#Buildbackbetter for personal financial wellbeing - insights into policy development priorities for a post Covid-19 environment

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Covid-19, Inequality and Council Tax: A Perfect Storm

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Inequality in the UK

The Covid-19 pandemic has heightened the sense of a shared fate amongst the British people. We all entered lockdown together and, despite a few high-profile lapses, mostly conformed to the same social norms to minimise health risks, were subject to the same laws around restricted movements, and were eligible for the same financial help from government. However, these similarities mask the stark social and economic divides which predate the pandemic, and which are now severely exacerbated by the economic fall-out from Covid-19. Although debt moratoria and stays of eviction are delaying the moment of reckoning, we can already see the outlines of how this inequality will play out. Some households will find themselves better off -- with extra income and less debt. Other households find themselves in crisis – with unprecedented levels of insecurity and debt. These very different economic fates will only function to intensify income and wealth inequality in the UK, and to ensure extremely different outcomes amongst members in society.

The UK is no stranger to inequality and division. Britain has long had one of the highest measures of income and wealth inequality among developed nations. A decade of austerity policies have worsened inequality in the country – with poorer households bearing the largest burden of changes to the tax and benefit system,[i] and with poorer local authorities experiencing the largest cuts from central government.[ii] Austerity budget cuts have increased both income and wealth inequality. The ONS reported that by 2016, the top 10% of households had an income 6.8 times higher than those in the lowest 10%. *Wealth* inequality is even worse, with increased inequality in property wealth, financial wealth and total wealth, although pension wealth inequality actually decreased.[iii] Household debt is widespread, with over 6 million people unable to pay basic household bills,[iv] and "problem debt" showing stark differences in distribution between regions and generations. So the shared fate of Britons, as the UK *entered* the pandemic, was always a problematic narrative. The great inequalities in income, job opportunities and wealth holding are the legacy of a decade of austerity, and the nature of government interventions around the pandemic has only served to highlight and worsen these inequalities.

The (Unequal) Financial Implications of Covid-19

In her April 2020 Briefing Paper for CHASM, the first in this #Buildbackbetter series, Professor Karen Rowlingson already highlights the impact that Covid-19 has had on poverty and inequality, providing a range of recommendations on how to respond to some of these challenges. Things have not changed over the last few months, and research from the Resolution Foundation published in June 2020 analyses additional data to highlight the unequal financial impacts of Covid-19 on the UK population. Lower-income households are twice as likely to have increased debts during the crisis, when compared with richer households. This inequality is multi-faceted, and goes beyond income and wealth inequality. The unequal impact of Covid-19 has many facets; the North-South divide has worsened in terms of both infection rates and economic consequences, women have shouldered the majority of the burdens of working from home with caring responsibilities, ethnic minorities (particularly women) have higher rates of anxiety around debt and loss of government support, and young people are significantly more likely to have lost their job due to the virus.

In general, higher-income households -- which already have more disposable income -- have financially benefited from the consequences of Covid-19. Their ability to make discretionary purchases was severely restricted for a number of months. Research from The IPPR Centre for Economic Justice highlights that higher-income houses were nearly £200 *better off* per week during the Covid-19 lockdown compared with 'business as usual'.[v] This reduction in expenditure allowed already better-off households to both increase their savings and to pay off existing debt. Since the lockdown, many people have significantly reduced expenditure on discretionary items, and 31 per cent of people have been able to increase regular savings. Others have been able to pay off existing debt; figures released by the Bank of England show that a record £7.4 billion of consumer credit was repaid in the first full month of restrictions on business and social life.[vi] This was -- unsurprisingly -- repaid mainly by higher-income households. Therefore, whilst many of the physical, social and travel restrictions have applied equally to all people; the financial outcomes of these restrictions have been far from equal.

We are not saying that higher-income households were immune from the impact of Covid-19. Government policy has however 'smoothed over' many of these consequences for middle- and upper-income households. Although payment holidays have been enacted for both mortgage-holders and private renters, the long-term consequences are remarkably different. Mortgage payments can be added to the end of the life of the mortgage, thus making repossessions highly unlikely. In contrast, renters have only temporarily protection from eviction. Rental payments continue to accrue, and are due when the moratorium is lifted (currently scheduled for 23 August 2020). Many evictions are likely.

Similarly, the reduction in stamp duty will provide significant financial advantages only to people who can afford to purchase property. The reduction in stamp duty even provides financial benefits to those able to purchase second homes and/or buy-to-let properties. Expanding the stamp duty reduction to second homes and buy-to-lets is estimated to cost the taxpayers over £1.3 billion in missed revenue,[vii][viii] and is highly likely to further increase inequality in the country, so -- from a social justice perspective -- this type of reform is hard to justify. This money is better spent in a more targeted manner, such as on programs that will provide direct and indirect support for those areas and individuals who are struggling financially, in order to reverse some of the harmful economic consequences of Covid-19.

The economic brunt of Covid-19 has been borne largely by those who were already suffering from the impact of austerity measures. Three out of 10 savers have decreased or stopped saving, with the greatest reductions by the self-employed, and by furloughed and lower-income workers.[ix] The country has relied on key workers to keep the system running throughout the lockdown, but these individuals have not been adequately compensated for their crucial work. Four out of ten key workers earn less than £10 per hour, and nearly two-thirds of these people are women.[x] Low-income households are also more likely to have their employment negatively impacted as they are statistically less likely to be able to work from home, and often in occupations more impacted by social distancing requirements. The furlough system has stopped many people from diving directly into poverty, and has kept the country afloat. Even so, a 20 per cent pay cut is substantial, especially for those already earning near or at the minimum wage (let alone a living wage).

Covid-19 and Council Tax

The unequal financial outcomes have impacted the debt owed by low-income individuals. One particular area of concern is household debts, specifically council tax. Prior to the pandemic, 800,000 UK households were in council tax arrears. This situation has become notably worse, with the Local Government Association estimating that a further £700 million is owed in council tax since lockdown commenced, and Citizens Advice outlining that there are now 1.3 million households in council tax arrears. Of the people who have fallen behind on their council tax during the pandemic, 79 per cent have seen their income fall by 20% or more, 63 per cent are key workers; and 65 per cent are shielding or at an increased risk of coronavirus.[xi]

Council tax is a 'priority debt', it needs to be paid before other expenses and non-payment can result in imprisonment.[xii] As part of the measures to address Covid-19, bailiffs were prohibited from visiting homes to enforce debts from April 2020. However, this did not stop the debts (including fines from non-payment) from accruing, it merely temporarily prevented enforcement of the outstanding amounts. Bailiff activity is due to start again in late August, and many people are understandably fearful about the impact this could have on households that are already struggling to make ends meet. This type of debt collection is aggressive, lacking in dignity and exploitative. It is also an exceptionally expensive form of enforcement – bailiffs are entitled to charge £110 for writing to an individual, £235 for visiting a debtor's house, and £110 for taking and selling belongings. A single process of debt enforcement could therefore cost a household £455, and that is before any funds are actually used to pay off the pre-existing debt. In 2019, bailiff fees added an additional £200 million of fees on top of households' existing debts.[xiii] If the current bailiff prohibition is lifted, it is likely that 2020 will be even worse.

The use of private sector bailiffs is now the most common mechanism of collection of household debts. This is of particular concern, as even before the added stress of the pandemic, many low-income debtors were already in a financially precarious situation and could easily be coerced into unaffordable private-sector repayment agreements. Local governments are increasingly utilising bailiffs for debt enforcement, with Money Advice Service estimating that in 2017, 2.3 million of the 2.5 million debts passed to bailiff firms were from local authorities.[xiv]

Whilst the aggressive chasing of council tax arrears may seem unfair and unjustified, Councils themselves have been struggling with both austerity measures and the financial implications of Covid-19, and desperately need funds to continue providing services to the community. Based on Local Government Association figures, councils are facing a £1.2 million gap in local council funding by the end of 2020 because of the devastating effect of the pandemic on expenses and funding sources for local governments.[xv] This is particularly concerning as

Councils provide the bulk of practical assistance for vulnerable individuals. Help for local councils to keep local services functioning and allow them to institute council tax relief for low-income households is therefore an important, and more nuanced, way to respond to local need, and to undo some of the harm caused by the pandemic.

Recommendations

- A larger proportion of government support to be directly targeted to low-income households, as they are bearing the brunt of the financial implications of Covid-19. This should include a range of debt forgiveness policies (as opposed to the current focus on debt deferrals) and additional protection for private renters.
- The Central Government provide Councils with proper funding, including covering the costs arising from Covid-19 and the dramatic loss in income.
- Councils should put a temporary freeze on any fees charged or other negative consequences for unpaid council tax arrears, and the current prohibition on bailiff activities should be extended.
- Councils need to rethink their debt collection processes and enact a more fair and flexible method of recovering council tax arrears, ensuring affordability assessments of all repayment plans.

Clearly, these changes will not create a shared fate amongst Britons, but they are directly in the control of national and local government, and would move the country towards a more just distribution of the costs of the pandemic.

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