HOUSE OF COMMONS

Treasury Committee

Oral evidence: Economic impact of coronavirus, HC 882

Wednesday 9 December 2020

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Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Harriett Baldwin; Anthony Browne; Felicity Buchan; Ms Angela Eagle; Mike Hill; Julie Marson; Siobhain McDonagh.

Questions 141 - 214

Witnesses

I: Martin McTague, Vice Chair, Federation of Small Businesses; Matthew Upton, Director of Policy for Consumer and Public Services, Citizens Advice; Martin Lewis, Founder, MoneySavingExpert.

Examination of witnesses

Witnesses: Martin McTague, Matthew Upton and Martin Lewis.

Q141 **Chair:** Good afternoon and welcome to the Treasury Select Committee evidence session on the economic impacts of the coronavirus. I am very pleased to be joined by three witnesses this afternoon, Martin McTague, Matthew Upton and Martin Lewis. Could you briefly introduce yourselves to the Committee, please?

Martin McTague: Hello, I am Martin McTague. I am the chair of policy and advocacy at the Federation of Small Businesses.

Matthew Upton: I am director of policy at Citizens Advice.

Martin Lewis: I am Martin Lewis. I am founder and chair of MoneySavingExpert.com and founder and chair of the Money and Mental Health Policy Institute charity.

Q142 **Chair:** Welcome to all three of you. Martin Lewis, I am going to start the questioning with you. Before I do that, I should say that, if anybody wants to come in on a particular question and the question has not been directed to them, please raise your hand and we will attempt to bring you in at that point.

Martin Lewis, welcome to the session. Could I just ask you a little bit about those who have fallen through the gaps of support for both the furlough scheme and the self-employment income support scheme? You will be aware that this Committee produced a report on the gaps some months back. Which of those gaps is the most problematic?

Martin Lewis: Like you, of course, we all understand the initial scheme, when it was brought in by the Chancellor, was done very rapidly. It was done in just a few days and it was a remarkable achievement and highly necessary. For me, it was an A for what was achieved then.

It is now much later. The problem is the complete lack of flexibility we have had to address the substantial crevasses we have seen. That might be, in the furlough scheme, freelance PAYE workers whose employers simply do not count them as employees so they have refused to furlough them. Those who were in the public sector say the guidance has been that they cannot furlough, even though these people have no other way of making money. People on zero-hours contracts and people on supply and agency arrangements, who do not have the same type of kinship and loyalty that a normal employer would have, have had a refusal to furlough. Those who are shielding, self-isolating and looking after children cannot go into work, and employers have refused to furlough.

There was a new-starter issue with furlough; that has mostly gone now from the initial period since it has been brought back in, although it was a problem at the start. With furlough, the fact is that we made employers agents of the welfare system. They got to decide who got welfare and who did not, in the form of furlough. Some employers took their responsibility very seriously and even rehired old staff so they could support them. Others did not; they manipulated the system and did not care about their staff. That means that those individuals who were caught either by an overly nervous or careless employer have been unable to be furloughed. That is the big issue with the furlough scheme.

Within the self-employment scheme, the problems fall into two main categories. There are the deliberately decided political-position categories. Within that I would include the fact that limited company directors have no support for their dividend income. That was a mistake. I was always confused by the Chancellor's initial statement on this. On the day he announced it, he said, "We will have to look at the taxation of limited companies". It is perfectly legitimate to look at it. The implication was that they have had overly generous treatment. You then assumed that he was going to announce that there was support for the directors of limited companies. What he did was tell them off and say, "There is no support for you".

Q143 **Chair:** You have moved over to the self-employment income support scheme, but the issue around whether dividends being paid to company directors are included or not within support is one of furlough, is it not?

Martin Lewis: It depends. Whichever way you want to define it, I would say, to be honest, I am not sure most limited company directors care which scheme they are supported by; they just care that they are not supported. Of course, those who have salaried income can furlough that salaried income, but we all know and understand that most limited companies have been advised to be limited companies by their accountants. There are many limited companies out there that have been forced to be limited companies, including by HMRC. Some of its contractors are told, "You need to be a limited company to work for us", and they then take the most tax-efficient route to get their money out. It is very difficult to blame them for doing so.

They are looking for support. If you want to characterise it within furlough, I absolutely accept that. The point I was making is that the Chancellor effectively said, "I do not like the way the limited company system is taxed", but then did not provide any support. There are many limited company directors who have relatively low salaries and low incomes who have been absolutely decimated by this system.

Q144 **Chair:** Do you have an estimate of the numbers that are involved there? Which category of those who are losing out represents the largest number impacted? Do you have a sense of that?

Martin Lewis: We have always struggled on the numbers. We know up to 3 million have been excluded from the mainstream forms of support. The Chancellor has disputed it with me publicly. MoneySavingExpert does not have the same databases as the Treasury, and the best way to resolve this would be for the Treasury to provide the numbers and not me. I am not going to take a guess on it. It is just a lot.

Q145 **Chair:** Specifically, the number we have is that there are about 700,000 potentially impacted because they cannot have their dividend income qualify for furlough payments as a sole director of a business, for example. Do you have any thoughts on solutions to that and what the Chancellor should do? That is a very large number of people, and many of them are being very badly impacted, as you suggest. Do you have any solutions to that issue?

Martin Lewis: I am relatively supportive of the DISS solution that has come out recently—I am sure you are very well aware of it—that effectively looks at how you can assess the income that limited company directors have had by looking at it in terms of parity with the self-employment system. I certainly think it would be remiss of the Treasury not at least to respond to that system. We have been told throughout this that there are issues of fraud, and there are issues of fraud across this. We need to protect the taxpayer from that, and I agree with that, but we have blanket-excluded all limited company directors from support on the basis that all of them would be fraudulent or that fraud is such a big issue that we have to leave these people unsupported.

I will give you a philosophical point on this. I will come back to the other people missing out, but there is something important to look at here. There are effectively four categories of people in society at the moment on the back of coronavirus. First, there are those who have gained from it; there are many people who have increased the amount of savings that they have because they have been working from home on full salaries or they have been on furlough and they have had less costs. There are those who are muddling their way through it and just about managing to get by. There are those who have always been financially struggling; they are in the mire and they will continue to be in the mire, and this has made it worse.

There is one category that is most interesting for me. They are all interesting, but the one we really need to focus on is the people who were able to support themselves before, who were perfectly financially independent without mainstream support from the state, who were in businesses and sectors like travel, events, entertainment or hospitality and who, solely because of this pandemic, are not able to support themselves. My concern is that it would be short-sighted of the state to provide them with no support at all so they continue to languish and they move into that category of people who will permanently be in financially trouble and permanently need to be a burden on the state.

By providing them short-term support to get them through to the end of the pandemic—that includes limited company directors, the newly self-employed and other excluded categories, all of whom were in viable work, to use the Chancellor's term—is a short-sighted mistake that will cost us more in the long run. We need to get people over this hump, back to their jobs, back working, back paying taxes and back contributing to society.

That is why this excluded group is so important: because the vast majority of them were perfectly financially self-sufficient before and will be again in the future. We may catastrophise their finances if we do not give them support in the short term.

Q146 **Chair:** I am going to go to the other Martin now, Martin McTague. Martin, let me ask you the same question. Can you zero in on where the largest number of those who have fallen thorough the gaps is? What is the category? Is it those working through their own companies and this issue of furlough and dividends? What solutions are there for the largest group that are impacted, would you say?

Martin McTague: There are two categories. Martin has just listed them effectively. The first is the newly self-employed. They have definitely fallen through the cracks. The second group are the owner-directors. Martin touched on it earlier, but the owner-directors have somehow been caricatured as a wealthy group who leech off the taxpayer and avoid taxes. The reality is that 750,000 are earning something like the median wage. They are standard-rate taxpayers. They are supporting millions of jobs through their companies. We have put this proposal, which Martin just mentioned, called the DISS proposal, which is modelled on the self-employment income support scheme, and we think it is a targeted and practical solution.

We had a meeting with the First Secretary of the Treasury today. We had a very constructive meeting. They responded well to the proposals, and we will continue to talk about how we can find a way in which the Treasury can implement those changes. There is goodwill on both sides now, and I am hopeful we can get it over the line.

Q147 **Chair:** That is very encouraging indeed. I understand the basics of what you are proposing, but, for the public listening in and for the Committee, can you just explain what exactly the proposition is that you are putting forward?

Martin McTague: As I said, it is modelled on the self-employment income support scheme. Just in the same way, it uses £50,000 as being the net profits from the business involved. You can add back any director's earnings into that to come to an effective overall net profit. That is then treated in the same way: a grant is awarded for each quarter in which those profits are made. You are treating them in much the same way as a self-employed person would be, but the added benefit here is that they have director's responsibilities in law, and you can also go to an accountant and you can certify that income and their status as a person of significant control in the business. There are practical solutions to a lot of the issues here.

Q148 **Chair:** The Treasury's view seems to have been that it is very difficult to effectively disentangle dividend income that is received through the work of the individual in the company and income from, for example, passive investments that have nothing to do with the employment as such. Is that something your approach can get around, or is the Treasury still thinking that, however you do it, at the end of the day verifying this is just so difficult that we are going to be open to huge amounts of fraud?

Martin McTague: They are rightly concerned about fraud, but we are talking about these grants being paid into the company that has made these net profits, and they will be taxable. We are saying that the entity stands alone as something that the Treasury has a lot of information on, and it can respond in a practical way to those issues. The net result is that not only does it save the business but it saves all those people who work for those businesses as well.

Q149 **Chair:** Unfortunately, I am running tight on time, but the Committee has been very concerned about this issue, hence we are raising it at the very top of this session. Is what has happened here something that is likely to put people off going into self-employment in the future? Is this something that will just pass through, at the end of the day?

Martin McTague: When we went back to the last recession, about 80% of the new jobs boom was formed by people going off and starting their own small businesses. There is a real sense, though, that the atmosphere is completely different this time. There are a lot of people who have been recently made redundant who would be thinking seriously about self-employment or starting small businesses but who are put off by some of the fear about how they are going to get through to the other side of this pandemic when the vaccine is available.

It is really important to try to diminish that fear through clear signals from the Government to say, "We understand; we can see the light at the end of the tunnel; we can see you through to the end of this process".

Q150 **Julie Marson:** I would like to focus in on bounce-back loans. If I might start with Martin Lewis again, please, back in July you carried out a survey of businesses about bounce-back loans. I wonder whether you could give the Committee a summary of both why you initiated the survey and what your main findings were, please.

Martin Lewis: I can. You have forced me to put on my glasses on air, which is something I never normally do. We did the survey because we were getting some people raving and some people ranting about bounce-back loans. We wanted to try to see whether this was something that was just an issue with specific banks or whether it was sector-wide.

There were certainly two sector-wide issues that were a problem. We were finding that sole traders were getting rejected substantially more than limited companies. They were simply being told that they could not get a loan. We were also finding that those who did not initially have business bank accounts—you do not need to have a business bank account to run a business, so these people were not doing anything wrong—were having a nightmare, because they were unable to set up bounce-back loans. Most bounce-back loan providers would only do it to their existing customers.

One of those that we thought would be good was Starling Bank. Many sole traders—you have the double-whammy here of new bank accounts and sole traders—went to Starling Bank and Starling Bank effectively rejected many people. We tried to look at whether that was a systematic Starling problem. It was a mix of the bank itself and probably more likely just the nature of the people who went to Starling, as it was the one that seemed to be saying it would allow new customers to open bank accounts with it.

There were low customer satisfaction rates specifically at HSBC, which had a net promoter score of minus 45%, and especially Tide, which in the end has pulled out of this marketplace, at minus 90%. It is not quite as large-scale as other excluded groups, but there are certainly still quite substantial numbers of people who have businesses who are unable to get a business bank account because they are sole traders who did not previously have business bank accounts.

There are lots of issues in the system around fairness and whether they credit-score or whether they do not, but, thinking about the big picture, what is the big mischief that needed to be solved with bounce-back loans? It is about how those who did not have business bank accounts and who were sole traders could access them, because, effectively, they were just frozen out because they did not have a bank that would give it to them.

Again, a bit like furlough, the problem occurred when we outsourced a form of support to the private sector. When it gets it right, it does it well, but what it does not do is fill in all the gaps. Private sector firms do not have a responsibility to their non-customers, and no one has had a responsibility to the non-customers.

Overall, bounce-back loans have been very popular. Certainly some people took it when they did not need it, and they saw it as an easy way to refinance. I do not normally cover commercial lending. We covered it because there was a way of using it as income to support yourself, but it certainly looks like one of the best forms of commercial lending you will ever get, so people used it to refinance and to do other things.

My core concern in terms of people who missed out is sole traders and people who did not have business bank accounts, and they are still suffering now and unable to get anything.

Q151 **Julie Marson:** You reference what you have said on your website about how people can use bounce-back loans perhaps to support themselves during the Covid crisis. Have you found that there is a lot of evidence that this is exactly what people have been doing? What are their circumstances? What kind of people have been doing that?

Martin Lewis: We tended to hear from those who did not get other forms of support measures. Ultimately, if you do not get furlough and you do not get self-employment, your two other available schemes are universal credit—that is not universal, because there are people who cannot get it, either because they have too much savings or because of their partner's earnings, even if they have independent finance but they are living together—and bounce-back loans.

What we have tended to hear is that those who did not get other forms of support and for whom bounce-back loans were the only thing available are the ones who have been looking at it to support their incomes in the short term. Of course, if you are running a business, the business's finances and your finances, especially if you are a sole trade, are the same thing to many extents, in the way you operate. That is not the case if you are a big-money business, but if you are earning £20,000, £30,000 or even £40,000 a year, your business and your income are commensurate.

Q152 **Julie Marson:** Perhaps I could turn to Martin McTague. Following on the theme, really, Martin's survey was in July. The bounce-back loan scheme has been extended up to January. What is your members' experience of whether new customers are being accepted for bounce-back loans now?

Martin McTague: It is mixed. The biggest problem here is that banks have suddenly got very scared of fraudulent applications. Previously there was a real sense of urgency, because it followed on the back of the CBILS system really grinding down and not functioning properly. There was a lot of pressure on banks to get that first wave of applications out. They did process them quickly, and we now have over a million now in the system. As soon as that November deadline started to loom, the banks started to pull their horns in; they were nervous about fraudulent applications. There was a lot of evidence that was happening, and they would not provide accounts for non-customers. That was a way of stifling fraudulent bounce-back applications. That was the principal reason.

Q153 **Julie Marson:** That is interesting. What about the ability to top up on existing parameters, which they can do now? Are you finding that banks are allowing that? Is that something that is being responsive to customer needs?

Martin McTague: They are allowing it, but what they are finding—they are quite open about this—is that demand for it is quite small. What you have is the people who really want it and are in a very desperate position—people in leisure, hospitality and retail—have maxed out their bounce-back loans. They are not in a position to go back for top-ups. The situation for them is that they had 25% of their turnover back in March, when everybody thought this might be a three or four-month crisis. They are now sitting nearly nine months later and it is still capped at 25%. A lot of them are completely maxed out. They are now running into the next period, which is the first quarter of next year, when a lot of retail businesses, if they have had a bad Christmas, are going to be in desperate straits. They are not going to have any access to this kind of facility.

Q154 **Julie Marson:** What is your perception of the risk of non-payment of bounce-back loans?

Martin McTague: It is enormous. The last estimate I saw was that the likely shortfall was predicted to be about £30 billion. We think there are practical solutions to this. We worked very closely with TheCityUK and came up with the contingent tax liability proposal, which we think is a practical solution. There are other solutions that can get new equity into the business.

The most important thing is that the Government have to recognise that this is a crisis. At the moment, I sense that the Treasury is thinking about this as, "The market will fix this". It is slightly laissez-faire at the moment. They are thinking that there will be a solution that the market can provide. Our concern is that this is going to cost tens of thousands if not hundreds of thousands of corporate failures in the first quarter of next year. It will be very difficult to piece that back together again.

Q155 **Julie Marson:** Just to follow up, do you have any feedback on the other loan packages that are available, such as the CBILS and some of the other loans?

Martin McTague: It is interesting. We recently did a survey similar to Martin's, and it was clear that by far the majority had gone for bounce-back loans. In the end, 14% of small businesses went for CBILS. What fascinated me was that anybody who had existing borrowing experience—we should remember that there were about 50% permanent non-borrowers prior to the crisis—were twice as likely to have taken this debt on.

The thing that has struck me as really quite frightening is the fact that 40% of our survey said that their debt was unmanageable. That is up from 13% previously. They are saying that they are using 10% of their turnover just to service the debt. It is clear that these businesses are in real crisis.

Q156 **Julie Marson:** Might it have been if these loan schemes had been administered by a state bank?

Martin McTague: No, I do not believe that. The speed at which the banks eventually could respond, once they knew they were out from under any kind of guarantee responsibility, showed that they could respond really quickly. The real handicap they had was decrepit IT systems that were not able to deal with the swamp of 1 million applications. I am not really convinced that any new state bank starting from scratch would have responded any quicker.

Q157 **Julie Marson:** I know I am short of time, but do you have a view, Martin, as to whether the Government should be setting up a state-sponsored bank, maybe to recapitalise businesses and in the future take equity stakes, looking forward as we come out of the crisis?

Martin McTague: There is room for that at one end of the scale, but you have to remember that the number of small businesses that were interested in taking external equity stakes sat at around 2% just prior to the crisis. Most people who go into starting their own businesses are really more interested in keeping control over their lives and making sure they control their businesses in the future, so that option is not ever going to be very attractive. It is not even very attractive for Government, because how are they ever going to get this money back out again?

The scheme that has a much greater chance of succeeding is converting some of these loans that are in there into employee-ownership trusts. If you can get more of the employees involved in managing their own businesses and engaged in the running of their businesses, that is an incentive that is well worth pushing for.

Q158 **Mr Baker:** I want to turn to the issue of mortgage prisoners. I will come to Matthew towards the end, but I first want to come to you, Martin. You have written that the Government have a moral responsibility to free mortgage prisoners. Would you like to explain to the public why you think the Government have a moral responsibility?

Martin Lewis: I do think that, although actually that came from a report from academics at the London School of Economics, which I personally commissioned because this is such a major issue. We estimate that there are 250,000 in the country who are the forgotten victims of the financial crash. The state bailed the banks out, but it did not bail out the victims of the way in which the banks had been operating. These tend to be people with now defunct lenders such as Northern Rock, who had mortgages—these were often 100% or more type of mortgages—and who then had their mortgages sold on to often unregulated or closed-book lenders, as they are also called, who have no other mortgage stock. You are now stuck with a mortgage company that has no other products and that effectively is not regulated. Because you have a big mortgage you were charged a higher rate and you are unable to mortgage elsewhere because the market for 100% mortgages is long, long gone.

These people then have gradually seen their finances eroded over the years. We know it has had a massive impact on people's mental health, disproportionate to other financial problems. Sadly, some people have taken their own lives on the back of this, and that continues to happen. It seems to me that there are systems out there that could allow these people to be rescued. What we actually want to do is put them in the position where they could re-enter the competitive mortgage market again.

There are two problems to that. First, because their interest rates have been so high and so difficult over the years, eventually they have ended up defaulting, but the default is a specific cause of the mortgage rate so you cannot de-link it and say, "These are defaults, and we cannot help people who have defaulted", because there is a vicious circle going on here. Secondly, because the interest rates have been so high, these people have been unable to get into the competitive marketplace.

Working with MoneySavingExpert, I commissioned the London School of Economics to look at solutions to this. This is something I funded personally. I always have to be clear on that; it is a policy we have. They came up with six different solutions. There is a problem, though: we do not have the data that is only accessible by the Treasury. The regulator has frankly now done all it can do within its powers. We have had some minor changes to the regulations on how people within mainstream mortgages can re-mortgage and not be affordability-checked if they are moving somewhere cheaper. That is very welcome, but it is successive Governments—it is not a party issue—that have sold these loans to professional debt buyers who do not offer mortgages and left these people in these types of mortgages, which have been too expensive, crippled their finances and destroyed their wellbeing.

There are a number of systems. I will not do too many, because there is a big paper on it. For example, the Prime Minister talked about helping first-time buyers with the equivalent of Help to Buy-type equity loans, where you put 5% up, the state puts up 20% interest-free for a number of years and then you can get a mortgage as if you have a 75% mortgage. A similar type of solution could be used for mortgage prisoners. There are six other solutions in there. The reason I cannot say which one is best is because we still do not have the data on people's exact situation. Our first request is to get the data.

Within this session, it is important to remember that there are 250,000 mortgage prisoners currently. We then have the cladding issue, the issue of people unable to re-mortgage or to get new mortgages because they cannot get safety certificates and there are not enough fire safety officers. I understand that if mortgage companies are told a building is not safe, they will struggle to give a mortgage on it.

We then have the problem that, because of stamp duty being cut, there is so much demand in the marketplace that mortgages have got more difficult to get if you have a smaller deposit. We have the third problem: we have all these excluded groups who are going to be unable to pay their mortgages after they have had their six-month mortgage payment holidays.

That means we have 250,000 mortgage prisoners now, but I dread to think how many we will have in a year and a half. I am plucking the number out of the air—this is not a fact—but it would not surprise me if it was four or five times that number. We have to start looking at a solution to make sure that people who have mortgages can get competitive mortgages and are able to take advantage of the mortgage market rather than simply selling them off to bring in the state a few more coppers, which ultimately will probably cost more in the benefits bill in the long run.

Q159 **Mr Baker:** Martin, thank you very much for that full answer. You have circumvented some of my questions, for which I am grateful. Can I just pick up on a couple of things? To make sure I have understood you correctly, your case is that the Government have a moral obligation because it is the regulatory system that put these people in this position.

Martin Lewis: No, because it is the state who sold the mortgages to unregulated and closed mortgage lenders. It could have sold them for less money to Nationwide, for example; I do not know whether Nationwide would have bought them. Nationwide could have said, "You are on this mortgage, but you can have one of our other ranges. Here is a fix". It is the fact that they sold them on to get more cash for the taxpayer. It sold them to the most commercial lenders possible, which effectively sold them up the river.

Q160 **Mr Baker:** Another question might be, "Why not ask people to downsize?" This is a lot of money at stake. You said there were 250,000 mortgage prisoners. Just to do a rough calculation, suppose they have £100,000 each, as a guess, it feels like this is about a £25 billion problem. Is that about the right order of magnitude?

Martin Lewis: If you were to do the maths on the basis that it is £25 billion worth of mortgage outstanding, it does not mean the cost of fixing it would be £25 billion.

Q161 **Mr Baker:** No, but I am just trying to get a handle from you on how big this is. If the Treasury Committee got behind this, how much taxpayers' money are we asking the Government to find?

Martin Lewis: I genuinely cannot answer that question, but I give you a commitment that, if the Treasury gives us the data we need, I will fund the LSE to give you an answer to your question. I do not have access to the data. I just cannot answer the question. We want to cost the six different solutions so we can come to you and say, "Here is a menu. Here is how many each solution will help and here is how much each one will cost", so it can be as efficient as possible. Again, I go back to my point: if you put people back in the financial system so they can support themselves, the long-term cost is never as big as you think because they are not having to rely on the state for support in future.

Q162 **Mr Baker:** Can I just drill into the issue of the closed books and the regulator? If the closed-book mortgages were brought within the remit of the regulator, what powers would you want the regulator to acquire to help in this area?

Martin Lewis: That would help in the short term under the "treating the customer fairly" type rules, although, to an extent, those are available right now in terms of looking at how each individual is treated. The issue is that we sold them to closed books in the first place; we have to open the books.

Regulation is important. Number one, we need to be investing and signposting those who are mortgage prisoners to the various help and schemes that are available out there. That is the LSE's number-one recommendation. Everybody should be in a regulated environment.

A subject for another day is that the biggest form of credit in this country right now is "buy now, pay later". That is the fastest growing form of credit out there, and it is unregulated, which is absolutely outrageous. We want people to be in regulated environments when they are dealing with large amounts of finance, because then they can be treated fairly. The biggest issue here is opening the closed book rather than regulating the existing closed book.

Q163 **Mr Baker:** Matthew, what would you like to add on this issue of mortgage prisoners?

Matthew Upton: I would echo everything Martin says. It is something people do come to us on. There is one other mortgage-related issue that I would not describe with the term "mortgage prisoners" but is worth raising to the Committee's attention. Affordability is becoming an increasing problem through the pandemic, as people have less money to get by. We have done a lot of research into the 800,000 people who are unnecessarily paying standard variable rates when they could be on much cheaper fixed rates. They are paying often hundreds or even thousands of pounds more than they could be. A simple historical answer to this question has been that these people should switch, and in many ways that is true. It is a different problem to the one Martin outlined: these are people who potentially could get cheaper deals by switching to fixed, but the reality is that we know from a lot of our research, whether it is people with poor mental health, people on lower incomes, people who have slightly more difficult lives, that switching does not happen in reality, and they are unnecessarily paying hundreds or thousands more than they should do.

The reason I raise this in the context of the Covid-19 financial crisis is that, as we will probably come on to later on, for reasons of huge Government expenditure and so on, there is an argument there are increasingly fewer levers that Government can pull to put money back in people's pockets other than just getting back into work and looking at the welfare system. Relatively simple changes could be made to markets like mortgages, insurance, broadband, energy, et cetera, where you can actually put money back in people's pockets, which will hugely benefit them and help them get by.

Q164 **Chair:** Martin, we have just had a very interesting conversation here. If you were able to write to the Committee to set out the kind of analysis that you would like to do if the Treasury came forward with the information you suggested, that would be helpful. You could also give us details on the information you are seeking from the Treasury. That would be something I am sure the Committee would want to look closely at, if you would be happy to do that. Thank you.

Martin Lewis: I am happy to do that.

Q165 **Siobhain McDonagh:** I want to look at issues around payment holidays and other forms of lending. The FCA provided consumers with a number of payment holidays and other easements over the crisis period. Has it done all it can over this period?

Martin Lewis: The FCA responded pretty quickly and the blanket support measures it put in place were really helpful to many people. There were payment holidays on request across the whole sector. After some initial small teething, it was pretty easy to get a payment holiday. In May, one of the issues was that initially the regulator had said it would not affect your credit score.

Siobhain McDonagh: Yes, I wanted to ask you about that later.

Martin Lewis: That was true, but back in May we discovered that, while it will not affect your credit file, it can still affect your ability to borrow in future. I have to say that I broke that story in May, and I am less worried about it now than I was then. What we tend to be finding on mortgages is that, if you are on a mortgage payment holiday, you are not going to be able to re-mortgage, but once you have finished your mortgage payment holiday and restarted making payments for a couple of months, it is actually not having a big impact on your ability to re-mortgage, other than other things.

We are now at that latter stage. My two biggest issues on payment holidays at this point, because we have done pretty well in the past, are that overdrafts are not included in the ongoing measures. All the others were effectively renewed, but overdrafts have not been. Because there was a regulator change that was due to come in in April—we would have probably done an evidence session on it if Covid had not happened—we now have pretty much homogenous rates of 40% on overdrafts, making overdrafts the worst form of high street debt, more expensive than most credit cards.

When people use their overdraft to pay off their credit cards, they should actually be making minimum payments on their credit cards to get rid of their overdraft, which is counter-logical to what we have always said you should do. They have not included overdrafts as blanket support; it is targeted help. My concern about targeted help, which applies on overdrafts and anyone who has had a six-month payment holiday that has now finish, is that we are getting into that discretionary perspective of it depending on which lender you are with as to how you will be treated. That concerns me.

Nobody chooses their bank or their lender based on how they will operate if you are having targeted help in the middle of a pandemic. That was not something that anyone signed up for, and yet it is something that people will be dealing with. We need to make sure we are being very tight on ensuring there is transparency, fairness and not a lottery of treatment within the targeted support area.

Matthew Upton: My simple response would be that we think the FCA responded incredibly well. They have been speedy. In many areas of the work we do, the FCA end up being best in class in terms of its treatment of vulnerable consumers, whether it is definitions or the requirements it makes of the firms it regulates.

In a sense, what it has exposed is those who are slightly further down the pecking order in terms of treatment. Whether that is the way the regulators work or, most particularly, it reminds me of a report that this Committee did and a conversation that was had two or three years ago under the previous Chair, which really exposed the extent to which it is Government who are worst in class when it comes to things like holidays and the treatment of those in arrears.

Whereas, for example, we have seen really generous payment holidays for mortgage holders, which have helped both stop things like evictions but also helped people manage their finances, that is a complete contrast to how you have seen support packages for, say, private renters. There have been eviction pauses, which have helped people not be kicked out, but there has been no help at all with the arrears that have been built up, which have had catastrophic effects both for tenants and private landlords as well. It has been one of those rare issues where we have been united with the National Residential Landlords Association. We are both calling for Government action to help renters repay some of that unsustainable debt. On payment holidays specifically, we are positive, but it has exposed the challenges elsewhere.

Q166 **Siobhain McDonagh:** I would just like to turn to an issue Martin raised just now, which is the growth of "buy now, pay later" lending schemes, particularly organisations like Klarna, which I only became aware of through a beauty product website and investigated further what they were. The worrying context is that they are targeting the under-30s. There is also Flava, which is a "buy now, pay later" food company, which seems incredibly worrying. Matthew, what assessment has the CAB done of these payment methods?

Matthew Upton: As with many of what start off as niche financial products, this is one of those things that comes out of nowhere. We suddenly start to see spikes and things coming through from our advisers saying, "We have spotted this new thing", and then we start seeing the numbers come through. I am not comparing it as a sector, but in many ways it reminds me a lot of emerging issues in payday lending 10 years ago or the emerging issues in rent-to-own and other sectors that the FCA ultimately cracked down on. As I say, I am not comparing them as like for like in terms of the problems that are being caused but more in terms of the speed of growth and the lack of regulation.

We are planning to do some more research on it over the next few months, which we will happily share with the Committee. There are two big challenges. One is the point about it being completely unregulated and the second is in terms of some of the activities you see in terms of pushing people into purchases that perhaps are not in their best interests or that are ultimately unaffordable. Equally, there is a concern around some of the messages that are given out about the benefits of such purchases in terms of helping with their mental health or whatever it may be. I know this is something Martin and his team have worked extensively on.

It is an area of concern, and we would be really interested in reporting further to the Committee in the coming months.

Martin Lewis: Let us get away from any value judgment of whether "buy now, pay later" is good or bad, and just put that aside for a second. It is absolutely the fastest growing form of credit in the country. It is targeted, as you say, at under-30s. If you will forgive me, most policymakers are not under 30, and it has gone under the radar. Advertising is done via influencers on Instagram. Exactly as was just said, there are messages like "feel good #Klarna". That is fundamentally inappropriate for a credit product.

My point is quite simple. This is a fast-growing form of credit. It is often by companies who come from where they are regulated and are moving into an unregulated environment in the UK. They often use the argument that this is a technological solution, not a financial solution. I heard exactly the same on payday loans. We hear that the Treasury is interested, and I know John Glen is concerned about this. I tend to rate what he does on these things. We know the FCA, under Chris Woolard, is going to be looking at this type of credit.

My issue is, just like with payday loans, it will be too late. We are in the explosion of this form of credit today. This is absolutely huge. It is a massive form of credit that is unregulated without controls, both on product design and product communication. When people have problems, whether they do not get their product, whether their credit score is affected, whether they have debt collectors coming to their house, whatever the problems are on the back of it—actually, it can often work pretty well—there is no ombudsman you can do to, because it is unregulated.

Even if we get away from any judgment about whether this is good or bad, this is the fastest growing form of credit in the UK. I suspect it is going to be dominant in retail credit. Many people have this credit without knowing, because it is such a ubiquitous credit option that you can always click it at the bottom. I would call for maximum speed to move this into the regulatory environment.

I could list some of the problems I have with it. Just like I support someone who has made a planned budgeted affordable purchase on a

0% credit card that will pay it off in time, because it is the cheapest way to make a one-off payment, these can be used well and can be good, but there are many ways they can cause real problems for young people's finances that will leave them in trouble and unable to get a mortgage when they want to get on the housing ladder.

Interestingly, Klarna got in touch with me the other day and said it supports regulation too, because it is worried about some of the other players in the environment. Hopefully, that means it would not be too much trouble, but, if this happens in two years' time, you have failed, I am afraid. Our political classes have failed if we regulate in two years' time. Two months' time would be all right.

Q167 **Siobhain McDonagh:** What would your advice be if people feel they may be having problems dealing with their debts?

Martin Lewis: I will do that, because I want to spare CAB's blushes. If people right now are listening to this and you are having problems with your debt, I would always suggest that you go to a non-profit debt counselling agency such as Citizens Advice, National Debtline or StepChange. If you are emotionally struggling too, there is Christians Against Poverty as well.

Siobhain McDonagh: They are brilliant.

Martin Lewis: Remember that they are not there to judge you; they are there to help you. The biggest feedback I get when people go to those agencies is they say, "I slept last night". That is the most important thing. Get help.

It is a different subject, but I am leaving quite soon and I am desperate to say something on new-starter self-employed people if I am allowed to. I will put that note in and wait until you ask me.

Siobhain McDonagh: Can we allow that, Chair?

Chair: Yes. Go for it, please.

Martin Lewis: There is a problem with the self-employment income support scheme. If you combine the fact that you have to have done your tax return for the 2018-19 tax year and you have to have over 50% of your income coming from self-employment, when you do the maths, it pretty much works out that even if your business got up and running at the same speed as your prior employment income, the only people who are covered are those who set up businesses before October 2018. That is now well over two years ago. Anyone who set up a business in the last two years has not been covered.

Now, we have the fourth income support grant that is due to come out in February. Crucially, that is after the deadline for the 2019-20 tax returns to be filed, which means it is absolutely practicable that they could be incorporated for the fourth self-employment income support scheme, and I would desperately urge for that to happen. There is a political problem with this. If it is included, as it should be, it is likely that payment will be smaller than the prior self-employment schemes. The Chancellor has always said it is not practicable to do so; it clearly will be practicable to do so in the fourth payment, but, if he were to do that, my suspicion is that there would be a call from all of those people who have missed out for a retrospective payment; you can understand why they would argue for that, because they have proof of what they were earning and they want retrospective support.

My concern is that, because effectively you are damned if you do and you are damned if you do not if you give it in the fourth grant, it will not happen. I would argue that, if it is going to be flack for giving the money out, we desperately need to support those people. Unlike limited companies, where there was a political or philosophical decision not to give them money, the new starters were not given money because of a practical problem. There is now an obvious way to fix that practical problem for the fourth grant, and I would urge you all to push that it is done.

Chair: Thank you. We have been pushing on that, and you make some very strong points, Martin.

Q168 **Anthony Browne:** My questions are in two areas. First, the Government have a review of the future regulatory framework in financial services. What should come out of that? Tied to that is possibly the issue of loyalty penalty that is being tackled in various industries by the Competition and Markets Authority. I know Martin has to go, so I wonder whether I can focus my questions on him first, but I want to come to Matthew and Martin McTague as well.

On the future regulatory framework for financial services, this is a once-in-a-generation change post Brexit, looking at how we regulate the financial-services industry. Are there any particular things that should be put in there to help protect consumers? A duty of care is one that has been discussed for a while.

Martin Lewis: I am supportive of a duty of care. Something that is worth stating—this is with my Money and Mental Health Policy Institute hat on for a second, rather than my MSE one—is that, while we have not nailed this down yet, we are getting close to believing, for example, that over 50% of people who have bailiffs known at their door have a mental health issue.

We currently operate on the presumption that people do not have a mental health issue and we will support them if they do have a mental health issue. When you look at the marriage made in hell that is mental health and debt and the huge correlation between those two—you are arguably three or four times, considering different data points, more likely to be in debt crisis if you have a mental health issue than if you do not—there perhaps becomes a point where we have to shift towards a presumption of mental health issues with crisis debt, because there is such a correlation.

A duty of care would help with that. I am very thankful to the Government for including our recovery space proposal, which means that, if you are in NHS crisis mental health care, you automatically get breathing space. We are very grateful that was done. It is not a civilised society when you have people who have been hospitalised for anxiety coming back to meet bailiffs at the moment they get home. That is not something that should happen, and hopefully this will stop that. I do agree with the idea of a duty of care. Financial services is so important. We need to make sure people are treated properly.

I will move on quickly, if I may, to you loyalty question. I have been pretty quiet on that, which is not often the case. I am very supportive of the work of Citizens Advice, and we do a lot together. I have always struggled a little with the loyalty penalty, in a similar way to how I struggle with the energy price cap. I know it is not the sector, but using that helps me explain it. With the energy price cap, there are two choices to the way you deal with energy. You can either regulate prices or use the markets. Regulating prices is a political choice. If it were chosen to be done, that would be fair enough; that is one way to keep people paying cheap rates. If you use the markets, you are going to have to have differentiated prices. Some people are going to have to pay more than others; otherwise you would not choose to switch, and the market solution fails if people do not choose to switch.

By introducing a blanket price cap, we have effectively risked disincentivising people to switch because you have closed down the differentials, and the price cap you have is based on six months prior compared to current prices, so we get this concertinaing and moving effect. What I would do if I were looking at that market is say, “We need to work out who are the necessary victims of competition and who are the unfair victims of competition”.

If a struggling 85-year-old grandmother pays more to boil a kettle than me, a wealthy and internet-savvy person in their 40s, she is an unfair victim. If you forgive me, if you chose not to switch your energy when you understand how it works, then you are a legitimate victim of the competitive marketplace. What we have done is we have put a price cap in place that skews the choice of the market solution—I am not saying that is the right solution; I am saying, if you are going to use the markets, let the markets work—and yet is not protecting the vulnerable enough because their prices should be a lot lower than the big six’s standard tariff.

I have slightly similar worries over the loyalty penalty. If we accept a competitive marketplace, we are going to have price differentiations. We want churn and we want switching, because that is what makes a competitive marketplace work. If not, we can regulate prices. If you start to move these types of things in, what you are going to end up doing is incentivise people to be possibly even more loyal because the obvious incentive to switch is taken away. I would prefer that we protect the unfair victims of competition over protecting you, if you choose not to check your car insurance, because then I do not have that much sympathy. I mean no offence; I am sure you do.

Anthony Browne: I do not have any sympathy for myself either; do not worry.

Martin Lewis: You understand the point. I wrestle with it. I have been quite quiet on it, because I do not like to disagree with Citizens Advice publicly, but perhaps it needs to be more nuanced than simply, "If you are loyal, you should not be punished". If you do not understand that the market is not swift enough to enable people to choose, then you should be protected, rather than if you choose to do it from your own apathy or your own choice of loyalty.

Q169 **Anthony Browne:** I just want to follow up with one quick question. Could you give me a brief answer, and then I will come to Martin? Going back to the point about the duty of care, you mentioned mental health and debt and you made some very eloquent points about that. Are there other areas where a duty of care by financial services providers would be useful?

Martin Lewis: May I have some more thinking time on that and promise that, via my two organisations, I will get back to you?

Q170 **Anthony Browne:** It would be very much appreciated if you could write to us about that, yes. Thank you very much. Coming to Matthew and Citizens Advice, to follow up the point Martin said and then come to the financial services regulation, I know you have been doing lots of work about the loyalty penalty. The Competition and Markets Authority has also been looking at it and has made various recommendations. Is enough being done? How concerned are you about the state of play?

Matthew Upton: It is a bit of a mixed bag. To directly follow on from Martin's comment, there is not as much clear blue water between us as might be suggested on this. Where the loyalty penalty has been helpful as a frame is in exposing something. We did not quite realise the level of anger that would come out from people, MPs and other decision-makers about what is considered to be an inherently unfair structuring of markets, where essentially the firms who thrive are those who are best at convincing people to stay on legacy deals that are hugely more expensive that they could pay with better deals. That is my characterisation of the market.

In terms of what the solution is, we have never argued at all that differential pricing is a bad thing. I echo lots of the points Martin makes about incentives to switch and so on and so forth. I would really take on his analogy of the fair and unfair victims of competition. When you look at what we are suggesting in the broadband or mortgage markets, there should not be a blanket price cap in broadband or mortgages to give me a better deal; I am perfectly able to shop around. That does not mean I do not think it is horribly unfair that a market looks to penalise me in that way, but I am not arguing for wholesale intervention at all.

What would be helpful in the broadband market, let us say, is, where you have those groups of people who will struggle to switch because of their health, because of other challenges or because they are on lower incomes and the extra costs they pay are that much more burdensome, that is where you could look at targeted intervention to give them deals that might be below what other people in the market might pay. Those could be below cost price or whatever it may be.

That is particularly the case when you look at the fact that broadband is increasingly an essential utility in the same way energy is. We are only able to do this Committee today because of the broadband that we have, which would have been strange one or two years ago. Similarly, in mortgages there is no reason why you could not have interventions that push those lower-income consumers on to deals that save them thousands of pounds while leaving me to make freer choices in the market. It could be hugely beneficial to those on lower incomes. It would be a massive intervention from regulators and the Government with relatively little effort to put a lot of money back in people's pockets.

Again, it is not that I disagree with anything that Martin says at all. There is still a lot more to do, but we are relatively pleased with some of the progress that has been made on some of the loyalty penalty areas like insurance, but there is more to do.

Q171 **Anthony Browne:** Following up on the point about financial services regulation, the Government are reviewing the whole structure of it and they have made various proposals. Would you support a duty of care? Would it make a difference? This relates more to the loyalty penalty within the financial services market.

Matthew Upton: Yes, very much so. In a sense, the FCA has baked a lot of the fairness arguments and treatment of consumers into the work it already does. A duty of care encapsulates it quite nicely. There are similar arguments at the moment around the CMA's duty and whether a specific consumer duty could give them a broader focus on consumers rather than just on competition. It would be beneficial. Pricing should be absolutely considered as part of any kind of duty of care.

The final point I would make on this is a similar point to the one I made earlier on. There is so much that other regulators and Government can learn from the FCA's approach here. I appreciate that this Committee is more specifically focused on financial services, but you have to look at the debt mountain that is going to accrue and is accruing as we come out of the back end of the Covid crisis. We have estimated that, just as a result of Covid debts from a couple of months, there has already been a build-up of £1.6 billion of household-bill debt. That is going to need a co-ordinated approach, which should take as its lead the attitude the FCA takes to dealing with people in arrears. Anything this Committee could do to encourage other Government Departments to follow that lead would be a good thing for people across the country.

Q172 **Anthony Browne:** I am running out of time, but I have one quick question to Martin McTague. As I say, the Government are reviewing the financial services regulation. Would you advocate for any change of approach from regulators, such as them begin given a different remit or things like a duty of care? I just mention that, but there are lots of other things: a remit to promote competition, for example.

Martin McTague: Yes, the one area that stands out for me—it was highlighted by the bounce-back loans arrangement—is personal guarantees. Personal guarantees have now become a way in which you can convert commercial debt into personal debt. They are being widely used for the less financially sophisticated business market. They are an area where there is a potential crisis or problem likely to occur in the near future.

Q173 **Felicity Buchan:** Good afternoon, everyone. My questions are on consumer fraud as a result of coronavirus. Matthew, I will start with you and ask you a general question. Has the risk of consumer fraud increased during the pandemic?

Matthew Upton: Unfortunately, yes, it has. That is borne out by the evidence we have. We see this in two ways. We run something called the consumer service, so people can call up if they have any problems when they are purchasing things or being ripped off, and we also run a scams action service, which was part-funded and supported by Martin.

In simple terms, if you look at the data, there has been a 73% increase over the last six months in the number of people coming to us with potential scams versus the year before. The sad reality is that whenever you get any kind of big structural event like this, which either impacts people's finances or, to be honest, causes any confusion—we saw some similar things around some of the uncertainty about Brexit a year or two back—or serious financial harm, people will be pushed into desperate situations, and scams and fraudsters will look to fill the gap, so, sadly, yes.

Q174 **Felicity Buchan:** Do you see the increase being driven by more people using online shopping and online banking or more driven by scams?

Matthew Upton: I would say it is both. It is contextual in terms of the financial crisis. Whether it is HMRC scams or whatever it may be, there are more things that people can hook those scams on to to target people, and more people in desperate need. Your point is right about online scams. If you look specifically at that, we have seen a 160% increase in the report of online scams versus the same period last year.

I am sure that something Martin would have raised if he were here is some research published by the Money and Mental Health Policy Institute today suggesting the extent to which that disproportionately impacts those with mental health problems. Again, it comes back to a similar issue to the loyalty penalty. For someone like me, a fraud or a scam can be incredibly frustrating. For someone who is struggling to get by, it can be the difference between coping and not, and it can really tip them over the edge.

Q175 **Felicity Buchan:** I understand that fraudsters are trying to take advantage of Government schemes and even, for instance, the NHS test-and-trace app to launch scams. Is the Government doing enough to make sure these schemes are robust? Do you have any suggestions as to how we can make them more scam-proof? Clearly, nothing can be 100% scam-proof, but is there a way we can make them more robust?

Matthew Upton: It is a really interesting one. In terms of the design, our impression has been that most of the schemes that have been set up, in comparative terms, have been relatively simple and easy to access. You could take furlough as an example. Things like that have helped in terms of that challenge.

There is one that I have a lot of sympathy for Government on. When there is so much to communicate and so many schemes and support schemes for people to access, trying to make that a simple comms messages so people understand who they should listen to and what they should pick the phone up to or not is incredibly challenging. If anything, I would give a generic steer around keeping things as simple as possible so people can detect scams. The reality is that the level of sophistication is so high that it can be really difficult to spot for people.

Q176 **Felicity Buchan:** Should the Government be doing more on the comms side? These HMRC emails have been around for a few years, but still people are falling prey to them. Should we be telling people, "If you receive an email from HMRC, always click and find out the actual email address it is coming from"?

Matthew Upton: Yes, it is a really interesting question. There has been a lot of publicity about the extent to which the Government have worked with behavioural experts in relation to Covid and getting those messages right. On fraud and scams, we are an organisation that look to give advice and pump messages out about what people should do as well.

I always think it is one of those things where there could be better co-ordination and clarity of message, because people do find it hard to retain a lot of the information that they need to remember about how to detect things. A small number of rules of thumb for people to follow would always be a good thing.

I have worked closely with BEIS on this, the Government Department, and they are committed to this. They have always taken a good approach to it.

Q177 **Felicity Buchan:** We talked about online and mobile banking fraud. Are the banks doing enough to publicise fraud, to tackle it and to compensate customers?

Matthew Upton: I can understand why there is a tricky regulatory challenge here. In simple terms, if I am defrauded by someone hacking into an email address, sending some incorrect details and then I make a push payment of my own accord, is that my fault? Should I be punished or should the bank compensate me? There is a big philosophical debate we could have about levels of responsibility and so on.

My view on this, in regulatory terms, is that you should always situate the incentives with those who are best placed to act. For example, if you had more onus on banks to refund victims of push-payment fraud, beyond voluntary agreements, set in statute, then I am pretty confident the banks would use all the expertise and technical wizardry at their disposal to limit the extent to which people were actually stung by such frauds. If you put the onus on consumers to behave, I can understand the behavioural or the philosophical argument, but it is not a recipe for actually stopping or solving the issue of push-payment fraud.

My steer to Government would be to put more onus on banks. We can have a good argument about why that is unfair and how it would diminish personal responsibility, but it is the only real way of solving it.

Q178 **Felicity Buchan:** That is a good point. Before I move on to Martin, are there any other points you want to make on consumer fraud that you have encountered over the course of the last nine months?

Matthew Upton: No. The Competition and Markets Authority has had a really good approach to this over the last eight months in the consumer task force that it has put together. It has been trying to clamp down on firms where it thinks they behave poorly. This is moving slightly into a conversation around refunds and a lack of services and so on. That has raised a whole debate about whether the CMA and other regulators have the powers they need to perform their duties. Our argument, supported by the CMA, is that they do not. Firms would behave if there were a stronger stick for the competition regulator. It would encourage firms to stick to rules much more appropriately without the need for heavy-handed regulation. That for us has been one of the big learnings from the pandemic.

Q179 **Felicity Buchan:** Let me move on to Martin McTague. I just have one question. HMRC has said that it is going to be writing to business that it feels may have claimed for various schemes like furlough in error. Is HMRC handling this in the right way? Do you have any concerns? I am not trying to make this a leading question. It may be that you have no concerns.

Martin McTague: To be fair to HMRC, its response to this crisis has been exceptional. The speed at which they responded in the early days showed real flexibility and innovation. I do not see any serious concerns about their response to this follow-up to the initial pandemic, so I would say no.

Q180 **Felicity Buchan:** That is great to hear. Just as a final question, do you have any general comments on consumer fraud as a result of coronavirus that your members have encountered?

Martin McTague: No. Backing up some of the points Matthew makes, there could be a more joined-up effort between the banks and small businesses to try to tackle some of these issues. That would be the only comment I would add.

Q181 **Rushanara Ali:** Good afternoon. I want to focus my questions primarily on household debt, on which both panellists have already touched. Back in July, there was a report suggesting that UK households face £6 billion of debt because of Covid-19. That was work done by StepChange, and CAB might have been involved too. Perhaps, Matthew, you could start by talking us through which groups have been particularly hit hard by the increase in debt because of Covid. We know that the savings rate of those people who are better off and who have been able to work from home has gone up, but it has had a detrimental effect for others. Could you just talk through that? If you could also reflect on any regional inequalities that you have been made aware of, that would be helpful.

Matthew Upton: Yes, of course. Your last but one point is the place to start, around the unequal nature of the crisis in terms of the financial impact. Martin made this point very well. Some people have increased their savings and others have seen what little they had whittle away. We did some research on the number of people who fell into debt after the first lockdown, and we are looking to refresh that in the next week or so. After the first lockdown, 6 million people had fallen behind on at least one bill. In terms of the disproportionate impacts of that, as you mention, they are at least twice as likely to have fallen behind on a bill if they are black, disabled, a carer or a key worker, which is slightly worrying and troubling when you think about the praise heaped on key workers over the course of the crisis.

We delved into some of this as well to see, when you break down budgets, how significant this problem is. One of the things that worries me most is that we did an analysis of 20,000 debt-advice clients who we have helped. This year, 40% of all the people we have helped with debt advice have had what you call a negative budget when assessed by a debt adviser. That is not a subjective assessment by the individual; that is an objective assessment, which says that their income cannot meet their outgoings, so it is basically impossible to get by. That is 40% of people.

Going back to the issue around self-employment earlier on, 58% of self-employed people who have come to us for debt advice have a negative budget versus 40% last year, which feels absolutely terrifying. The worry on this is that, because of the schemes put in place by Government, which have been effective in many ways, whether it is the CJRS or the various payment holidays and things we have talked about, you have effectively stemmed the tide of debt over the last eight months and it is going to explore once redundancies increase. People have been whittling away at their savings, as I say, and it is only going to get worse. My main message to the panel would be that personal household debt will be the next big policy crisis that we will be discussing over the next year.

Q182 **Rushanara Ali:** Given the looming problems ahead and some of our observations and what we have seen over recent months, is there a case for Government needing to look at universal credit and statutory sick pay? Martin, could you also reflect on the perspective of employees, particularly amongst small businesses and others?

Matthew Upton: On your point around universal credit, I very much agree. The panel will know that, at the beginning of the pandemic, the Government raised the basic rate of universal credit and working tax credit by £20 a week. For our clients, that has been an absolute lifeline. It has been hugely impactful; it has made a phenomenal difference in terms of keeping those families out of poverty. What our own research suggests is that, if you took that lifeline away, 75% of the people that we help with benefits would not be able to cover their basic costs. We know the Government are looking at it at the moment, and we think it is essential that in the spring—the announcement could be made sooner—that uplift is made permanent.

In terms of sick pay, this is an incredibly challenging one. One of the biggest worries we have had is about the dilemma faced by people needing to self-isolate. It is an incredibly complex system. You are basically faced with four options for financial support, if you are in that position. It is confusing. There are hugely differential levels of income or pay, depending on which one you take. It is often leaving people with what is effective an impossible choice between protecting their own health, or the public health of the nation, and working. This is obviously one the Government have been grappling with throughout the entire pandemic. If you look at statutory sick pay, for those who are not lucky enough to be in jobs where their employer has a scheme in place already, for a full-time worker earning the living wage, statutory sick pay effectively equates to a 69% weekly loss in earnings. It is well documented that we have one of the lowest rates of sick pay across the western world. It is a huge challenge and a hugely complex system, and there is a lot for the Government to look at there.

Q183 **Rushanara Ali:** Maybe we could go over to Martin on this, but would you agree with the TUC's suggestion about this? When they gave evidence, they suggested that it would be preferable to move it to £300 a week instead of £94 a week, which the Health Secretary at the beginning of the pandemic said he could not survive on?

Martin McTague: I understand that call, but I am concerned about the effect it has on people's behaviour in this pandemic. Faced with the alternative of going on to statutory sick pay, they are likely to take more chances. I only spoke to a self-employed hairdresser the other day who said she had deleted the NHS app from her phone, because she did not want to be called by NHS Track and Trace and prevented from working. A lot of people are making that kind of choice.

In direct answer to your initial question, the thing that worries me the most is that almost half of small-business owners say they are using personal debt to try to fund their businesses. That is significantly up compared to the position it was prior to the crisis. There is also quite a lot of evidence that people taking out bounce-back loans for their own businesses is having a negative effect on their credit rating. This is compounding the situation for a lot of self-employed people who are trying to run businesses. They are finding that this debt is mounting up.

Q184 **Rushanara Ali:** Next year, we are likely to see a debt mountain mounting up and people then facing debt collection agencies. I wanted to come back to the point about debt collection. Even public services, whether it is HMRC or local authorities, have historically used and continue to use bailiffs and so on to recover debt. Is there a case for a radical reform of debt collection so it does not do further harm? The pandemic has already done people a lot of harm. While we all accept the need to recover debt, should there be a proper review of that? Secondly, should there be better regulation of debt collection agencies? In theory, my understanding is that the FCA are supposed to regulate them, but they have a lot on their plate. What else could be done to improve that particular agenda?

Martin McTague: I can start there, if you like. The thing that strikes me about it is that the big banks set themselves up what they call a utility for collecting bounce-back loan and CBILS loan payments and people in default. They are doing that, because they recognise that there is a wild-west element to debt collection agencies. They are trying to get a consistent response to all the people affected by this, and they also know that this will be a massive problem in the next few months.

You are right to be concerned about the methods used for debt collection. I would suggest the move the banks have made shows that there is a problem in the system.

Matthew Upton: I have two very quick points on this. First, on bailiff regulation, as you say, it is entirely unregulated. It is a huge problem. We have called on Government and the MoJ for some time now to establish a regulator to oversee the activities of bailiffs, and that will only become more prominent as the impacts of the pandemic are felt in the way that you described. We very much support that.

The final thing I would say on it is that people often present this as a zero sum or trade-off between collecting debts and getting the money in the door versus looking after people's welfare. That is an incorrect way of looking at it. One of the main reasons financial services collect their debts in a much more humane way that looks to respect where people are at with less use of bailiffs and so on is because they understand how to get money in the door. It is as much a commercial decision as it is a welfare decision. The sooner that Government agencies and local authorities realise that bailiffs are just a poor way to collect money for the bottom line as well as for the welfare of their constituents, their residents, the better.

Q185 **Rushanara Ali:** Your argument is that there should be a separate regulator that regulates debt collection agencies, and it cannot come soon enough. That is one for this Committee to push for. Is that a yes?

Matthew Upton: Yes, very much so. There is a question with all of this stuff about whether it is attached to new regulators or new bodies, which is a debate worth having.

Q186 **Rushanara Ali:** I just have one final thing. We talked earlier, in response to Anthony's questions, about loyalty penalties. Has anyone done any work on how many vulnerable customers fall into the loyalty penalty trap whether it is Sky broadband, insurance or others?

Secondly, one of the advantages of having a direct debit—I am sure we all do it—for your home insurance, car insurance or buildings insurance particularly is that you know you are not going to have a gap. Ordinary consumers, even if they are not vulnerable consumers, will just do that to avoid having any gaps, which is risky. Has anyone done any work to look at some of the motivations for sticking to the same organisations or companies? How many people are vulnerable who are falling into the trap of being charged an extortionate amount of money? Frankly, this amounts to profiteering by companies like Sky as well as certain insurance companies, which really is unacceptable.

Matthew Upton: I am happy to come in on that. The CMA did quite a lot of research into this as a result of a super-complaint we made on this topic. They estimated that just over £4 billion a year is being overcharged to what they have termed loyal consumers, which is split across five different markets. They are some of the ones we have discussed today such as broadband, mobile and mortgages, et cetera. In almost all of those markets, those people are predominantly more likely to be vulnerable in the way you have described. It is more likely that they are vulnerable, but also it has a disproportionate impact because of the proportion of their incomes that they are spending on these bills. We very much agree. That is why we are pushing for intervention in those individual markets to protect those more vulnerable consumers, whether that be in broadband or mortgages.

When you look at some of the action that has been suggested in insurance—I am not sure this is one that is being looked at by the Committee yet—the FCA is putting forward some fairly robust measures there. I am sure you will all do your insurance renewals on an annual basis. They are suggesting that you cannot be charged more than a new customer, which could save all of us hundreds and make a lot of difference to the clients that we see. We hope that they do take action there.

In terms of your question around what the barriers are for some of those more vulnerable consumers and why they stay there, one of the things that always come out as a disproportionately big barrier for the more vulnerable is the risk around things like getting cut off. There can be a wrong perception about having your energy cut off, because that is not what happens, but the risk is seen as bigger to switch provider, so people will often stay even if they are overpaying, because it is not a risk they want to take on. There are also complex issues around having arrears as well, which makes switching in some markets more difficult.

Q187 **Mike Hill:** My section is very much about the outlook for the period now the vaccine has begun to be rolled out and whether there is any further support needed during this period. Martin, we are about to enter the home straight, some people would say, now the vaccine has begun to be deployed. To what extent will firms, especially smaller ones, have sufficient support from the Government to get them through the recovery period?

Martin McTague: The biggest problem is sectoral, because there are some sectors that are so badly hit by this crisis—they essentially do not have customers—that they are really going to struggle to get through the next few months. The only way in which they can sustain their businesses is if the Government can give them some sort of longevity with the support they are talking about.

The problem with the three-month arrangement that is happening at the moment—in other words, it will end in March—is that it creates a cliff edge. A lot of businesses that do not see that they have the resources to get past March will throw in the towel in the early part of this year rather than attempt to get through to that point after the virus is hopefully defeated. That is something that is an unacceptable price for the economy to pay, and the Treasury should think seriously about helping those businesses to get through to the summer.

Q188 **Mike Hill:** On that, are you saying that the current policies are effective but that they should continue for whatever duration or period is necessary?

Martin McTague: What strikes me is that, if you look at the German response, they have committed to the support right through the whole of 2021. That means that businesses can plan effectively for where their income is going to be and what kind of support they can expect. It is a predictable future. The problem with the current arrangement is that you are limping from quarter to quarter in the hope that the rug is not pulled out from under you at the worse time.

Q189 **Mike Hill:** Is there anything else that is needed, or is it just consistency?

Martin McTague: Consistency is the biggest thing. We need a stable consistent system that people can plan around. To give you one example, take the job retention bonus. There were a lot of businesses that planned around the job retention bonus, especially in leisure and hospitality. They were planning for that cash injection in January, and that has completely gone. That destroys a lot of the planning arrangements that a lot of these businesses made. That can undermine seriously good businesses that, if they were allowed to come out of the other side of this crisis, could carry on employing people and being part of the economy.

Q190 **Mike Hill:** If they are not allowed to come out of the crisis for whatever reason in the way you have described, what are the longer-term effects, particularly for small firms?

Martin McTague: The biggest thing for me is something that is often forgotten: if you take a hotel or a restaurant, they have a significant number of supply-chain suppliers. They have people supplying meat, vegetables, wine and beer. All of those people are not notionally part of the hospitality sector, but they will all be affected by the loss of those companies that are their customers. The impact is not just the immediate leisure and hospitality businesses; it is the whole supply chain underneath them. That will cause serious damage and will mean it will be very difficult for us to bounce back in the summer.

Q191 **Mike Hill:** Will companies be more cautious in the future? Will they be less inclined to invest and take risks, and more likely to carry larger reserves if they possibly could?

Martin McTague: You are right. It is nice if they have reserves to rely on, but the other thing to remember is that a lot of businesses are absolutely loaded down with debt. They could not invest in anything else. I was presenting the numbers earlier. They can just about service their debt.

There was a lot of talk about zombie companies before this crisis happened. We have now created literally tens of thousands of zombie companies. If we are really serious about people pivoting to better technology or investing in green technology, we have to do something about that.

Q192 **Mike Hill:** Looking at the green technology model there, even after the vaccine has been deployed, does there need to be some extra stimulus, say, for example, in the Budget next year?

Martin McTague: The Budget is an important point where these changes could be made, but I would also like to see, as I mentioned earlier, more done to try to tackle that mountain of debt that these businesses have taken on. Remember that the pandemic was not their fault. This is something that is a public health response to a national crisis. These businesses need to be helped to rebuild their balance sheets so they can employ and invest in the future.

Q193 **Mike Hill:** Is there any particular area that you would like to see the Government focus on in terms of future stimulus or stimuli?

Martin McTague: The two area that are clearly in the Government's sights are investing in greening up businesses—in other words, investing in a way in which they can reduce their carbon footprint, which will be things like heating commercial buildings or transport issues—and the other is tech switching. We have all been forced into adopting more technology in our everyday lives. Businesses are no different, but the ability for them to sustain that requires additional investment. I hope the Government can see that and support those businesses.

Q194 **Mike Hill:** Matthew Upton, to what extent can consumers hold out until the vaccine has been fully rolled out and deployed?

Matthew Upton: The mistake would be to assume that the support can end in tandem with the vaccine rollout. What you are looking at is a whole swathe of long-term economic scarring if things like the temporary protections around the universal credit uplift are taken away. This is the consumer counterpoint to Martin's business example. If you do not help people to deal with some of that legacy debt that has built up, again not through any fault of their own, whether that rent arrears, council tax debt, et cetera, that is going to weigh them down individually and it will mean they will struggle to cope in the way you suggest, but it is also going to weigh the economy down. People having that burden of debt around their necks will not be out spending and fuelling the recovery we all hope for and need.

Q195 **Mike Hill:** I know this to be the case because I know the CAB very well and how they conduct their research, but, for the record, has the CAB seen any patterns of need for support as the crisis unfolded? Are there any particular patterns?

Matthew Upton: A few to highlight would be that there has been a particular challenge around universal credit, as we have talked about. The sheer number of people accessing universal credit versus pre crisis has been absolutely phenomenal. The system has largely held up well, but it has just brought home that realisation of how low some of those levels are, hence why we talk about maintaining the uplift.

There have been other particular needs. If you look at the levels of redundancies, you have had real evidence of discrimination in how some of that has been done. There have been challenges around people being able to access employment tribunals and so on due to the logjam that has been created in the system. That has been a real trend for us.

Finally, again, when you look at that debt build-up, which is the one that is most relevant to the Committee, it is the impact particularly on renters. We are estimating that there is at least £500 million of Covid-related private rental debt that has been accrued. That is a problem, as I said earlier, both for those tenants and for the landlords who are not getting the money they need to maintain their properties. They are some of the biggest trends we see.

In terms of what to do, a lot of this is about extending protections that are already in existence, but there are gaps, as I say, particularly when it comes to dealing with some of that Covid debt overhang.

Q196 **Mike Hill:** There have been people really badly affected by Covid and the lockdowns. On the other hand, that could mean that they have been placed into an enforced saving environment. How will consumers react if a vaccine means that social distancing fades away and they get their freedom back again?

Matthew Upton: That is a really interesting question. I know there has been a lot of analysis of the extent to which, on the one hand, you are going to have a big pent-up demand that will manifest itself whether that is through face-to-face shopping or online that will play out in things like the holiday sector and other goods and services that people want to access, where people have accrued those savings. As I say, the worry is that it will be a stilted recovery because you will have some people able to do that but huge numbers of people burdened by that debt unable to spend in the way we want them to. There are things that government could do to relieve some of that debt. Alongside the NRLA, we have been calling for targeted grants and loans to help people with their rent arrears and similar support for council tax arrears as well, which could really aid the consumer recovery.

Q197 **Mike Hill:** It is a precarious situation, is it not? As the vaccine progresses, might consumers go back to old habits or perhaps even start spending more as a consequence of coming out the other end of the pandemic?

Matthew Upton: In many cases, yes. I will be speculating as much as anyone else on this. One of the interesting legacy issues will be where consumers feel a little bit scarred by the way they have been treated by companies through the pandemic. Whether that is struggling to get a refund for a holiday, a wedding or whatever it may be, it will be interesting to see whether the trust fully returns in some of those sectors around people being willing to make some of those big financial commitments. Previously, they thought they were secure but perhaps now not so much.

This ties into the point I was making earlier about making sure the regulators have enough powers to clamp down on those companies that are not fulfilling their responsibilities, largely to give shoppers and consumers that confidence that they can shop with confidence and book holidays, et cetera, because they know the regulators have the powers to intervene if they are hard done by.

Q198 **Ms Eagle:** My first questions are to Martin McTague. We have had eight different versions of furlough schemes, three of which have been announced and then scrapped before they were introduced; you just mentioned one. When I challenged the Chancellor about this recently, he claimed that this was because he was being agile. Is that your view of it?

Martin McTague: "Agile" is a good adjective, yes. At the beginning of this crisis, to give credit to the Treasury, its response was innovative and lively. The real impression we get as time goes by is that it seems to be running out of steam and becoming a bit tired. The whole crisis has seemed to have gone on a lot longer than it thought, and therefore that explains a lot of these schemes that have changed mid-stream and have had to be extended and modified in different ways. That has really damaged confidence in the business community. It has a real-world impact, but it is probably explained by the length of time we have spent in this crisis.

Q199 **Ms Eagle:** In retrospect, would we have been better accepting that the likelihood was that there was going to be a second wave and not acted like it was all over in the middle of the summer with Eat Out to Help Out? Should we have done what some of our European colleagues have done, such as the Germans, and announced extensions for a year so that there was that certainty about what schemes were available, rather than having literally eight different schemes?

Martin McTague: That is fair criticism. Announcing a long-term scheme that you have to cut short because you have managed to shorten the length of time you have spent in this crisis would have been a much better solution than constantly having a more optimistic view of when we would emerge and then having to dream up new systems. I know we all have 20:20 hindsight now and we can all see things perfectly from this position, but that definitely would have been a better solution. There are plenty of examples around continental Europe where there has been a more long-term solution offered to business.

Q200 **Ms Eagle:** Is there also a case, again looking to other countries' labour market support structures, for having a more permanent version of the short-term working plans? That would have been able to support some of the sectors that had to lay people off rather than having to invent a furlough scheme right from the beginning and apply it across the board.

Martin McTague: Yes, the German short-time working scheme clearly helped them respond to this more quickly because they already had the mechanism in place. We have opted for furlough, which is not the same thing. It is not labour subsidy. It is maintaining that connection between employer and employee. The problem is that we have a lot of people on zero-hours contracts and people who only have quite a limited connection with those businesses. A lot of those people fell victim to that arrangement. We have a completely different labour market to Germany and, in some ways, the response reflects that.

Q201 **Ms Eagle:** Of course, the people who have been missed out of support are also a reflection of the very different kinds of employment structures we have in the UK. Is there anything we could learn, given that the experts tell us we may well be in a situation where pandemics occur more frequently and this is not likely to be another once-in-a-hundred-years experience? In fact, we have bird flu outbreaks across the country even as we speak, not that I am trying to alarm anybody. Clearly, we are in a situation where this may start occurring more frequently. Is there anything that your members think would be helpful to put into place on a more permanent basis so that we can respond and pick up a lot of the people that we would now call excluded?

Martin McTague: Yes, there are probably three responses here. There is a move towards digitising tax processes. Making Tax Digital could be used as a basis for gathering more real-time data on people's current tax positions so they are able to respond more quickly. One of the biggest problems with the self-employment income support scheme and the group who have missed out is that the tax officials do not have enough information. There is a way in which they can respond to that. The Government are on that process and on that journey, but this is an opportunity for them to accelerate it, if they chose to do so.

The other thing that has come out of this very clearly is about universal credit's insistence on a minimum income floor, which has clearly been shown to be completely inappropriate when you have lumpy income affected by this kind of crisis. We have been calling for that to be scrapped for literally years, and we would like to see this as being the final death knell for that unloved feature of universal credit.

The final thing is business interruption insurance. It has clearly been found wanting from this crisis. The insurers cannot find a way that they could insure this risk, and that probably means that the state is going to have to play a role in some future Pan Re-type insurance scheme.

Q202 **Ms Eagle:** Looking forward to the future, will Government schemes such as the Kickstart scheme be effective in reducing long-term unemployment and getting people back to work? Are there issues, particularly for your members, in engaging with the scheme?

Martin McTague: There were problems with our members engaging with the scheme in the early days, because 30 was the limit on the number of employees that had to be included. DWP and the Treasury moved quite quickly to correct that. We are fans of that system. We believe it can have a really concrete, positive impact on unemployment amongst the young.

We are less confident about the restart scheme. Restart seems to be a clumsier and probably not so cost-effective alternative.

Q203 **Ms Eagle:** Why is that?

Martin McTague: It just seems to be poorly targeted, and it is likely to be a lot more expensive to implement.

Q204 **Ms Eagle:** What would need to change about it to make it more effective?

Martin McTague: We have done some work on that, and I am quite happy to come back to the Committee with some responses on that. Straight off the top of my head, I do not have a concrete solution.

Q205 **Ms Eagle:** It would be very good to know if you do have one in a briefing lying around somewhere. You could always ping it over to us. Matthew Upton, how effective have the Government's schemes been at alleviating poverty and reducing inequalities?

Matthew Upton: I would say it is a mixed bag, in that the protections that were put in place over the summer, for example, to stop evictions and bailiff activity, et cetera, were very welcome, but they do not necessarily solve the underlying problem of indebtedness and instability for low-income families. Similarly, the UC uplift, as we said, has been a lifeline and it is essential that it is kept beyond the spring. Clearly, it does not solve the world in terms of challenges for lower-income groups.

Finally, on the job retention scheme, it is largely an effective scheme. Linked to some of the points you were just discussing with Martin, we did see some of the challenges around some of the instability in the scheme. For example, when employer contributions were ramping up over the course of late summer and early autumn, redundancy as an advice issue hugely increased in terms of the numbers of people we were seeing; it overtook furlough as our biggest single employment issue.

Clearly, again, with the reintroduction of the scheme, we have seen some, but not all, of that tail off. That inconsistency has not always helped, but, as a scheme, especially given what we felt was within the realms of possibility nine months ago, we think it has been fairly radical and has helped to stem quite a lot of doubt.

Q206 **Ms Eagle:** Finally, did the changes to that scheme that were advertised but not introduced actually caused what in retrospect were needless redundancies to happen?

Matthew Upton: It is incredibly difficult to say. The way we tend to see this is in huge and sudden spikes in demand for advice when various different announcements are made. We can literally sit there in front of a laptop and watch the Prime Minister's press conference and see within three minutes that we get a rush of people asking about a certain issue around holidays, furlough or whatever it may be. It is clear that there is instability caused when there are changes made. Whether it has led to higher levels of unemployment, I cannot really say.

Q207 **Harriett Baldwin:** When I come right at the end, it is very difficult to find new areas to question you on, Martin. You and Matthew have been amazing in terms of the length of your detailed responses. I just want to play the role of devil's advocate here slightly. When the Chancellor came to see us at the beginning of the crisis, he explained that we went into this crisis with a high level of employment in this country and relatively low levels of corporate debt compared to historic levels of corporate debt. In addition, interest rates are very low. Particularly the bounce-back loans, as we were hearing earlier, are a very attractive source of financing. Martin, throughout your testimony you implied that there was a really big debt problem. Can you try to put some numbers around that to help the Committee?

Martin McTague: The best estimates I have seen are that something approaching £30 billion is likely to be the scale of the defaults. A lot of that is bunched into the first quarter of next year. It is very sectoral. You have massive variations from sector to sector. One of the figures I hear the Treasury putting around quite consistently is that they only see a 23%—that is the figure they have chosen—increase in debt for small businesses. That hides a multitude of sins. There are some businesses—we have seen examples of them—that have taken on four times their previous level of debt. At the other end of the spectrum, you have companies that have done very well out of the crisis and that have deleveraged. Overall, you may have a 23% increase, but there is actually a much patchier response. The businesses that have increased debt significantly are the ones that are likely to fail in the early part of next year, and they are big employers.

Q208 **Harriett Baldwin:** You are saying it is very sectoral, and that makes a lot of sense. The Chancellor has always made it very clear that there are going to be some businesses that simply are not going to survive. He has been very clear about that. If we turn to the businesses that have the potential to do very well, expand and grow once we get to the end of this crisis, which we will do at some point, let us think about access to finance in that sector. These are companies that really have a good business plan and want to grow. What are you hearing from your members, Martin, in terms of access to finance for those potentially high-growth businesses?

Martin McTague: The businesses in high-growth sectors, the ones that have weathered this storm well, have no problem with access to finance. There is plenty of finance available to them. The problem with many of them is that they are trying to operate in an economy that is really doubtful. If you look at the overall predictions for next year, there are some quite impressive figures being posted by OBR about potential growth, but in some sectors there is a poor outlook. Therefore, a lot of businesses that are thinking about investment plans are struggling to find a predictable future on which they can base those.

Q209 **Harriett Baldwin:** For the record, could you just detail those sectors, Martin?

Martin McTague: The ones that are going to struggle—this will not come as a major surprise to anybody—are leisure, hospitality and retail. They are by far the biggest. Arts and entertainment, as part of leisure, will probably be the hardest hit. There are big employers, which are employing a lot of young people as well, that will be significantly hit by this crisis.

Q210 **Harriett Baldwin:** In terms of the sectors that are doing well, you are not picking up from your members that they are having any difficulty in terms of access to finance.

Martin McTague: No, they are fine. It is that sort of split in the economy. The large employers in leisure, hospitality and retail are the ones who are struggling. The tech-orientated businesses at the top end of the economy are finding no problem getting resources.

Q211 **Harriett Baldwin:** Very briefly for the Committee, what would be the solution to the situation in those three sectors, please?

Martin McTague: The solution is that you have to come up with mechanisms that allow them to restructure their balance sheets to get back to a position where they can invest in their businesses instead of just servicing debt.

Q212 **Harriett Baldwin:** Do those not exist at the moment? The cost of debt is quite low. Is this something that will happen through the private sector or is it something the Treasury needs to take a lead on?

Martin McTague: If you are talking about businesses that are loaded down with Covid-related Government debt, no financial institution will invest in them, especially in the sectors we have been talking about. The only way in which you can get those businesses out from under that problem is to allow them to restructure their balance sheets, and that will mean restructuring the debt. Because most of that debt is Government debt—

Q213 **Harriett Baldwin:** You mean the Government-guaranteed bounce-back loans.

Martin McTague: Yes. The Government are going to have to take the initiative. They are going to have to propose it. I can see that there are some really imaginative ways in which you can do that. One of the things I would encourage the Government to look at closely is getting more employee ownership into those businesses. That is an imaginative way in which you can restructure those businesses' balance sheets. The other way is to put them on a long-term contingent basis that is paid when they make profits in the future.

Q214 **Harriett Baldwin:** Martin, would it be a state bank or something that would play this role? What do you see? Do you see that the private sector can do this restructuring without a state bank being set up?

Martin McTague: It does not need a state bank for you to say that this becomes a contingent tax liability, because HMRC would then start recovering that debt according to the profits made. It is not something that you have to set up a new financial institution to do. We have the ability to recover those debts through the tax take, and that will essentially be an HMRC role.

Chair: That brings us to the end of this session. Thank you very much indeed to our witnesses for appearing before us today. It has been a very wide-ranging and interesting set of questions and answers. It is very important that this Committee periodically looks very closely at consumer issues in particular, because, at the end of the day, policies and actions by Government ultimately impinge upon real people. We have discussed a lot of very important issues and some real difficulties today.

I am grateful, Martin, for your input around your discussions with the Treasury around the gaps and how those might be resolved. You mentioned that you had had a positive meeting with the Treasury, and I was very pleased to hear that. If you could keep us posted on that, the Committee would be very grateful indeed. If there is any way in which the Committee could help in any of those discussions, we stand ready to do that. As a Committee, we are united in believing that there is further that should be done in that area for those affected.

Secondly, we heard from Martin Lewis, who has very kindly agreed to write to the Committee about the issues around mortgage prisoners, the ideas there and the information he is seeking from the Treasury. It would be useful for him to keep in touch with us on that, and we will assist where we can in getting appropriate information from the Treasury.

It just remains for me to thank you very much indeed once again for appearing before us. That has been very helpful.