Women's Budget Group response to the Spring Budget 2023

Executive Summary

Chancellor Jeremy Hunt presented a budget to get people "back to work". With incentives on one hand, and sanctions on the other, we can expect an unfair result: low-income individuals (mostly women) will experience tighter work eligibility criteria and sanctions, while rich individuals (mostly men) will benefit from tax relief on their pension wealth in order to entice them into retiring later.

New funding for early education and childcare is good news, as well as the extension to younger children. However, what the Government offered will not be enough to ensure a high-quality and well-functioning system. Strong and properly funded public services, as part of our social infrastructure, are the cornerstone of a healthy, well-educated and well-cared for population and a strong economy that promotes well-being and gender equality.

Levels of economic inactivity due to long-term sickness have increased since January 2020[1] and represent one of the most important economic challenges for the UK right now. But surprisingly, there was no new funding for the NHS or social care to tackle this. In addition, most people are struggling with the cost-of-living crisis and the greatest fall in living standards on record. A truly transformative Budget would have put funding for public services at its core. This would have had a stronger impact on the economy than relying on the carrot and stick approach to get people "back to work" that the Chancellor chose.

Policy Decisions

Early Years Education and Childcare

WBG is very pleased to see early years and childcare at the centre of this Budget and a tacit recognition of this sector as social infrastructure underpinning the success of our economy. The expansion of childcare support into the younger ages is crucial for mothers to continue to thrive in their careers and for children to get the benefits of early education.

But what will make or break this policy is the amount at which these free hours will be funded. According to WBG's calculations there will be a shortfall of £5.2bn in 2025/26 when the expansion is complete. This risks breaking a system that has been forced to rely on the younger ages to cross-subsidise the government's underfunding.

The changes in how the childcare element under Universal Credit is paid are also very welcome to support the poorest families and disadvantaged children to benefit from early education. But tightening eligibility and sanctions, particularly for single parents, is a problem as sanctions are not effective at getting people into well-paid sustainable work.

[1] ONS (2023) Labour Force Survey: Economically Inactive in the UK

Relaxing ratios risks undermining the quality of early years education. It is also misguided in the context of a severe recruitment and retention crisis. The government should be aiming to make a career in the early years attractive, not piling additional pressure onto overworked and underpaid staff.

The next step should be setting up a plan to make early education and childcare available to all children on a full-time basis throughout the year, free at the point of use, provided by a qualified and well-paid workforce. This would have significant positive employment and fiscal impacts and would be a big step towards gender equality.

Tax & Pensions

We welcome the Chancellor's decision to continue his plans to increase corporation tax to 25% in April 2023. This still leaves the UK with lower-than-OECD-average tax contributions but is an important step in ensuring the wealthiest businesses contribute their due.

Other announcements were much less positive. The replacement of the "Superdeduction" with a similar tax relief for the wealthiest corporations will cost the Exchequer over £8.6bn in 2025/26 - twice as much as the investment the Chancellor is allocating to early years and childcare in the same year - for dubious investment returns. The fuel duty was frozen yet again, which will cost the government £4.8bn in 2023-24 and which benefits richer families - and men - the most. There is also an opportunity cost of not investing in our public transport systems, a prerequisite for a green and just transition.

This Budget was another missed opportunity to reform wealth taxation, which would go a long way to reduce wealth and living standard inequalities, and whose revenue could be used to invest in essential public services. Instead the Chancellor chose to provide a huge tax relief to the richest would-be pensioners, who are mostly men, by abolishing the Lifetime Allowance and increasing Pension Tax Limits, to a cost of £0.8bn in 2027/28 and dubious impacts on employment.

Social Security

While the changes to the childcare element in Universal Credit are very welcome and long overdue, the fact the Local Housing Allowance rates remain frozen since 2020 is very concerning. Private renters are particularly exposed to the cost-of-living crisis, and most on Universal Credit were struggling with the shortfall on Housing Benefit even before rising costs.

The announcement of tighter work eligibility and sanctions is a misguided attempt to get more people into the workforce, as there is ample evidence that sanctions do not work at getting people into well-paid and sustainable employment. Indeed, dealing with the impact of a benefit sanction may make job hunting harder. The focus on main carers of very young children is a problem; single parents in particular will struggle to meet the new requirements to work and care for their children without another parent to share childcare with.

The Work Capabilities Assessment (WCA), used to assess eligibility to disability support under Universal Credit (UC), is being scrapped. People in receipt of Personal Independence Payments (PIP) will now have their eligibility passported into UC. Despite the fact that WCA was a flawed process, causing disabled people much stress, this move also has significant problems. One of them is that the PIP assessment process is also flawed, failing particularly people with mental health conditions. Another problem is that there are hundreds of thousands of people who are currently assessed as having limited capacity for work but who do not qualify for PIP and will therefore stand to lose out. The other significant problem is that more disabled people will now fall under the UC sanctions regime.

Women are the majority of disabled people and those in receipt of disability benefits. As a consequence, this policy stands to disproportionately affect disabled women. This was one of the groups that were hardest hit by austerity policies during the 2010s.

Energy

The soaring price of energy has been one of the main drivers of high inflation in the last few months. The extension of the Energy Price Guarantee until June 2023 is a welcome measure that will prevent more households from falling into fuel poverty. But even with the extension of the Energy Price Guarantee, the typical household will experience an increase of over £500 in April 2023 compared to April 2022. The move to equalise charges on pre-payment meters with those from direct debit is good news that will especially benefit poorer households.

Despite these sticking plasters, there was a lack of ambition in this Budget to reform the energy sector so that it serves consumers rather than giant energy corporations who reported record profits in the previous year. A serious overhaul of the sector is also necessary in order for the UK to achieve the government's own net-zero targets.

Introduction

We welcome the fact that a budget with a focus on lowering barriers to participating in the paid labour market recognises early education and childcare as vital social infrastructure that supports and educates future generations, supports parents – particularly mothers – to work and boosts economic prosperity in a cost-of-living crisis.

However, we are seriously concerned that the funding allocated for this policy is inadequate. The early years education and childcare system is in such a fragile state that not providing the necessary resources could lead to a collapse. According to WBG's calculations[2] there will be a shortfall of £5.2bn in 2025/26 when the expansion is complete. If the Government is serious about helping women move into paid jobs, then more investment is urgently needed, or the new policy announcements risk the financial sustainability of the sector.

Other measures announced by the Chancellor are not good news for women and gender equality. Increased sanctions in the social security system will put low-income households and single mothers in particular in a very difficult position. As the cost of living crisis continues, vulnerable families require a better social security system and not more threats to their income.

The combination of a carrot and stick approach to this issue is deeply unfair: low-income individuals (mostly women) will experience tighter work eligibility criteria and sanctions, while rich individuals (mostly men) will benefit from tax relief on their pension wealth in order to entice them into retiring later. Meanwhile, tax reliefs to wealthy corporations and individuals will cost the Exchequer roughly as much as what proper investment in the childcare free hours expansion would require.

Our tax system needs urgent reform. 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, in a healthy and equal economy that cares for people and the environment. Education, childcare, health and social care are part of the social infrastructure that we need to function as a society and we call on the Government to fund it properly. Such funding represents an investment that will put us and future generations on a path of well-being through a green and caring economy.

Economic Outlook - what is happening to the UK economy?

The Office for Budget Responsibility (OBR) reported that the UK has escaped a technical recession this year. But this will come as little consolation to the thousands of households that are struggling to make ends in the current cost-of-living crisis. Misguidedly, the Chancellor confirmed the Government's commitment to reducing the public debt by lowering spending as one of its main goals.[3] **More than 10 years of austerity have shown us that cutting public spending is not the way forward.** Instead of improving economic conditions, austerity policies have generated a reduction in the national output and real

[2] WBG (2023) WBG finds Government funding for early education and childcare falls short by £5.2bn

[3] J. Hunt (2023) Spring Budget 2023 speech

wages. The impact has been particularly damaging for women and low-income households, who cannot keep paying the price of austerity policies.[4] We call on the government to focus on investing in social infrastructure, as a fundamental piece of a strong and well-functioning economy.

The significant differences between the OBR forecast published with this Budget and the forecast published in November last year show the limited usefulness of arbitrary fiscal rules, particularly one focused on the fifth year of the rolling forecast period. As the IFS says, the Chancellor's "own poorly designed fiscal rule, which requires debt to be falling in the last year of the forecast, hemmed him in" from doing much to promote the growth he seeks.[5] It makes good economic sense to invest when doing so will produce a strong economy that promotes well-being. Attempting to fine-tune fiscal policy to meet specific targets leads to short-term, politically motivated decision-making that is not good for the economy, improving its public services or the interests of the women who depend on them.

The cost-of-living crisis will continue to erode incomes and living standards in the following years

Since 2021, prices have been increasing sharply. The Covid-19 pandemic caused disruptions in global supply chains, which led to an increase in the prices of raw materials and consumables. More recently, the Russian invasion of Ukraine resulted in a reduction in gas supplies, which further pushed up energy prices to unprecedented levels.

These global factors have had a significant impact in the UK, compounded by a reduced workforce due to the pandemic and a record number of job vacancies. The effects of Brexit have made the situation in the UK particularly critical, with fewer migrant workers[6] and increased trade friction leading to higher food prices[7].

In October 2022, CPI inflation reached a 40-year record of 11.1%. Prices of energy and food have contributed significantly to this increase.[8] For lower-income households, particularly single parents (85% of whom are lone mothers[9]), the cost of living has gone up by more than inflation because they allocate a larger portion of their budget towards food and energy, so any price hike in these categories significantly affects their ability to make ends meet and their overall well-being.

The cost-of-living crisis is the most important issue that the UK is facing, according to the latest Opinions and Lifestyle Survey[10], with 91% of the respondents identifying this as the most relevant problem in the UK. The most common actions taken by people to cope with

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[4] Progressive Economic Forum (2023) The Macroeconomics of Austerity; WBG and Runnymede Trust (2017) Intersecting Inequalities.

[5] IFS (2023) Spring Budget 2023 response

[6] 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

[7] 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

[8] ONS (2023) Consumer price inflation, UK: January 2023

[9] ONS (2022) Families and Households dataset

[10] ONS (2023) Public opinions and social trends, Great Britain: 8 to 19 February 2023

the cost-of-living have been spending less on non-essentials (65%) and using less energy in their home. **Women are disproportionately likely to be responsible for managing household budgets and more likely to cut back on essentials for themselves to provide for their children and family.**[11]

The OBR forecasts that real disposable income for households will fall by 5.7% between 2022 and 2024, which represents the largest two-year fall since records exist. Real household disposable income is expected to be just below pre-pandemic levels in 2027/28.

The National Institute of Economic and Social Research estimates that nearly a quarter of households in the UK will run out of savings by April 2024[12] if there is no additional support or an increase in wages. Middle-income households will experience an average cut of £4,000 in their budgets in 2023/24.[13] Even after the government support announced in 2022,[14] 25% of households will not be able to cover energy bills and food in 2023/24.

There is no reason to believe these falls in disposable income will be immediately reversed in the following years. Inflation is expected to be 6.1% in 2023. Although this is below inflation levels in 2022, it is important to note that wages in real terms have been decreasing since April 2021. The situation is even worse for public sector workers, who have experienced greater real-term cuts in their earnings. We call on the government to support public sector workers and offer decent pay, as one of the fundamental steps to overcome the recruitment and retention crisis in the sector.[15]

Long-term sickness is keeping hundreds of thousands out of the labour force

The number of people who are 'economically inactive' (out of the labour market and not looking for a job) has increased since January 2020[16] and is one of the important economic challenges for the UK economy. **After the pandemic, the UK's labour force lost 520,000 people compared with pre-2020 forecasts.[17]** By contrast, economic inactivity in other OECD countries has decreased in the last years, showing a recovery from the impacts of Covid-19.[18] In the UK, the economic inactivity rate did not improve during 2022,[19] with ill health one of the main causes of inactivity[20]. The sickness absence rate reached 2010's levels, with 2.2% in 2021.[21] Women also present high levels of economic inactivity. Over two

[11] H King et al (2022) Consumer Insights Tracker Report

[12] National Institute of Economic and Social Research (2023) UK Economic Outlook. Winter 2023.

[13] Ibid

[14] WBG (2022) Misguided plans for Austerity 2.20. Women's Budget Group response to Autumn Statement 2022.

[15] I. Pinto (2022) The Gendered Impact Of The Cost-of-Living Crisis on Public Services. WBG.

[16] ONS (2023) Labour Force Survey: Economically Inactive in the UK

[17] Office for Budget Responsibility (2023) Economic and fiscal outlook 2023

[18] OECD.Stat (2023) Short-Term Labour Market Statistics: Inactivity Rates.

[19] ONS (2023) Table A05: Labour market by age group: People by economic activity and age (seasonally adjusted)

[20] National Institute of Economic and Social Research (2023) UK Economic Outlook. Winter 2023.

[21] ONS (2022) Sickness absence in the UK labour market: 2021

million women aged 50-64 are economically inactive, more than half due to long-term sickness or looking after their home or family.[22]

It is unclear whether the recent increase in people recorded as economically inactive due to long-term sickness is because of ill health forcing people out of the labour market, or people that were already economically inactive before the pandemic for another reason and now declare long-term sickness a reason for inactivity.[23] Either way, it is evident that we urgently need a strong health service to support the population and ensure people are as healthy as possible and able to live a dignified life. It was, therefore, extremely disappointing that no additional funding to reduce the NHS backlog or support the health service was announced by the Chancellor. The Autumn Statement 2022 allocated some additional resources to the health and social care sector to compensate for the increase in prices. However, this is far from what is needed to restore the performance to pre-2010 levels.[24]

The Annual Population Survey[25] shows that **the percentage of women aged 25-49 who are economically inactive due to long-term sickness has increased significantly more than for men or women of any other age group** between 2019 and 2022. Women in this age group, the most likely to have dependent children, are key targets of the Chancellor's plan to get people into paid work by providing funded childcare. However, no attention was given to the rise in women of this age group not working due to health reasons.

The OBR stated in its assessment of the government's Budget that expanding the free entitlement to childcare is the policy with the greatest impact on employment by far. This is a reflection of the importance of getting early years education and childcare right for the rest of the economy - something WBG has been arguing for years.[26] This means that investment in early years should be a priority (see "Early Years Education and Childcare" section below for more detail).

A plan to encourage people to participate in the labour market needs to be comprehensive and respond to the needs of the population. Once again, we emphasise that well-functioning and properly funded public services, as part of our social infrastructure, are the cornerstone of a strong economy that promotes well-being and equality.

Policy decisions

Early years education and childcare

The acknowledgement in the Spring Budget 2023 that childcare and early years underpins our economic strength is very welcome and something WBG has been highlighting for

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[22] ONS (2022) Annual Population Survey – regional – economic inactivity by reasons, September 2022
[23] Office for Budget Responsibility (2023) Economic and fiscal outlook 2023
[24] I. Pinto (2022) The Gendered Impact Of The Cost-of-Living Crisis on Public Services. WBG.
[25] ONS (2022) Annual Population Survey
[26] J. De Henau and S. Himmelweit (2020) A Care-Led Recovery from Coronavirus. Women's Budget Group

decades. The recognition that current free hours are underfunded and the support provided to childminders to set up business, as well as the crucial revision of the support for childcare costs in Universal Credit, are all steps in the right direction.The extension of free hours to younger ages from the end of (paid) maternity leave is also an important step to stop mothers being penalised for having children. However, we are concerned that the funding provided for these policies remains seriously inadequate.

Expansion of free hours to younger children and the true cost of provision

Currently, Government support with early education and childcare only kicks in significantly for most families once a child reaches the age of three. This leaves a gap of nearly 2.5 years between the end of (paid) maternity leave and the start of the support for most families, leaving parents facing some of the highest costs for early years education and childcare in the OECD. Data from Pregnant Then Screwed shows that 1 in 4 parents using formal childcare have to spend more than 75% of their wages on childcare.[27]

We are very pleased to see the Government announcing an expansion of the support to younger children, in recognition that childcare and early years support is inextricably linked to the success of the wider economy.

With an increased share of childcare provision costs covered by the Government, it is even more important that the funding for free hours covers the true costs of delivering those hours. At the moment, it doesn't, forcing providers to cross-subsidise the shortfall through higher fees for paid hours, including for younger children. With the expansion of the free entitlement, first to 15 hours for working parents of 2 year-olds from April 2024, then to 15 hours for working parents of children aged 9 months up to 3 years old from September 2024, and finally to 30 hours for working parents of children under 3 years old from September 2025, opportunities for cross-subsidising will gradually decrease, and so the financial sustainability of providers will be at greater risk.

The Government has allocated an additional £240 million for 2023/24 to increase funding for free hours for 3- and 4-year-olds. But this falls far short of the £1.8bn WBG have calculated is necessary to make up for the shortfall providers are experiencing.[28]

There is also significant underinvestment in the funding for the free hours' expansion to younger ages. The Government has allocated £4.2bn in 2025/26, when the expansion is complete. **But the Women's Budget Group estimates for funding to cover the true cost of provision of all free hours in 2025/26, an additional £5.2bn would need to be allocated (£9.4bn in total).[29]** Anything less risks worsening the sustainability crisis of the Early Years sector, which has been underfunded for too long. This could result in providers exiting the market, and the Government failing to deliver on its commitment to parents if there are not enough places available.

[27] Pregnant Then Screwed (2023) A cry for help: three-quarters of mothers who pay for childcare say that it does not make financial sense for them to work
[28] WBG (2023) The Chancellor must invest £1.82bn in childcare to help families with the cost-of-living crisis
[29] WBG (2023) WBG finds Government funding for early education and childcare falls short by £5.2bn

The tax giveaways announced in this Budget for the richest corporations (£8.68bn) and the richest pensioners (£0.77bn) in 2025/26 will cost the Exchequer more than the proper investment in childcare expansion would.

The OBR has estimated in its assessment of the Government's Budget that expanding the free entitlement to early years and childcare is the policy with the greatest impact on economic output by far.[30] If this is the case, then it should be invested in properly. Making sure the wealthiest are contributing their fair share is a good way to raise money for this and other essential public services (see the "Taxation" section for more detail).

Relaxing ratios is the wrong approach - it decreases quality of care for children. A workforce strategy for the Early Years is needed instead

Increasing the adult-to-child ratios for 2 year-olds to 1:5 will threaten the quality of care while doing nothing to solve the crisis in the sector. In addition to properly funding the current costs of provision, a workforce strategy is needed. If we are to create new early childhood education and childcare places for younger children, **we need an estimated 38,116 more workers**.[31] Upping salaries (1 in 8 workers was earning just £5/hour in 2020)[32] is urgently required, not only to stem the current haemorrhage of workers from the sector but also to attract (and retain) new ones and improve the care and education provided..

In this context, the decision to relax ratios for two-year-olds, after widespread opposition from providers, workers and parents, is wrong. There is a recruitment and retention crisis in the sector and workers will continue to leave if their work and responsibilities increase but their pay stays the same. It is now all the more urgent to increase salaries to at least the Real Living Wage and in line with qualifications and experience.

Early education and childcare for ALL children: the importance of a universal offer

The rescue and expansion policies were announced in the context of the Government's efforts to turn the tide on the rise of economic inactivity since the Covid-19 pandemic. It is very explicitly aimed at getting parents, especially mothers, into the workforce. The expansion of 30 free hours during term time for children aged 9 months to 3 years is restricted to parents in paid employment for 16 hours a week or more, earning, on average, at least the National Living Wage. Parents who are seeking work, in education or training, or with caring responsibilities for other children or adults which prevent them undertaking paid work are excluded.

Limiting free hours for younger children to those whose parents are in paid work excludes children from some of the poorest families from receiving the benefits of high-quality early years education and care. Designing the policy in this way risks embedding inequalities for future generations and widening the educational attainment gap. It will also have potentially

[30] OBR (2023) Economic and Fiscal Outlook - March 2023, p21

[31] WBG (2023) WBG finds Government funding for early education and childcare falls short by £5.2bn

[32] Social Mobility Commission (2020) The stability of the early years workforce in England

higher costs for the Exchequer in the longer term than investing in providing all children with good quality early years education and care.

Changes to childcare element in Universal Credit are very welcome - but sanctions are punitive and counter-productive

WBG has called on successive governments to address the failings in the Universal Credit system, including payment of the childcare element in arrears. We are pleased this Government has listened and is switching childcare support into advance payments. This will help low-income parents avoid debt. The increase in the amount that can be claimed under Universal Credit for childcare costs is also good news and a recognition that the childcare element in UC hasn't kept pace with true costs in nearly two decades. Implemented properly, these changes could help unlock work opportunities for more than 300,000 eligible families.[33]

However, we are concerned about the stricter requirements on parents to seek work or increase their hours which were also announced by the Chancellor, as a condition to receive childcare support under UC. There is plenty of evidence that sanctions do not work in getting people well-paid sustainable jobs and they might actually be counterproductive[34] (see the "Social Security" section for more details).

WBG's proposed early education and childcare reform package: a universal high-quality system with well-paid staff and free at the point of use

In the medium term, we need to reform our early years education and childcare system, to ensure we have a highly qualified and well-paid staff with low child-to-staff ratios to ensure the best quality in care and education provided, and that it is available to all children on a free-at-the-point-of-use basis. This would ensure all children have access to the benefits and opportunities that high-quality childcare and early education provides, and mothers are not penalised financially for having children.

Our reform package would have an initial investment cost of 0.7% of GDP (£18bn in 2022 levels), but 61% of that would be recouped through positive impacts on the wider economy.

It would bring our early education and childcare sector in line with Nordic countries which have a higher female participation rate, better salaries and high quality of education and care. Such an investment would increase employment (directly and indirectly in the wider economy) and therefore generate increased tax revenues and reduced social security spending, which would pay for the majority of the investment.[35]

[33] Citizens Advice (2021) Universal Credit is locking hundreds of thousands of parents out of work

[34] Welfare Conditionality Project (2018) Final findings report

[35] J. De-Henau (2022) Simulating employment and fiscal effects of public investment in high-quality universal childcare in the UK. We use as reference "Scenario 2": average take-up rate of 71% and pay levels equal to those of primary school teachers.

Taxes and Pensions

Tax is the necessary financial contribution that individuals and companies make to a well-functioning society. Public spending, financed by taxes, tends to benefit particularly women. Thus, we welcome the Chancellor's decision to continue his plans to increase corporation tax to 25% in April 2023. This still leaves the UK with lower-than-OECD-average tax contributions but is an important step in ensuring the wealthiest businesses contribute their due.

The Budget also includes a series of tax cuts that aim to boost economic activity in the UK. However, the evidence points in the opposite direction. A thorough analysis of tax cuts for the rich in OECD countries from 1965 to 2015 shows that reducing taxes for the rich increases income inequality in the short and medium term and does not significantly impact GDP.[36] There is no clear relationship between reducing corporation tax and economic growth.[37]

A new Super-deduction and tax cuts for fuel will cost billions and harm public revenues

The Government decided to renew capital allowances for business, with 100% full expensing for main rate assets and 50% First Year Allowance for special rate assets for three years. **The cost of this policy will be over £10bn in 2024/25.** In the same way as the Superdeduction introduced in 2021, this tax relief is not intended to target investment towards any specific direction, with the exception that it must be utilised for physical plant and machinery.[38] Hence, **it will disproportionately benefit men, who are more likely to work in sectors that can benefit from investment in physical plant and misses the equally urgent need for non-physical investment, for example, in training**.

As part of the package to help households with the cost-of-living crisis, the rates of fuel duty will remain at the current level through the next year. This means an extension of the 5p cut and a cancellation of the planned increase by RPI inflation in 2023/24. It costs £4.8 billion in 2023/24 when both elements apply, and £2.6 billion a year thereafter when only the RPI element has an ongoing cost. We strongly believe that there are better ways to help families to deal with increased costs. This funding for motorists is in stark contrast to the lack of funding to improve the pay of public sector workers, where £6 billion could have been used to make an inflation-matching pay offer this coming year.[39] Women represent the majority of the workforce in the public sector. The Chancellor's decision will increase gender inequalities by giving tax reliefs to men and cutting public spending for women.

36 D. Hope & J. Limberg (2021), "The economic consequences of major tax cuts for the rich" Socio-Economic Review

37 Resolution Foundation & Centre for Economic Performance, LSE (2022), Stagnation Nation; Grechert & Heimberger (2022), Do corporate tax cuts boost economic growth? European Economic Review; C. Boissel and A. Matray (2022) "Dividend Taxes and the Allocation of Capital." American Economic Review, 112 (9): 2884-2920.

38 HM Treasury (2023) Spring Budget 2023

39 IFS (2023 Spring Budget 2023 response

Instead of increasing private pensions of wealthy men, we need taxation of wealth to reduce gender inequality

The Chancellor announced an abolition of the lifetime allowance for private pensions, with a cost of £835m in 2027/28, to "help ensure that high skilled individuals such as NHS clinicians are not disincentivised from remaining in the workforce".[40] The beneficiaries of this measure will be mainly men, who have on average more income and higher private pension funds. **Among those who have private pension funds, the median private pension wealth for men between 55 and 64 years old is £228,000, while women in the same age band have £152,600 as private pension wealth.**[41]

Another change is the increase in the annual allowance for private pension pots, which will increase from £40,000 a year to £60,000 with a cost of £290m in 2027/28. This will only be available to higher earners and thus amounts to a tax cut for higher earners alone (those "lucky enough to be able to save twice the UK median salary"[42]). **WBG has long argued that money spent on pension tax relief would be better spent on increasing the state pension which benefits far more women and alternative ways found to retain highly paid workers as they get older in the public and private sectors, without increasing income inequalities further.**

The effects of raising the annual allowance and abolish the lifetime allowance on retirement plans are unclear: those who can now put away enough in a tax-favoured pension in a shorter time may be tempted to retire earlier rather than encouraged to stay in employment longer.

Along with Tax Justice UK and many other organisations, the Women's Budget Group has repeatedly called for greater taxation of wealth in the UK.[43] Wealth is not subject to direct taxation in the UK, and some dividend and savings income, as well as the capital gains that come from holding wealth, are taxed at substantially lower rates than income that come from employment. This under-taxation deepens inequalities, including gender gaps. On average, between April 2018 and March 2020, men held £100,000 more in wealth than women.[44] At the household level, a single-person household has a median wealth of £110,600, while a lone-parent household (typically a lone mother[45]) with dependent children has £29,400.[46]

We call on the Government to introduce a reform to tax wealth directly. Data from the Wealth Tax Commission shows that implementing a progressive tax on wealth, targeting individuals with net assets over £5m, could generate approximately £27bn in annual revenue.[47] Such a

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40 HM Treasury (2023) Spring Budget 2023, page 2.

41 ONS (2022) Pension wealth: wealth in Great Britain

42 D. Alexiadou (2023) Spring budget 2023: experts react to UK government's plan to get the economy moving

43 Tax Justice UK (2019) A manifesto for tax equality; S. Himmelweit (2023) Spring Budget 2023: Taxation and gender

44 85% of lone parents are women: ONS (2022) Distribution of individual total wealth by characteristic in Great Britain: April 2018 to March 2020.

45 ONS (2022) Families and households

46 ONS (2022) Total Wealth: Wealth in Great Britain. July 2006 to March 2020. Table 2.9: Distribution of household total wealth, by household type.

47 Wealth Tax Commission (2020) A wealth tax for the UK: Final report

tax would increase the government's revenue and help to reduce income and gender inequality.

Social security

Social security is a safety net for people during hard times, such as the current cost-of-living crisis. Because of their unpaid caring responsibilities, women are more likely than men to rely on benefits and have been made poorer by the regressive changes to social security since 2010 with Black and minority ethnic women, disabled women and single mothers hit the hardest.[48]

We welcome the changes the Chancellor announced to the childcare element support in Universal Credit. Both the change to paying the childcare support upfront in the first month and the uprating of the cap to reflect true costs are very welcome. Both will prevent parents - especially women - from falling into debt to pay for childcare and early education for their young children.

Local Housing Allowance rates remain frozen since 2020

However, we note with concern that other elements of the social security system are not keeping up with inflation. Local housing allowance rates were frozen in 2016 at the lowest 30% of average local rents, briefly increased in 2020 in response to the Covid pandemic and then re-frozen since then. According to analysis by Crisis, only 8% of private-rented properties are now affordable to someone on housing benefit.[49] The shortfall of housing benefit and UC housing support to private renters is a great source of financial hardship for many low-income families: 3 in 5 private renters are struggling with the cost-of-living crisis, according to the New Economics Foundation.[50] Due to their lower levels of income, savings and wealth, women are more likely to struggle with housing affordability, particularly on their own.[51]

Tightening conditionality and sanctions – while increasing tax reliefs for older rich people – is the wrong approach

As part of his suite of measures to get people back to work the Chancellor announced a ramping up of benefit sanctions. This stick approach targeting the poorest contrasts with the carrot approach of tax reliefs introduced to entice older rich people - mostly men - back into the labour market or not to retire early.

The tightening of work conditionality for lead carers of young children who currently have no or limited requirements to look or prepare for work is particularly concerning. Parents of very small children are best placed to know how to balance their children's needs with paid work. Imposing sanctions on this group risks pushing them and their children into poverty. It will

[48] WBG and Runnymede Trust (2017) Intersecting Inequalities: The impact of austerity in Black and Minority Ethnic women in the UK
[49] Crisis (2022) Properties affordable on housing benefit have declined by a third in the last five months – down to just 8%
[50] New Economics Foundation (2023) Three-fifths of private renters cannot afford the cost of living
[51] WBG (2019) A Home of Her Own: Housing and Women

disproportionately impact lone parents because it is harder for them to balance paid work and caring since there isn't another parent to share childcare with.

There is extensive evidence that sanctions do not work, and that they have adverse impacts on claimants' mental health, sometimes pushing them into poverty, with minimal impact on securing claimants sustainable well-paid employment.[52]

We are also concerned about the move towards automating sanctions. The current system requires work coaches to exercise discretion in relation to vulnerable claimants, which several reports have found is not reliable.[53] Automating sanctions would remove the element of discretion and, along with it, the potential for compassionate and personalised responses. While we would like to see sanctions removed from the system entirely, any moves to automation should be thoroughly piloted and tested before implementation.

Work capability assessments

The Budget included a commitment to end the use of Work Capability Assessments, which are currently used to assess whether a person is eligible for the 'limited capability for work-related activity' (LCWRA) element in Universal Credit (worth £390.06 per month from April 2023). Instead, a new 'health element' will be payable in UC if the claimant also receives Personal Independence Payment (PIP). This is a major change to the way eligibility for disability benefits is assessed. The detail of the policy announced in the Budget was set out in a White Paper[54] and summary factsheet[55] published alongside it.

Work Capability Assessments (WCA) are deeply flawed and have caused disabled people tremendous stress and anxiety, leading to disabled people's organisations calling for them to be reformed or abolished.[56] However, assessments for Personal Independence Payments are equally flawed, with particular failings for people with mental health problems.[57] Mind has argued that PIP assessments 'share many of the same issues as WCAs do, and are often more problematic', with people with mental health problems more likely to report that their mental health had declined after a PIP assessment than a WCA.[58] 69% of appeals against PIP assessments are currently successful, suggesting a large number of people are initially wrongly assessed as ineligible for support.[59]

There are also proposals to transform the PIP service to be more user-friendly and test the introduction of a 'Severe Disability Group' for those with the most severe conditions to avoid them having to go through a detailed assessment or claim process. Nevertheless, following

52 See for example the Welfare Conditionality Project (2018) Final findings report

53 IPPR (2023) No-one left behind: Supporting people with complex needs on Universal Credit

54 Department for Work and Pensions (2023) Transforming Support: The Health and Disability White Paper

55 HM Treasury (2023) Spring Budget 2023 – Disability White Paper Factsheet - GOV.UK

56 Disability benefits assessments and the Government's health and disability green paper

57 Mind (2023) Benefits assessments making people with mental health problems more unwell, Mind research reveals

58 Mind (2023) Scrapping Work Capability Assessments could lead to even more broken benefits system

59 Benefits and Work (2023) Appeals backlog rises as success rates fall for all but PIP

the Budget, disabled people's organisations expressed serious concerns about the impact that the change would have.[60]

These concerns are not limited to problems with the PIP assessment process. DWP figures show that 632,000 people currently receive out of work disability payments, but do not receive PIP or Disability Living Allowance (which PIP is now replacing).[61] The new system has some exemptions for people who are currently receiving LCWRA in Universal Credit, but are not eligible for PIP. This includes people who have pregnancy-related illness or disability, people who are having or about to have cancer treatment and people who are near the end of life (who would also continue to have fast-tracked access so exempt from assessment/waiting periods). However, large numbers of other people who are currently assessed as having limited capacity for work or work related activities, but do not qualify for PIP, stand to lose out. At the same time, the Resolution Foundation has calculated that 180,000 PIP recipients on UC but without the LCWRA element could gain through being eligible for the new UC health element.[62]

In addition to the hundreds of thousands who will potentially lose money, more disabled people will potentially be exposed to conditionality as a result of changes made in the Budget (see the section on sanctions). Any further punitive measures brought in with support for disabled people – including those with mental ill health – are not only cruel but also risk having the opposite effect than intended.

Disabled single parents, most of whom are women, were the group worst hit by austerity measures between 2010 and 2021, losing 21% of their income through changes to taxes and benefits rising to 32% if they had a disabled child. **Disabled women are also particularly vulnerable to economic and financial control, and supporting their access to work and earning an independent income is important.**[63]

Health and social care

In a Budget one of whose main aims was to get more people into the workforce and stem the rise in economic inactivity due to disability and ill health, it is surprising that there was nothing new on health and social care.

Although there has been some progress in tackling the backlog of patients on the longest waiting lists, the NHS is still grappling with record numbers of patients on a waiting list for treatment.[64] A difficult winter, combined with severe staff shortages and industrial action due to a real-term cut in staff's wages have all contributed to the NHS missing targets in clearing the patient backlog.[65]

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60 Disability Rights UK (2023) DR UK says: Chancellor, we need rights not discretion

61 Social Security Benefits: Disability. Question for Department for Work and Pensions (2023)

62 Resolution Foundation (2023) We're going on a growth Hunt

63 WBG (2018) Disabled women and austerity

64 IFS (2023) One year on from the backlog recovery plan: what next for NHS waiting lists?

65 The Times (1 Mar 2023) NHS crisis plan 'going off track' as backlog targets are missed

The NHS will need more funding for its budget to grow in line with what was originally planned before high inflation started to squeeze resources. By an IFS estimate, the NHS would need a £4bn top-up in 2024/25 to undo the real-terms hit.[66]

An inability to clear the patient backlog in healthcare has an impact on people's ability to return or remain in work. It also risks many conditions getting worse and taking longer to resolve than they would if people got healthcare in a swiftly manner.

It is therefore surprising that in a "back to work" Budget there wasn't a mention of added money to support our healthcare service to recruit and retain staff, or to increase non-staff resources to speed up treatment times.

The capacity of the social care system to support people in their communities is crucial for them to be safely discharged from hospital in a timely manner, and healthcare space and time to be freed up to treat more patients.[67] Health and social care are inextricably linked and so rescuing our social care system and reforming it in the medium- to longer-term is crucial to tackle the patient backlog in the NHS.

A report by NEF and Women's Budget Group estimates that nearly 1.8 million people over 65 in England need help with at least one activity of daily living, with a greater need in deprived areas. We propose a Universal Quality Social Care Service, with increased funding for the sector and a more relevant role for local authorities.[68]

The Chancellor has rightfully identified childcare unaffordability and unavailability as a barrier preventing many mothers with young children from increasing their paid hours or entering the labour force. There is a similar issue with unpaid carers of elderly or disabled people.

According to Census 2021 data, there are around 5 million people providing unpaid care for older or disabled relatives or friends.[69] This includes over 550,000 who are doing 35-50 hours a week and 1.5 million who are doing so for over 50 hours a week. Many of these people are constrained in their work potential, or are retiring or withdrawing from employment because of the lack of any alternative care for their loved ones. Older women are less likely to be able to draw down from their pensions to support their caring responsibilities, as they won't have enough pension wealth.

Supporting this large group of people to remain or re-entering work would have had a potentially much larger impact on the economy than focusing on providing tax reliefs to an estimated 10,000 people who would benefit from abolishing the lifetime allowance on pensions.

66 IFS (2022) NHS funding, resources and treatment volumes
67 Committee of Public Accounts - UK Parliament (2023) Managing NHS backlogs and waiting times in England - Report Summary
68 NEF and WBG (2022) Universal Quality Social Care
69 ONS (2023) Unpaid care, England and Wales: Census 2021

Energy

The soaring prices of energy have been one of the main drivers of high inflation in the last year. The extension of the Energy Price Guarantee until June 2023 is a welcome measure that will prevent more households from falling into fuel poverty. **But even with the extension of the Energy Price Guarantee, the typical household will experience an increase of over £500 in April 2023 compared to April 2022.**

The Government will equalise charges for direct debit and pre-payment meters. This is good news and will benefit lower-income households to a greater extent. We encourage the Chancellor to implement variable tariffs that include a free[70] 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.[71]

To face the energy crisis we need to retrofit our homes and build a green and self-sustaining energy system

In the Autumn Statement 2022, Jeremy Hunt announced the creation in 2025 of an Energy Efficiency Taskforce to reduce energy consumption, which is much needed for our bills and for the climate. Not taking immediate action to address this issue belies the urgency of both. **We urge the Government to announce a serious investment in retrofitting homes and non-residential buildings, including financing insulation efforts and greening of home heating systems, 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.

In the medium and long term, the establishment of public ownership within the energy sector will play a vital role in creating a green and self-sustaining energy system.[72] A state-owned renewable energy company could offer reasonable tariffs to consumers and direct investments towards renewable energy initiatives, following the lead of many European countries. Additionally, the repurchase of the energy grid would be a major step forward in achieving the UK's net-zero goals.

Conclusion

Early years education and childcare are key to the success of our economy. The Government's plan to increase spending in the sector and expand the provision to children under three years old is a welcome step in the right direction. However, without adequate funding, this policy risks placing further pressure on an already precarious sector. More resources are needed to ensure that the real costs of provision are covered and that workers in the sector are well paid and trained to deliver high-quality education and care.

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[70] 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.

[71] New Economics Foundation (2022) Warm homes, cool planet

[72] We Own It, Bring Energy to Public Ownership

We urge the Government to increase the resources available for early education and childcare, as well as for other key areas in our social infrastructure: health, social care, housing and social security. Strong and well-funded public services are the basis for a strong economy where people can contribute to society and thrive. How to pay for public investments, how much and how to tax, and when and for what the government should borrow are all decisions that should be made in light of their impact on equality and well-being. The costs of not doing it now are too high. We cannot pass on environmental collapse and a crisis in essential services to the next generation.

A reform to our tax system will allow for increased public revenues and fund social infrastructure and public services. Asking those at the top of the income and wealth distribution to contribute more is a fairer way to increase government revenues which also reduces inequality. This would benefit women and improve living conditions for everyone, ensuring that we protect our environment and build an equitable society.

wbg WOMEN'S BUDGET GROUP

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