economy (i.e. improving essential public services like health, care and education, rather than giving them just enough money to keep them afloat), which would have strengthened the economy without spending cuts.

Changes to the fiscal rules on borrowing for capital spending were also introduced, making it implicitly harder to do so. Curbing borrowing for investment that has good employment and tax returns and is currently insufficient, such as investment in care and other green policies, is irresponsible. It saddles future generations with costs that not only are avoidable but can be much greater than the financial debt fiscal rules are designed to avoid. Therefore, we argue that not only the changes to borrowing for investment are a step in the wrong direction, but that the definition of investment used in fiscal policy has to change to include investing in the social and human capital of the nation, people's health, care, education and training - what we call "social infrastructure". This is not only the moral thing to do, as the main task of any government should be to improve the wellbeing of its citizens, but investment in social infrastructure also has significant economic returns and a positive impact on equality.[10]

Policy Decisions

Taxation

The Government announced a set of tax increases mostly by freezing tax thresholds. This was a missed opportunity to reform the system and tax other sources of income (such as capital gains and dividends) in the same way that earnings from employment are taxed. Revenues from taxes are fundamental to funding public services. The Chancellor could have chosen to raise taxes in a more progressive way: increasing tax rates*, instead of freezing tax* thresholds*, means that everyone's contribution is proportional to their income. A fairer tax structure would reduce gender and wealth inequalities and help fund public services on which women rely.*

<u>A missed opportunity to tax wealth and profits</u>

The Chancellor made some small steps towards a fairer taxation of incomes, but he missed an opportunity to reform the tax system, including equalising taxes on income from labour and wealth.

The tax allowances on income from dividends and capital gains were cut, which means more people will start paying taxes on these types of income. This will increase tax revenue from two sources of wealth income, which is a step in the right direction. However, the Chancellor missed the opportunity to rectify a crucial unfair feature of how income is taxed by not equalising taxation of wealth income like capital gains with income from employment. This would move us towards a fairer tax structure and would raise a considerable amount of

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[10] J. De Henau and S. Himmelweit (2020) A Care-Led Recovery from Coronavirus

money: equalising taxes on income from wealth and from work could raise £50bn from 2022/23 to 2026/27[11] that could go towards improving our public services.

On Corporation Tax, the Chancellor announced the rate will remain at 25% after Liz Truss's plans of cutting it to 19% were cancelled. No further increases to Corporation Tax were announced, which is another missed opportunity to raise more public revenues by leaning on those who can afford to contribute the most. Returning the rate to 26%, as it was in 2011/2012, would raise around £19bn.[12] Even with a 26% rate, the UK would be among the countries with the lowest corporation tax in the G7.[13]

Freezing tax *thresholds* is raising taxes by stealth - increasing income tax *rates* would be a more progressive alternative

The Chancellor announced several adjustments to the personal income tax system to increase government revenues. All of the tax increases will come from freezing or lowering tax thresholds, including freezing the income tax, NICs and inheritance tax thresholds until 2028. The threshold at which people start paying the additional rate of income tax will be lowered from £150,000 to £125,140, which means more will be paying the 45% income tax rate.

Not uprating tax thresholds in line with wage growth means that more people will fall under higher tax bands. Reducing tax thresholds in real terms is the least progressive way of raising extra revenue from the income tax system, as everyone in the same tax band pays the same extra amount. The extra tax paid by a person earning just above the threshold will be the same as for a person earning well over the threshold.

Compared with increases in tax rates, freezing the tax thresholds leads to more regressive outcomes. For example, someone earning £15,500 in 2027/28 will pay an additional 3% of their gross income in taxes because of frozen tax thresholds. Someone earning £124,000 will only pay 1.3% more on taxes due to the change.[14]

Taxes are crucial to building strong public services we all depend on. For a fairer and more equal society, those who have more should contribute more

Taxes should be seen as a contribution to society and the common good, and a progressive and fair tax system is fundamental to building strong public services and a healthy and equal economy. Under-taxation of wealth reinforces gender disparities since women tend to have lower savings and wealth but rely disproportionately on the public goods that taxes help pay for.

We urge the government to reform the tax system by integrating taxation of capital gains and incomes from work into a single schedule with progressive bands, taxing wealth directly rather than just its transactions and transfers, and putting council tax on a more progressive schedule based on a revaluation of properties.

[11] G. Dibb and H. Parkes (2022) Chancellor's first step to raising tax on income from wealth leaves potential £50 billion untapped, IPPR finds
[12] S. Himmelweit (2022) Spring Budget 2022 "Taxation and Gender". Women's Budget Group.
[13] S. Adam, R. Joyce, I. Stockton, T. Waters & B. Zaranko (2022) "Conservative candidates' plans are increasingly similar, though still differ in scale and timing". Institute for Fiscal Studies
[14] Resolution Foundation (2022) Help today, squeeze tomorrow

Incomes

In the last decade incomes have been stagnant, leading to a decay in living standards. Covid-19 and the cost-of-living crisis put more pressure on households, making it difficult to make ends meet for millions of families. The Government's additional measures are welcome but are just keeping people still, without providing the support needed to restore living conditions in the near future.

The increases in National Minimum Wage, National Living Wage, benefits and state pensions are welcome and will protect the incomes of some of the most vulnerable households in 2023. We urge the government to abolish the benefit cap and the "no recourse to public funds" condition. These punitive measures have a negative impact on women and their families.

Without additional funding, it is very likely that public sector wages will be cut in real terms. Women represent the majority of the workforce in the public sector. If wages don't keep up with inflation, their incomes will be squeezed in 2023 and the recruitment and retention crisis will continue.

Incomes have been decreasing in the last decade, eroding living standards. Since October 2021, high energy bills and soaring prices, along with reductions in wages in real terms and a deterioration in public services, have pushed down living standards across the UK. The freezing of tax thresholds means that more people are paying income tax and NICs. For those just above the initial threshold, the additional tax payments add more pressure to household budgets that are already tight.

The OBR[15] points out that some households will be drawing on savings to cope with higher prices. Because of lower incomes and less linear career paths, women have generally lower savings, which leaves them with less money to draw on to deal with the higher cost of essentials. The scenario is even more critical for lone parents, of which 85% are lone mothers,[16] putting children and women on the edge of poverty.

<u>National Minimum and Living Wage increases are welcome to improve earnings of the lowest-paid workers, who are more likely to be women, and narrow the Gender Pay Gap</u>

The increase of 9.7% in the National Living Wage (NLW) and in the National Minimum Wage rates is a welcome announcement that will improve the living conditions of the lowest-paid workers. Women are over-represented in low-paid occupations, with almost 60% of jobs paid below the living wage held by women.[17] Therefore, increases in the NLW are particularly important to improve women's earnings and narrow the gender pay gap. However, this increase, just below inflation, still implies a cut in real terms for nearly 2 million workers in low-paid occupations.[18] Public services, especially social care and education, should receive additional resources to cover this increase in their staffing costs.

<u>Wages in the public sector are facing real-terms cuts, with women the majority of that workforce</u>

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[15] Office for Budget Responsibility, ibid.
[16] ONS (2022), Families and Households Dataset.
[17] Living Wage Foundation (2022) Low paid work and cost-of-living crisis disproportionately affecting women
[18] Resolution Foundation, ibid.

The Autumn Statement did not include additional funding to increase wages in the public sector in line with inflation. This is likely to result in a cut in real wages and a smaller increase than in the private sector. Public sector workers have had a pay freeze for several years in the 2010s and their pay is now down 4.3% compared to 2010.[19] Further cuts will make it difficult to retain staff and maintain public services, leaving many with no choice but to strike or leave their jobs, with negative consequences to the quality of these essential services. Should this happen, it is women who will fill the gap with unpaid care work, reducing their ability to take on more paid work.

Women are also directly affected by these real-terms wage cuts as they are the vast majority of the workforce in the public sector. Nearly 80% of the employees of the NHS are women, with a higher representation in the lowest-paid group. In the adult social care sector, around 82% of workers are women. 76% of teachers in England were women in 2019.[20]

<u>Social security and pensions uprated in 2023 in line with inflation</u>

We welcome the uprating of social security benefits by 10.1%, in line with September 2022 inflation. This will prevent the incomes of some of the most vulnerable households from falling in real terms. However, successive cuts to the value of social security are already leaving many struggling. Further increases in benefits are needed to restore their real-term value to pre-pandemic levels.

The childcare element of working-age means-tested benefits was not increased in line with inflation. The childcare element of Universal Credit remains frozen since 2016, while the childcare element of Working Tax Credits has been frozen since 2006. This decision is at odds with the attempts of the Government to increase participation in the paid labour market. The UK has the most expensive childcare system amongst the richest countries,[21] making it unaffordable for many families.

The announcement of the benefit cap uprate is a long-awaited measure, as it has been frozen since 2016. This punitive measure, alongside the two-child limit, is unfair and puts extra pressure on large families and children. Women are the ones typically cutting down on essentials for themselves to provide for their children and family members. We urge the Chancellor to abolish these measures to prevent more children and women from being thrown into poverty.

We also welcome the triple lock on pensions being maintained, which is an important measure to protect women, who are more likely to be reliant on state pensions due to career breaks for caring responsibilities.[22]

<u>Cost-of-Living support will protect the incomes of those most exposed to the crisis but gaps for larger families remain</u>

In the current cost-of-living crisis, many families will have to decide whether to heat their homes or eat during this winter. Despite the energy support, households are still facing bills twice as high as they did last winter. Thus, the targeted cost-of-living support for the poorest households is very welcome.

Households on means-tested benefits will receive a Cost-of-Living payment of £900 in 2023-2024. For pensioners, the additional support will be £300. There will also be a £150

[19] The Guardian (19 Jul 2022) How public sector pay has fallen in real terms - in charts
[20] I. Pinto, ibid.
[21] OECD (2022) Net childcare costs (2021 or latest available)
[22] J. Ginn (2021) Pensions and Gender, WBG

Disability Cost-of-Living payment for individuals on disability benefits. This additional support, alongside the uprating of benefits in line with inflation, means that the poorest 20% of households will see an average net rise of £350 per year in their incomes by 2027.[23]

We welcome the extra support, although there are some gaps in these payments. A flat payment does not allow for the higher costs that families with children are facing. We urge the Chancellor to increase Child Benefit to £50 to support larger families with higher costs.

Providing support through the social security system leaves behind millions of low-income households. Nearly 2.3 million households in the poorest quintile do not receive means-tested benefits and will not get the cost-of-living payments. A variable energy tariff (described in the Energy section) would help households with energy bills, regardless of whether they receive social security benefits.

Flat-rate payments through social security eligibility also exclude those with 'No recourse to public funds'. The NRPF condition, which excludes many migrant women from support, should be abolished.

Health and Social Care

Health and Social Care are among the sectors "protected" by the Government, meaning that their budgets will receive a top-up to keep pace with price increases until 2023/24. The sector has been under extra pressure during the pandemic, after a decade of austerity that weakened our public services. Additional resources are urgently needed to restore the public provision of health and care and tackle the recruitment and retention crisis. Women are more likely to provide (unpaid) care when public services are cut, increasing gender inequalities.

Additional spending to health and social care will keep services afloat but insufficient to deal with huge demographic and pandemic aftermath pressures

The Chancellor announced additional funding for the NHS and social care for 2023/24 and 2024/25 to help these services cope with current pressures on the system. We welcome the top-up of their budgets and that spending for the NHS in England will maintain a 3.1% growth in real terms until 2024/25, as planned in the 2021 Spending Review.[24] However, it will not be enough to deal with the backlog in the sector,[25] with an NHS waiting list that reached a record of 7 million people by August 2022.[26] Meanwhile, the number of people waiting for social care support is also increasing to all-time highs.[27]

Additional resources for social care in order to support discharges from hospital into the community are a step in the right direction. Health and social care depend on each other so a systemic perspective is crucial to addressing the problems in those sectors.

The new NHS workforce plan is an important measure to tackle the retention and recruitment crisis in health. The vacancy rate for NHS England reached 9.7% in 2022.[28] A similar plan for the social care sector is also needed to deal with the acute recruitment issues and to keep up with the increasing demand from an ageing population. Such a plan

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[23] Resolution Foundation, ibid.
[24] Office for Budget Responsibility, ibid.
[25] The Health Foundation (2022) The Health Foundation responds to the Autumn Statement 2022
[26] British Medical Association (2022) NHS backlog data analysis
[27] Community Care (2022) 65,000 adults waiting at least six months for assessment as unmet needs mount, warns ADASS
[28] NHS Digital (2022) NHS Vacancy Statistics

would require offering secure and better-paid jobs, with the necessary funding from the central government.

A low-wage workforce with little pay or career progression leads to high levels of turnover and vacancies and therefore a crisis in the sector. At the same time, due to inequalities in healthy life expectancies between rich and poor combined with the increase in women's state pension age to 66 years, many more older women are having to combine paid employment with (unpaid) caring responsibilities. The need for support of those who are looking after the growing numbers of family members in poor health is barely recognised, let alone addressed. Social care needs wholesale reform and extra funding to provide a high-quality service and reach all those who need it, so that (unpaid) caring becomes a true choice.

The social care charging reform will be delayed from October 2023 to October 2025. The often-termed "cap and floor model" prioritised preventing people from having to sell their homes to pay for care, rather than ensuring care was available to all those who needed it. This reform is not going to solve the broader issues in adult social care. However, it is worrying that the government has once again postponed changes to the social care system when serious reform is urgently needed.

The OBR[29] highlights that there has been an increase in spending on disability- and health-related benefits as well as in economic inactivity due to long-term illness. A recent study shows that over 300,000 excess deaths could be attributed to austerity policies during the 2010s.[30] This is a clear sign that health and care services are fundamental for a healthy population, able to contribute and participate in the paid labour market.

Education and Childcare

We welcome that core schools spending per-pupil will be restored to 2010 levels in real terms, as was promised in the Autumn Budget 2021. Early years education and childcare, however, were omitted from the Chancellor's speech. With no extra resources to cover high energy bills and increased staffing costs, many providers will have to either increase their fees or close down. Childcare is already unaffordable, or directly unavailable, for many households and especially for lone mothers. WBG calls for a strong investment plan in social infrastructure, including high-quality and universal early years' education and childcare.

The core school spending in real terms per-pupil is being restored to 2010 levels. This is good news for schools dealing with high energy bills and pressures to increase wages. However, the education sector is still recovering from the pandemic, with thousands of pupils falling behind and unable to recover from education loss during 2020-2021. The consequences have been worse for students from low-income households, deepening existing inequalities.[31] In this context, schools need additional resources to close educational gaps and provide extra support for those who require it.

Early years education and childcare were not mentioned despite importance to economy

Early years education and childcare were not mentioned in the Chancellor's speech, despite being central in boosting women's labour force participation, the economy and children's life

[29] Office for Budget Responsibility, ibid.
[30] Walsh, D., Dundas, R., McCartney, G., Gibson, M., & Seaman, R. (2022). Bearing the burden of austerity: how do changing mortality rates in the UK compare between men and women?
[31] L. E. Major, A. Eyles and S. Machin (2021) Learning loss since lockdown: variation across the home nations

chances. The additional £500m for early years services promised in the Spending Review 2021 was not uprated in line with increased costs, which implies a real-term cut for the childcare sector particularly with the increased rates of National Minimum and Living Wages.

Although the increase in NMW and NLW is a much needed measure, it leaves providers with a difficult choice. Without an increase in the hourly rate of funding for providers offering 'free hour' schemes, many will be forced to pass on the higher cost to parents or close their doors. Either strategy will put even more pressure on a system with not enough childcare availability to respond to the current demand. Over 4,000 childcare providers were lost in 2021.[32] Early years education and childcare is already unaffordable for many households and especially for lone mothers. Over 4.6 million women were prevented from securing a job or increasing their working hours due to unsuitable childcare options in 2021.[33]

WBG calls for investment in social infrastructure, working towards free universal early years education and childcare from when children are 6 months old. High-quality education and childcare in the early years help to close educational inequalities between disadvantaged children and their better-off peers and improve gender equality by allowing more women to progress in their careers and earn more.

Local Government

Councils will be allowed to increase council tax by 5% without a referendum, up from the previous threshold of 3%. Councils do need more money to provide care and other services to the communities. However, council tax rates are regressive, outdated and do not reflect current property values. Moreover, relying on council tax to fund social care will widen local inequalities as poorer local authorities will be able to raise less money. More central funding is needed, especially for councils with a more vulnerable population.

The Chancellor announced an increase in the Social Care Grant for adult and children's social care of £1.3bn in 2023-24 and £1.9bn in 2024-25 to provide extra resources to these sectors. In addition, Hunt announced an increase in the referendum limit for rises in council tax from 3% to 5% per year from April 2023. This is an attempt to allow councils to raise more money to cover social care needs at the local level.

Council tax is a regressive tax and relying on it to pay for social care will widen regional inequalities

Council tax is highly regressive, with those in the lower bands paying proportionally far more than those in the highest bands. It is based on outdated property values that do not reflect recent changes in property prices. It needs urgent reform.

WBG calls for larger and more redistributive central funding to local government. The social care sector is in crisis and relying on council tax to increase funding for it will widen regional inequality. Central funding is crucial because the poorest councils are the ones least able to get significant additional revenues from increasing council tax.

The additional £1bn to the Household Support Fund that allows local authorities to support struggling households with the cost of essentials is welcome. However, instead of one-off discretionary payments, what is needed is a sustainable plan to strengthen social security and the role of local authorities as providers of public services.

[32] C. Gaunt (2022) Fall of more than 4,000 childcare providers in a year
[33] Centre for Progressive Policy (2021), Women in the labour market

Energy

Soaring energy prices have impacted households' budgets in the last year. The Energy Price Guarantee is providing some relief to families until April 2024, with targeted support after that. Although this measure is welcome, it won't be enough to prevent more families from falling into fuel poverty. Assistance for non-domestic users is also welcome, but not having a plan for after March 2023 generates a huge uncertainty for small businesses.

The Energy Efficiency Task Force is a much-needed measure that should not be postponed until 2025. We must reduce our energy use by retrofitting homes and non-domestic buildings. In the medium and long term, public ownership of the energy sector will be key to ensuring a green and independent energy system.

The high reliance on imported fossil fuels has left the UK vulnerable in terms of energy supply. The Russian invasion of Ukraine has pushed up the price of gas and oil. Consequently, households are facing energy bills this winter twice as high as the last. The energy support package, announced in September 2022, may prevent a catastrophe for this winter, but it won't prevent more than 3 million households from falling into fuel poverty in Spring 2023.[34]

<u>The subsidy on energy bills was extended but a higher cap means families will face higher bills next year</u>

The Energy Price Guarantee was extended and will cap the average bill at £3,000 from April 2023 to April 2024. For a typical household, this will mean an extra £1,000 a year on energy bills. After April 2024, the government is planning to provide targeted support for vulnerable households. A good approach would be to implement variable tariffs that include a free[35] or heavily subsidised basic energy allowance for everyone, above which individuals would pay higher rates per energy unit. This would also incentivise reduced energy consumption.[36] Additional support should be targeted to people with higher energy demand, like some disabled people and low-income large families (e.g. through an "energy element" in Universal Credit and legacy benefits).

The Energy Bill Relief Scheme announced in September 2022 provides a discount on energy bills for non-domestic users between October 2022 and March 2023. Even with discounted energy bills, hospitality businesses are cutting their trading hours to reduce energy consumption.[37] Since the majority of the workforce in this sector are women, job losses in hospitality would impact women disproportionately.[38]

<u>An urgent programme of retrofitting should be started to reduce energy consumption, funded by a tightening of taxation on energy companies' profits</u>

We welcome the announcement of an Energy Efficiency Taskforce to reduce energy consumption, which is much needed for our bills and for the climate, but delaying the funding until 2025 belies the urgency of both. We urge the Government to announce a serious and

[34] End Fuel Poverty Coalition (2022) About fuel poverty
[35] A free basic energy allowance for everyone would be in line with the Universal Basic Services position of seeing energy as an essential that everyone should have access to regardless of ability to pay and which WBG broadly spouses.
[36] New Economics Foundation (2022) Warm homes, cool planet
[37] Resolution Foundation, ibid.
[38] V. Calinaud, J. Kokkranikal, M. Gebbels (2021) Career Advancement for Women in the British Hospitality Industry: The Enabling Factors. Work, Employment and Society

urgent investment in retrofitting homes and non-domestic buildings, including financing insulation efforts and greening of home heating systems (e.g. heat pump installation), with specific support to social and private renters. New buildings should be planned based on higher energy efficiency and zero-carbon targets, with solar panels and heat pumps as standard.

The Government announced the extension of the Energy Profits Levy until March 2028 and an increase in the rate to 35% from January 2023. This is a welcome measure as well as the introduction of the Electricity Generator Levy. Excess returns of electricity generators will be taxed at 45% from January 2023 to March 2028. Energy companies are making historic profits while households are struggling to pay their bills, so it is only fair that they pay taxes for unexpected gains. In addition to these windfall taxes on energy profit, we would like to see tax exemptions and reliefs for oil and gas companies abolished and, instead, the fiscal incentives to green and clean energy sources.

In the medium and long term, public ownership of the energy sector will be key to ensuring a green and independent energy system.[39] A state-owned renewable energy company (through nationalisation of Bulb, which has collapsed) could set attractive tariffs for consumers and invest in renewable energy, following the example of most other European countries. Along the same line, buying back the energy grid, a natural monopoly responsible for energy distribution (which is already partly in train), would lead the way on the UK's net-zero efforts.

Conclusion

An alternative plan to restore fiscal responsibility: investing in the foundations of the economy through responsible borrowing and fairer taxes

The Autumn Statement was a missed opportunity to build a strong and healthy economy with a fairer and progressive tax system.

The Government should invest now in the foundations of the economy, our public services, for a healthier, more educated and better cared for population, greening our physical infrastructure and energy use. This would get us out of the recession faster, but it is also crucial in the medium and long term to get the kind of wellbeing, green and caring economy we want and to prevent future generations from having to pay the very high costs of environmental breakdown and inadequate essential services. A sustainable economic plan that is centred on strengthening the foundations of our economy would also strengthen the UK Government's financial credibility, and its access to low-interest rates to borrow to invest in social and physical infrastructure.

Changes to what we understand to be the foundations of the economy and what counts as infrastructure would lead us to a different fiscal strategy, based on sustainable and sensible decisions. WBG has argued that many public services should be considered as infrastructure. Investment in healthcare, social care and education and childcare services, among other foundational sectors, has a social benefit that goes beyond its direct users, with short- and long-term positive impacts for society as a whole.[40]

[39] We Own It, Bring Energy to Public Ownership
[40] Commission on a gender-equal economy (2020) Creating a caring economy: A call to action

Including public services as part of our infrastructure will generate a change in the public accounting of the government's debt. Also, it would strengthen the vision that well-funded social services are at the core of a healthy economy.

Our tax system needs fundamental reform. A progressive and fair tax system as a contribution to society is fundamental to building strong public services and a healthy economy. Income from wealth should be taxed just like income from employment, with the same progressive bands and rates.

Investment in social infrastructure and a progressive tax structure would promote gender equality, improving living conditions for millions of women and men, and centre wellbeing as the main aim of economic policy.

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