Women's Budget Group
February 2023

Budget Representation to HM Treasury*: Invest in the foundations of a healthy economy*

Summary

1. The Women's Budget Group (WBG) is a network of academic researchers, civil society organisations, activists and policymakers who analyse the intersectional impact of economic policy on women and men and promote alternatives for a more gender equal future. We welcome this opportunity to submit a response to the HM Treasury Budget Representation consultation.

2. The UK economy continues to experience significant interlinked shocks with important consequences for living standards, businesses and public finances. Inflation is at the highest level it has been in 40 years, driven mostly by global causes, chief of which is unprecedented high energy costs. Combined with lower-than-inflation wage growth and weakened public services from over a decade of underfunding followed by a global pandemic, people's living standards are now falling.

3. The impact of this is higher 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.

4. We contend that public spending cuts in the name of fiscal responsibility are mistaken. Not only do they disproportionately affect those who can least afford it, they also have the opposite effect than intended by weakening the economy and worsening public finances.

5. We therefore welcomed the additional funding for health, social care and education announced in the Autumn Statement 2022, to keep pace with the increase in prices until 2024. However, we remain deeply concerned about the plan to reduce public spending from 2025 onwards. Cuts to public services and social security have disproportionately impacted women especially poor, Black, Asian and Ethnic Minority (BAME) women, single mothers and disabled women across the UK, who cannot afford another period of austerity.

6. Investment in infrastructure is vital to promote a healthy economy. This should include not only physical infrastructure but social infrastructure such as health, education and care services. These are as integral to the health and wellbeing of people and productivity of the economy. It is not just roads and rail that enable people to get to work and live fulfilling lives, but vital social infrastructure including early education and childcare and social care.

7. Social infrastructure should also be expanded in response to the climate crisis in order to move the economy to an environmentally sustainable one. WBG analysis of ONS data on emissions found that the average job in health and care produces 26 times less greenhouse gas than a manufacturing job, over 200 times less than an agriculture jobs and nearly 1,500 times less than a job in oil and gas.[1] Moreover, demographic changes in the population are increasing the need for these services.

8. In addition to the Government's support packages for households' energy bills, we need to see 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 to reduce energy consumption.

[1] WBG and Wen (2022) A green and caring economy.

9. 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. The tax system should be reformed 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.

10. Equality Impact Assessments are an integral way of evaluating policy for its impact on different groups of society, including women. They are the best tool to ensure compliance with the Public Sector Equality Duty that all public bodies, including the Treasury, are bound by. More information on Equality Impact Assessments is available in our briefing here. For more information on gender responsive budgeting please see our online resources.

Policy recommendations

Investment in social infrastructure: Free Universal Early Education and Childcare

1. High quality early education and childcare is a form of social infrastructure that is integral to the productivity of the economy, wellbeing of families and to gender equality. The current lack of good quality affordable early education and childcare is bad for children, bad for parents, bad for early years professionals, and bad for the economy. High costs are a significant worry for parents in the cost-of-living crisis, with 52% of families concerned about having enough resources to pay for childcare.[2] Full-time early education and childcare for two-year-old or younger children absorbs nearly half of the median earnings for women in full-time employment.[3] Prior to the pandemic, only 56% of local authorities in England reported that they had sufficient provision for full-time working parents.[4] This contributes to gender inequalities as well as economic output loss. An estimated 1.7 million women are prevented from taking on more hours of paid work due to childcare issues, resulting in up to £28.2 bn economic output lost every year.[5]

2. Around 40% of the total attainment gap between sixteen-year-olds from the most deprived fifth of families and the least deprived fifth of families is already present at age five[6], and the current policies aimed to support disadvantaged children are not working. Parents receiving Universal Credit are only able to claim up to 85% of their early education and childcare fees and these are paid in arrears. In addition, the cap on the childcare element of Universal Credit has not been updated since 2016 while fees have been increasing above inflation since before 2022. At the same time, parents are not claiming tax free childcare, with £1.7bn in underspend 2017-20.[7] The tax-free childcare funding is not ring-fenced and since 2017, when it was launched, the Department for Work and Pensions has passed £2.4bn of unspent funds back to the Treasury.[8]

3. Current funding for the Department for Education's 'free' entitlements does not cover costs. In 2019-20, there was an estimated £662 million deficit in funding for early education and childcare[9]. Department for Education (DfE) files released in response to freedom of information requests submitted by the Early Years Alliance (EYA) show that DfE officials estimated a funded early years place for three- and four-year-olds would cost an average of £7.49 per hour by 2020/21.[10] Ceeda research for the EYA found that in 2020/21 the average rate paid to local authorities for 'funded hours' is £4.89. This represents a shortfall of £2.60 per

[2] Nesta (2022) Cost of living crisis pushing worried parents to the edge with 2 in 3 concerned about paying for essentials.
[3] I. Pinto (2022) The cost crisis: a gendered analysis
[4] S. Reis and L. Stephens (2022) Childcare and gender. Spring Budget 2022 Pre-budget briefings. WBG.
[5] Centre for Progressive Policy (2021) Women in the labour market.
[6] Hutchinson, J. and Dunford, J. (2016) Divergent pathways: the disadvantage gap, accountability and the pupil premium. Education Policy Institute
[7] C. Gaunt (2020) Government reveals £1.7bn in underspend on Tax-Free Childcare
[8] R. James (2022) Tax-Free Childcare: Parents only using half of accounts. National Day Nurseries Association.
[9] Early Years Alliance (2019) Alliance gives new evidence to Low Pay Commission
[10] R. Lawler (2021) New data shows ministers knew early years was underfunded. Early Years Alliance.

child, per hour for every 30-hours place or £2,964 over the course of a year.[11] Providers in poorer areas are less able to cross-subsidise the 'free' hours with fees.

4. Public investment in a system of high quality, free universal early education and childcare provided to all children in the UK between the age of 6 months and primary school by qualified staff would have long-term benefits for children, parents and the economy.

5. Women's Budget Group member research[12] finds that much of the initial investment required has the potential to be recouped quickly through additional tax revenue generated by additional jobs created and savings on social security benefits from more people in employment. Modelling various staff qualification/payment models we found that if early years professionals providing free universal childcare were paid an equivalent salary of primary school teachers and all 3.1m children were offered 40 hours a week for 48 weeks, the annual gross cost would be £57bn (2.7% of GDP); if pay rates were based on wage levels by qualification, the investment would be £38bn (1.8% GDP).

6. This would create between 1.4 million and 1.5 million full-time equivalent jobs, raising women's employment rate by between 5.6 and 5.9 percentage points. Direct and indirect taxation on income and consumption has the potential to recoup between 72% and 76% of this annual investment leaving between £9bn and £16bn net funding figure. Funding can also be recouped through the reduction of single mothers claiming social security benefits.

7. In the short term, funding for the 'free' hours hourly rate should reflect the true cost of provision so that providers are no longer reliant on cross-subsidising them by charging parents higher rates for non-Government funded hours. Although this would be an emergency measure, it would be possible to use this intervention to move towards the wider reforms needed. For example, this public investment should include conditions, such as ensuring providers comply with expectations such as ensuring all staff are paid at least the Real Living Wage; and that a percentage of places are available for children that benefit the most, including for children with SEND and 2-year-olds that qualify for the free hours.[13]

Investing in social infrastructure: Adult social care

8. The OBR[14] 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.[15] 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.

9. We welcomed the top-up funding announced in the Autumn Statement 2022 for health and social care to keep pace with price increases until 2023/24. Additional resources for social care in order to support discharges from hospital into the community are a step in the right direction as health and social care depend on each other, however the funding was insufficient to deal with huge demographic and pandemic aftermath pressures.

10. In the short term, restoring Local Government funding (as below) is integral to meeting huge demands for social care in the elderly, disabled and vulnerable populations as well as allocating emergency funds. As

[11] Ibid.
[12] De Henau, J. (2019) 'Employment and fiscal effects of investing in universal childcare: a macro-micro simulation analysis for the UK', IKD Working Paper No. 83, March (https://bit.ly/2C8E8vQ) **All figures updated for 2018.** Figures are not simply higher compared to 2014 because the child population is slightly lower but also teacher pay rise was slightly less than inflation while GDP and living wages have increased, so differential between the two scenarios is less than in 2014.
[13] S. Reis and L. Stephens (2022) Childcare and Gender. Spring Budget 2022 Pre-Budget Briefings. WBG
[14] Office for Budget Responsibility (2022) Economic and fiscal outlook – November 2022
[15] 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?

women make up the majority of paid and unpaid carers as well as those requiring social care, it is also a matter of gender equality[16].

11. Solving the social care crisis with free personal care for the elderly and independent living provisions for disabled people would also help meet enormous demand for care without forcing women out of the workplace therefore bringing more people into the paid economy and redistributing the burden from women's unpaid labour.

12. In the long term the Women's Budget Group calls for a National Care Service[17], fully integrated with the NHS and with provisions for independent living for disabled people, as the solution to the social care crisis. To address the failing markets and financialisation of care, we advocate for an expanded role for local authorities requiring them to develop and deliver long term strategies to transform provision in line with the Care Act 2014, and for a new national body to drive improvement by setting and enforcing standards, including better pay and conditions for care workers.

13. Significant investment is required to create a high-quality universal service that would ensure that people's needs are met in a way that supports their wellbeing, with a well-trained workforce with decent pay and conditions and financial costs shared progressively across society. Our costings of such a system are:

    - 'Core' (free care for those with needs as defined by local authorities, improved pay, resulting in higher take-up): £52bn or 2.5% of GDP, which is £32bn above current public spending power;

    - 'Transformative' ('Core' plus better training and wider needs): £71bn or 3.4% GDP, which is a further £19bn above the core scenario.

14. Even at these increased costs, total social care spending would remain a relatively small fraction of NHS England's budget, which was £152.6bn in 2022/23. Our modelling suggests that the additional investment required for our core scenario would generate 928,000 new full-time-equivalent jobs in 2021/22 terms, both in the care sector and more widely through indirect and induced employment, boosting tax receipts by £14bn. However, at least some of the public funding for a universal care service would need to be offset by expanding the tax base elsewhere in the economy, as set out in our recommendations on taxes.

Social security reform

15. Social security is a necessary part of the social infrastructure on which a caring economy and society is based.[18] The current system is failing vulnerable people and compromising the aims of Universal Credit: women particularly are worse off under Universal Credit and disincentivised from working by the single taper rate as they tend to be the majority of second earners. This decreases women's participation in the labour market and increases their economic dependence, undermining the Government's ambition that under Universal Credit it 'pays to work'. For more on the disproportionate impact of Universal Credit on women see our policy briefing.

16. WBG welcomed the uprating of social security benefits and pensions by 10.1%, in line with September 2022 inflation. 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.

17. 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.

[16] WBG (2019) Gender and social care https://wbg.org.uk/analysis/uk-policy-briefings/2019-wbg-briefing-social-care-and-gender/
[17] WBG and NEF (2022) Universal Quality Social Care
[18] WBG (2022) Social Security and Gender

18. The five-week wait for a claimants' first Universal Credit payment is forcing claimants into poverty and debt. Our work has also shown how it traps women in violent and abusive relationships since they fear being left destitute once they leave and have to make a new claim for UC.[19]

19. The benefits cap and the two-child limit particularly disadvantage single mothers, disabled people, and BAME families who are statistically more likely to have three or more children[20]. The two-child limit leaves third and subsequent children without entitlement to Government support and should be ended. We call for an end to the benefits cap – social security payments should be based on need not an arbitrary limit. Also, we urge the Government to increase Child Benefit to £50 to support larger families with higher costs and reduce the poverty rate by a quarter[21].

20. The link between housing allowances and actual rents must be restored to end homelessness and rough sleeping in the UK[22]. Single mothers are 67% of all statutory homeless families with children.[23] There has been a sharp decline in housing affordability for renters in the last 40 years, mainly due to a reduction of housing subsidies and other forms of financial support. Net rent as share of household income for private renters has increased from nearly 10% to 25% in 2019.[24]

21. The social security system should promote well-being for all, decent living standards and opportunities for everyone to fulfil their potential in life.[25]

Energy

22. We welcomed measures announced in 2022 to provide households additional support with energy bills and increase targeted support for vulnerable households. We advocate for variable tariffs that include a free 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. 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).

23. We also welcomed the extension of the Energy Profits Levy until March 2028 and the increase in the rate to 35% in 2023. 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, to see fiscal incentives transferred to green and clean energy sources.

24. That would fund a serious and 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 to reduce energy consumption. New buildings should be planned based on higher energy efficiency and zero-carbon targets, with solar panels and heat pumps as standard.

Restore funding to Local Government

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19 WBG (2018) Universal Credit and financial abuse: exploring the links

20 WBG (2019) The Women's Budget Group (WBG) calls on the Department for Work and Pensions to assess and publish the impact of Universal Credit on women and men before 'managed migration' https://wbg.org.uk/wp-content/uploads/2019/10/Policy-note-EIA-of-UC-before-MM-FINAL.pdf

21 Policy Engine (2023) microsimulation over an enhanced version of the 2019 Family Resources Survey

22 WBG (2019) A Home of Her Own: Housing and Women

23 WBG (2022) Housing and gender. Calculations based on MHCLG Sept 2021 Statutory homelessness livetable TA2

24 I. Mulheirn, J. Browne and C. Tsoukalis (2023) Housing affordability since 1979: Determinants and solutions.

25 WBG (2022) Social Security and Gender

25. We welcomed the additional funding allocated to the Social Care Grant for adult and children's social care. 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. Local Government is often best placed to support the needs of people, especially women in communities, as they provide vital services and social infrastructure to redistribute care and support survivors/victims of domestic abuse. Both proximity and familiarity with local needs make Local Government best placed to promote growth and productivity.

26. Central Government funding for local authorities fell by over 49% between 2010/11 and 2017/18[26] with councils in the most deprived areas suffering the greatest cuts. Cuts since 2010 have been detrimental to Local Government's ability to provide life-saving and life-changing services so if this Government is serious about restoring prosperity in English towns, funding Local Government adequately is a fundamental first step.

27. This means moving away from plans to make local authority funding entirely dependent on locally raised revenue (council tax and business rates-based funding) and towards more centralised grants to ensure funding is distributed based on need not local affluence or destitution as in the current system which is augmenting regional inequalities.

28. Local Government funding needs to be urgently restored to a level which enables councils to meet their statutory obligations as well as providing the preventative, non-statutory services which are vital to the wellbeing of women, children and those in need of care. Adequate funding should come from central Government to ensure that local authorities in poorer areas, often with a higher need for services, have the funding that they need.[27]

Taxation

29. The freeze of tax thresholds announced in the Autumn Statement 2022 represents an increase in taxes in one of the least progressive ways. It 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, which should be addressed in the Spring Budget.

30. Taxes should be seen as a contribution to society and the common good. 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. Equalising taxes on income from wealth and from work could raise £50bn from 2022/23 to 2026/27, for example.[28]

31. We urge the Chancellor 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. Reforming the tax system would provide more income to the Treasury to invest in social infrastructure.

Meaningful Equality Impact Assessments

32. Finally, the Women's Budget Group calls for HM Treasury to ensure a comprehensive and meaningful cumulative equality impact assessment is undertaken before the budget is finalised, in line with the requirements of the Public Sector Equality Duty and the recommendations of the Equality and Human Rights Commission and Treasury Select Committee[29].

[26] WBG (2019) Triple whammy: The impact of local government cuts on women
[27] Ibid
[28] G. Dibb and H. Parkes (2022) Chancellor's first step to raising tax on income from wealth leaves potential £50 billion untapped, IPPR finds.
[29] For more detail on EIAs as well as an example of a policy which requires assessment see: WBG (2019) The Women's Budget Group (WBG) calls on the Department for Work and Pensions to assess and publish the impact of Universal Credit on women and men before 'managed migration' https://wbg.org.uk/wp-content/uploads/2019/10/Policy-note-EIA-of-UC-before-MM-FINAL.pdf

33. A meaningful equality impact assessment must take account of the impact of a policy or budget allocation on all people and groups with protected characteristics including age, disability, sex, gender reassignment, pregnancy and maternity, race, religion or belief and sexual orientation.

34. For gender sensitive policy it is particularly important to take account of how policy will impact individuals as well as households as resources are not always equally distributed between women and men within households.

35. A gender equality impact assessment also requires policymakers to take account of how any policy reform will interact with unpaid care work and, to take lifetime and cumulative approaches to policy reform. For example, pension policy must take account of people's lives across a lifetime not in a snapshot. To avoid disadvantaging one group, policies must be considered together as well as individually.

For more information on any of the above please contact: erin.mansell@wbg.org.uk

WBG consents to our submission being made public.