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

Briefing Paper BP1/2020

Policy Briefing on Poverty, Household Debt and COVID-19

**Professor Karen Rowlingson
CHASM, The University of Birmingham**

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Executive Summary

- Despite unprecedented Government action, the COVID-19 crisis looks likely to result in a significant rise in poverty and household debt in the UK in coming months. Already prior to the outbreak, 3 million people in the UK were behind with one or more key household billsⁱ. Since then, COVID-19 has resulted in significant increases in claims for Universal Credit, with an estimated 18% of the total workforce seeing their hours cut, being laid off or made redundantⁱⁱ.
- Renters, especially social housing tenants have been worst hit, with four in five social housing tenants either working in sectors directly affected by the lockdown, unable to work from home, or with caring responsibilities for school-age children, compared to only half of homeownersⁱⁱⁱ.
- Charities that normally support households in poverty are struggling to meet the increased need whilst operating under lockdown.
- Though unparalleled steps have already been taken, to avoid a catastrophic increase in poverty and household debt in coming months, the Government should consider the following recommendations:
 - Ending or suspending the overall benefit cap so that increases in benefits can be felt by those in high-rent areas and those with larger families.
 - Child benefit payments should be increased as a cost-effective way of getting money to families quickly. A modest £10 uplift would reduce child poverty by around five percentage points and householder poverty by one to two percentage

points^{iv} – more than is achieved by the £20 increase in universal credit and working tax credit.

- Ensuring people can access local crisis grants easily and promptly.
 - Providing central government funds to local authorities, housing associations and landlords so that they can offer rent/council tax payment holidays to those who need it.
 - Working with regulators and creditors to protect those who fall behind on essential bills and credit commitments by pausing all forms of collection and enforcement activity.
- Longer-term more fundamental change should also be considered, such as a universal basic income, as a way of building a more financially resilient system of social security for the future.

Initial Measures Taken to Support Personal Finances

In the last two weeks of March, the Government announced a series of measures to support people's incomes during the COVID-19 crisis. Some of these were aimed at keeping people in work such as the [Coronavirus Job Retention Scheme](#) for 'furloughed' employees and the [Self-Employed Income Support Scheme](#). Others have targeted the benefit system, including the £1,000 increase in the Universal Credit standard allowance and the raising of the local housing allowance to cover the bottom 30% of rents in an area. Other measures include a three-month payment holiday for owner-occupiers and a one-month delay to evictions. And the Financial Conduct Authority^v is now consulting on a plan to ask firms to provide payment freezes for customers struggling with car loans, payday loans and other loans (to be introduced by the end of April).

The Challenge Facing Policy-Makers: the nature and scale of the problem

Whilst unprecedented measures have been taken, significant challenges remain. Even before the COVID-19 crisis hit, poverty rates were high and research by the University of Birmingham^{vi} showed that 3 million people in the UK were behind with one or more of the following key bills: gas, electric, water, rent, mortgage or council tax^{vii}, with as many as six in ten of those in the poorest fifth of the population reported that they were in arrears. On top of this, Citizens Advice^{viii} has already shown that, by the first week of April, around six million people in the UK (18% of the total workforce) had seen their hours cut, been laid off or made redundant. The research also revealed that one fifth (20%) of UK adults say they have applied or expect to apply for benefits as a result of the COVID-19. And government data^{ix} has also shown that over 1.5 million households made a Universal Credit claim between 1st March and 12th April.

According to the Resolution Foundation^x, renters – and particularly social housing tenants – are particularly likely to be directly affected by the current crisis. Four in five social housing tenants either work in sectors directly affected by the lockdown (such as hospitality, travel and non-food retail), are unable to work from home, or have caring responsibilities for school-

age children. Only half of homeowners face any of these situations. Homeowners also benefit from low interest rates and can request a three-month mortgage holiday (with more than 1.2 million doing so by 8th April^{xi}). By contrast, private renters already face the highest housing costs as a share of their income (31 per cent, compared to 13 for homeowners) and landlords have no obligation to offer them rent holidays.

Charities are also facing unprecedented challenges. As the Trussell Trust^{xii} have pointed out, many foodbank volunteers are older and must be shielded, and teams are having to transform the way they work in order to continue providing emergency food safely. While there has been an outpouring of public generosity from individuals and businesses, there was already a limit to the number of people food banks could help before the COVID-19 crisis^{xiii} and the system cannot meet the increased need, despite heroic efforts. Debt charities like Citizens Advice^{xiv} are also facing unprecedented calls for support while also having to adapt to working under lockdown.

What Needs to be Done Now?

The crisis has only just begun and while some elements of lockdown may be relaxed within months if not weeks, a full return to ‘normal’ is likely to be many months away. Further Government action is therefore vital, starting with the following measures:

- An end to the overall benefit cap and two-child limit - or at very least suspending these caps. If this is not done, the effectiveness of other increases in benefits will be severely compromised particularly for those in high rent areas – and larger families.
- Child benefit payments need to be increased. Child benefit reaches most families (12.7 million children receive it) and so offers an effective, fast and resilient way to get money to families through our existing infrastructure. According to the Child Poverty Action Group, a modest £10 child benefit uplift would reduce child poverty by around five percentage points and household poverty by one to two percentage points^{xv}. That’s a bigger reduction than is achieved by the £20 increase in universal credit and working tax credit that the Chancellor has introduced.

Further action that should also be considered including:

- Increasing personal allowances for those on income support, employment and support allowance or jobseeker’s allowance to match the changes made to Universal Credit^{xvi}.
- Pausing all deductions from benefit payments, including repayment of the advance payments people take out to tide them over in the long wait for their first UC payment.
- Ensuring people have access local crisis grants easily and promptly.
- Providing central government funding to local authorities, housing associations and landlords so that they can offer payment holidays – for example on rent and council tax – to those who need it.

- Finally, it is critical that government, regulators and creditors work together to ensure that people who fall behind on essential bills and credit commitments are protected, with immediate pauses on all forms of collection and enforcement activity.

These are all vital but rather short-term fixes. In the longer-term, we should also consider more fundamental change, such as a universal basic income^{xvii} as a way of building a much more financially resilient system of social security for the future.

Professor Karen Rowlingson

k.rowlingson@bham.ac.uk

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ⁱ <https://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/financial-inclusion/19003-Financial-inclusion-2019-Briefing-Paper-AWLR.pdf>

ⁱⁱ <https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/one-in-five-to-need-support-from-benefits-system-amid-employment-crisis/>

ⁱⁱⁱ <https://www.resolutionfoundation.org/press-releases/private-renters-are-at-the-heart-of-growing-housing-pressures>

^{iv} <https://cpag.org.uk/news-blogs/news-listings/sixty-organisations-press-chancellor-emergency-covid-19-child-benefit-rise>

^v <https://www.fca.org.uk/news/press-releases/fca-proposes-help-motor-finance-high-cost-credit-customers-coronavirus>

^{vi} <https://www.birmingham.ac.uk/research/chasm/financial-inclusion/index.aspx>

^{vii} <https://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/financial-inclusion/19003-Financial-inclusion-2019-Briefing-Paper-AWLR.pdf>

^{viii} <https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/one-in-five-to-need-support-from-benefits-system-amid-employment-crisis/>

^{ix} <https://www.gov.uk/government/statistics/universal-credit-29-april-2013-to-12-march-2020>

^x <https://www.resolutionfoundation.org/press-releases/private-renters-are-at-the-heart-of-growing-housing-pressures>

^{xi} <https://www.which.co.uk/news/2020/04/coronavirus-how-to-apply-for-a-three-month-mortgage-payment-holiday/>

^{xii} <https://www.trusselltrust.org/2020/04/09/nhs-support-us-health-crisis-benefits-system-must-also-people-face-economic-crisis-together/>

^{xiii} <https://www.stateofhunger.org/wp-content/uploads/2019/11/State-of-Hunger-Report-November2019-Digital.pdf>

^{xiv} <https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/benefits-advice-and-worries-about-paying-the-bills-citizens-advice-data-shows-the-changing-picture-of-the-nations-concerns/>

^{xv} <https://cpag.org.uk/news-blogs/news-listings/sixty-organisations-press-chancellor-emergency-covid-19-child-benefit-rise>

^{xvi} <https://discoversociety.org/2020/04/02/the-social-security-response-to-covid-19-read-the-small-print/>

^{xvii} <http://theconversation.com/coronavirus-why-the-uk-needs-a-basic-income-for-all-workers-134257>

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