

Response to Treasury Committee Call for Evidence on the Government's financial response to Coronavirus

Monday 23rd March 2020

Executive summary

- The nature of the Covid-19 pandemic brings with it an unprecedented impact on household finances. We have already seen how widespread this effect is: it is not limited just to those who fall ill or are self-isolating but to all those whose ability to earn is impacted by important public health measures around social distancing and isolation.
- In certain areas, the Government has taken unprecedented measures to stem the financial impact households and small businesses are facing – and they should be commended for doing so. This includes the creation of the Coronavirus Job Retention Scheme, the Coronavirus Business Interruption Loan Scheme and the creation of hardship funds for households and small businesses. It is clear that Ministers and officials across all levels of government are working hard to develop and implement policy at extraordinary speed to deal with this crisis.
- However, **there are still gaps in the support announced that need to be addressed**, in order to offer people comprehensive support effective enough to reduce the risk of financial hardship and problem debt.
- **A key priority for further action must be supporting people with debts to central and local government, or at risk of falling behind on these bills.** This should include instructing local authorities to immediately suspend all enforcement activity by bailiffs, temporarily pausing all deductions from benefits to repay debt, and supporting local authorities to offer payment breaks on council tax.
- There is a pressing financial and public health case for this. If people face unaffordable demands to repay their arrears, many people will face an impossible choice of whether to follow public health guidance to stay home or try to earn money to meet these demands.
- We are also concerned that (as of 4pm on Monday 23rd March) self-employed people, many of whom have seen an immediate and severe reduction in their income, may be falling between the safety net of measures for businesses and for households. **More support for the self-employed is desperately needed**, and we are encouraged by signs that policy remedies to address this gap in the Government's Covid-19 financial response are being taken seriously.
- We also need to see further **help for renters** who may need payment breaks, just like mortgage holders are being offered. The Government also need to continue working with regulators, essential service providers and creditors to **ensure people are being shown forbearance and flexibility across all the money they may owe**, and are not at risk of

losing access to essential services – such as energy, water and telecoms supply - at this difficult time.

- As a debt advice charity, we – and colleagues across the sector - are doing everything we can to help people during this time. However, demand is undoubtedly going to rise. To support these efforts, we ask **Government to consider what additional funding can be made available to debt advice agencies** to help cover the cost of adapting services in the short-term to continue services during this period; and in the long-term to deal with increased demand following the financial impact of coronavirus.

1. Introduction

- 1.1 Money Advice Trust welcomes the opportunity to respond to the Treasury Committee's Call for Evidence on the Government's Coronavirus financial package, as part of its inquiry into the economic impact of the outbreak.
- 1.2 Money Advice Trust runs National Debtline, which offers free, independent and confidential advice on personal debt over the phone and online, as well as Business Debtline which is the UK's only dedicated free debt advice service for self-employed people and other small business owners. Last year our debt advisers helped 200,000 people over the phone and through our webchat services, and we had over 1.9 million visits to our advice websites.
- 1.3 In this response, we set out our assessment of the Government's measures to date **(as at 4pm on Monday 23rd March)**, and identify where there are still gaps in support. Where these gaps exist, we share our recommendations for how they could be addressed – to ensure that all those who need it are getting the right support to cope financially through the Coronavirus outbreak.
- 1.4 For more information about this response contact Grace Brownfield, Money Advice Trust Public Affairs and Policy Manager, on 07769 166539 or grace.brownfield@moneyadvicetrust.org.

2. The financial impact on households and small businesses so far

- 2.1 We are already seeing through our services the impact Coronavirus is having on the finances of many households and small businesses in the UK. Since social distancing and working from home measures were announced last Monday (16 March), **our new National Debtline and Business Debtline Coronavirus fact sheets have been viewed by more than 10,000 people.**
- 2.2 **Advisers at Business Debtline report that nearly every call is now related to Coronavirus**, with small business owners seeing severe disruption and self-employed people reporting seeing all their work cancelled and their income dropping drastically.
- 2.3 **At National Debtline, advisers are hearing from people struggling to follow public health advice for fear of the impact on their income**, such as a pregnant woman who wanted to self-isolate but could not afford to do so. We have heard from **people who are self-isolating and had visits from bailiffs** demanding payment of arrears, and those who have been laid off with no notice.

- 2.4 We are working with our advisers to gather insight from those we help, to identify and inform the development of further policy measures. **Some of the insight we have already gathered from advisers is included below**, and we are putting in place measures to enable us to do this in a more structured way going forward (our insight systems have been affected by the changes involved in transforming our services to the point where all staff, including all National Debtline and Business Debtline advisers, are working from home as of today). We would be happy to share these further insights with the Select Committee and others as they become available.

Early insights of the impact of Covid-19 from National Debtline and Business Debtline

Our advisers at National Debtline and Business Debtline are already being contacted by people experiencing the financial impact of coronavirus. The examples below are examples shared by our advisers around the situations of people they have been advising over phone and webchat since the Coronavirus outbreak took hold. We would be happy to share further insight with the Committee in the weeks ahead.

- Advisers at Business Debtline report nearly every call being taken is related to Coronavirus in some way, with many self-employed people reporting trade having stopped or taken a severe downturn.
- We are seeing increased queries at National Debtline about what people's pay entitlements are if they need to self-isolate. One adviser dealt with a case of a pregnant woman who wanted to self-isolate but could not afford to do so.
- We have already dealt with cases of bailiffs visiting people who are self-isolating.
- Callers to both National Debtline and Business Debtline are experiencing increased anxiety, even above the level we normally see among people in problem debt.
- Small business owners calling Business Debtline are reporting serious concerns about having to lay off staff. Some have, or are about to, shut their businesses with no sense of when or if they will be able to re-open or recover.
- Callers to both services are very concerned about being able to pay their rent or mortgage and are seeking advice on what protections and help might be available.
- Many people are getting in touch with queries about what will happen with existing collection and enforcement activity; for example people being subject to repossession court claims but being unable to attend court due to self-isolating.

3. Providing fast support to people who have, or are at risk of, losing their income

- 3.1 The package of measures set out by the Chancellor on 20 March to support jobs and wages was very welcome. The Coronavirus Job Retention Scheme will get financial support quickly to households by protecting people's incomes – and prevent more people falling into financial difficulty in the weeks and months ahead. This proactive action is vital: Support to preserve jobs and employment income now is better than dealing with hardship and unemployment later.

- 3.2 The announcement of the Coronavirus Job Retention Scheme was supplemented by further measures to get financial support to affected households. The increases to the Universal Credit Standard Allowance and equivalent in Working Tax Credits by around £1,000 a year will help get money to households, many of whom will have seen a significant shock to their income due to Coronavirus.
- 3.3 With these announcements, **the Government has gone some way to alleviating the immediate financial shock some households were facing**, particularly those in the sectors most impacted by social distancing measures.
- 3.4 However, as we highlight in section 5 of this submission, there are still big challenges for some groups who are not covered by the Coronavirus Job Retention Scheme, most notably the self-employed. So far (as at 4pm on Monday 23rd March), there has been nothing of the same scale directed towards replacing their income, despite many already having had all their work cancelled and seen their incomes plummet.

4. Support for people with debts to central and local government

- 4.1 While action to support incomes is welcome, **we know many households are already struggling – even before the impact of Coronavirus**. As the Committee has previously explored in its household finances inquiry, we have seen in recent years an increasing number of people who owe money to central and local government. Given the severity of the financial impact of Coronavirus, we can expect this number to increase further in the weeks and months to come.
- 4.2 Households will need the **maximum possible protection from loss of income** to get through this period of uncertainty. Even more importantly, it is absolutely vital for the public health response to the virus that no one feels under pressure to ignore public health guidance in order to earn income to keep up with debt repayments.
- 4.3 We have seen some welcome announcements from commercial lenders about offering flexibility and showing forbearance to people whose ability to repay is affected by the financial impact of Coronavirus. **Central and local government must be prepared to show the same level of flexibility in their own debt collection practices**.
- 4.4 Our advisers have already spoken to people who are worried about keeping up with repayments, due to changes to their income from lost work, having to take unpaid leave or from being required to self-isolate. **We have even seen cases of bailiffs visiting people who are self-isolating**.
- 4.5 Many of the people who owe this money **will have other health conditions and vulnerabilities**. Chasing them for money they owe is not only a risk to people's finances; it is a risk to their health. It also compromises public health efforts to contain the spread of the virus.
- 4.6 We would like to see the Government urgently come forward with a package of measures to help people who fall behind on essential bills, including all debts owed to central and local government. This should include the following measures outlined below.

- 4.7 The Department for Work and Pensions (DWP) should put a **temporary pause on all deductions from Universal Credit and other benefits to repay debts or overpayments.**
- 4.8 **There should be specific measures to support people who are behind on their council tax bills.** Even before the Coronavirus outbreak, around 30% of callers to National Debtline were behind on their council tax bills. The Coronavirus outbreak has hit at the same time as people are receiving their bills for the 2020/21 tax year, and many people may struggle to pay them. To help people in this situation:
- **The Ministry of Housing Communities and Local Government should instruct all local authorities in England and Wales to temporarily suspend all use of bailiffs** (Enforcement Agents) to collect debts, and should pause other collection activity for people impacted by the pandemic. While local authorities could take this decision individually, and some have already done so, it is vital at this time of national emergency that there is consistency in the way people are treated. We are concerned that, without clear direction from central government, this consistency will not be achieved.
 - The Government should pass emergency secondary legislation to **temporarily remove rules for councils in England and Wales that mean people become liable for their whole council tax bill after one missed payment.**
 - Central government should provide additional funding to local authorities as needed to enable them to **offer three-month payment holidays (longer if necessary) and other forbearance on council tax bills.**
- 4.9 **HMRC should provide additional forbearance to those struggling with tax debts, particularly those who are self-employed.** Action to defer self-assessment payments and to expand HMRC's Time to Pay scheme, including the setting up of a dedicated helpline is welcome. However, given the sheer scale of the income shock self-employed people are facing, HMRC must be prepared to show additional forbearance for the duration of the crisis – including **proactively suspending all debt collection activity on self-employed taxpayers' debts to HMRC.**
- 4.10 Central and local governments need to be prepared to show this forbearance **proactively**, without waiting for people to get in touch with them. Understandably, DWP, HMRC and local authorities are facing huge increases in demand as more people apply for benefits and seek help. People who cannot get through to speak to Departments should not be penalised: which is why we recommend a **blanket pausing of collections and enforcement activity on debts owed to central and local government.**

5. Help for self-employed people

- 5.1 The package of measures the Government has brought forward to protect workers' incomes is significant. **However, we have not seen (as at 4pm on Monday 23rd March) the same level of bold action to support self-employed people.** This is despite the fact that many self-employed people have seen large drops in their income, with most or all work cancelled – and this is a situation that our advisers are

already reporting hearing from many of the callers to Business Debtline in the past week.

- 5.2 The Government has been proactive in bringing forward measures to help small businesses, such as the introduction of £10,000 grants for some of the smallest businesses. However, eligibility is based on Small Business Rate Relief and Rural Rate Relief, so this will only help businesses who have premises like newsagents, small shops and cafes. **This help is badly needed by these businesses – but sole traders and others without premises urgently need support too.**
- 5.3 The announcement that the Minimum Income Floor in Universal Credit will be suspended for the year for all self-employed people (not just those who fall ill with the virus or have to self-isolate) is welcome, and something that the Money Advice Trust and other debt advice agencies have long called for.
- 5.4 This effectively means that self-employed people now have the same access to Universal Credit as those in employment. Combined with a higher Universal Credit standard allowance, this in effect means self-employed people on Universal Credit will be able to access the equivalent of Statutory Sick Pay. **However, it is worth highlighting that those who apply for Universal Credit still face the five-week wait for a first payment.**
- 5.5 The deferral of Income Tax self-assessment payments due ‘on account’ this year until January 2021, will also give an element of short-term relief for some self-employed people.
- 5.6 **While these measures are welcome, they fall well short of the kind of support being offered to people in employment.** While employees affected by Covid-19 can be reassured almost all of their incomes will be guaranteed by the Government, the self-employed will have only benefits to fall back on, and some tax forbearance to see them through.
- 5.7 We hope to see measures come forward from the Government as soon as possible to support people who are self-employed. In particular, we would suggest that the following be considered.
 - There could be **immediate, targeted cash payments to self-employed people who have lost work as a result of the economic impact of Covid-19.** As the Association of Independent Professional and the Self-Employed (IPSE) have highlighted, this is already being done in Norway, with payments based on 80% of average income over past 3 years. If HRMC data could be used in the same way, this would come close to effectively extending the Government’s new incomes guarantee to the self-employed.
 - A more limited option would be the creation of a **dedicated Covid-19 hardship fund for sole traders and other self-employed people.** This should be separate to the main Covid-19 hardship fund for individuals affected, with full funding and guidance for local authorities on distribution.

6. Helping people with housing costs

- 6.1 Early on in the crisis, the Government announced welcome measures to ensure lenders offer mortgage payment holidays to those affected financially by Coronavirus.
- 6.2 We would urge **lenders to be as proactive as possible in offering these payment holidays**, and to ensure they apply to all mortgage customers. Understandably, mortgage providers' contact centres are under pressure from increased demand and potential reduced capacity (as staff fall ill or move to working from home) and we are concerned that people may not be able to access the help they need. Instead of people needing to get in touch, banks could be proactive in contacting all mortgage holders to offer the payment holiday, with an easy way for customers to accept or decline – and an option for those who decline to request one at a later date if their circumstances decline.
- 6.3 The FCA has confirmed that lenders are expected to stop repossession action. This applies to all mortgage borrowers at risk of repossession, whether or not their incomes are affected by Coronavirus. This is a vital measure: no one should be at risk of losing their home during this crisis.
- 6.4 It is therefore welcome that the Government has similarly introduced emergency legislation to stop rent evictions during the Coronavirus outbreak. Many of the most financially vulnerable households live in rented accommodation. Almost 70% of callers to National Debtline in 2019 were renters, as were half of the self-employed and small business owners we helped through Business Debtline. These people desperately need the same protection as people with mortgages.
- 6.5 Changes to Housing Benefit and the Housing Element of Universal Credit to ensure the Local Housing Allowance meets 30% of local rents are also welcome steps in helping reduce the number of people who are falling behind on their rent payments due to the impact of Coronavirus.
- 6.6 However, we are still concerned that not enough is being done to help renters. They are as likely to be in need of a payment break as mortgage holders. Alongside steps to prevent eviction, **the Government should bring forward measures to give renters who need it a rent payment break for the duration of the Coronavirus outbreak.**
- 6.7 For those in private rented accommodation, this can be supported by the payment holiday the landlord will receive, particularly since it has now been announced that payment holidays will also be available on Buy-to-Let mortgages.
- 6.8 For those in social housing, **central government should provide funding to housing associations and local authorities to enable them to offer a payment holiday to tenants.**

7. Ensuring people get consistent help across all the debts they owe

- 7.1 Keeping up with essential bills is going to be challenging for many people over the coming months, especially given that some bills, such as energy, may rise with more

people staying at home. We have already seen increased need for fuel vouchers amongst our callers, above normal levels.

- 7.2 Last week, the Department for Business, Energy and Industrial Strategy announced welcome plans agreed with the energy industry. This included measures to ensure prepayment and pay-as-you go customers remain supplied with energy during this period, wider support for customers in financial distress and a suspension of disconnections.
- 7.3 Ofwat have written to water company Chief Executives setting out their expectations for both the household and non-household (small business) markets. This encourages water companies to expand the help they provide vulnerable households, in light of the Coronavirus outbreak. It also includes an explicit expectation that small business customers should not be disconnected from supply where the delay in payment is caused by factors relating to Coronavirus.
- 7.4 **Government and regulators will need to pay close attention to essential services markets to ensure firms are meeting these expectations and should be prepared to take action to enforce them if not.**
- 7.5 In addition to the measures, already announced, we would like to see the following happen to ensure people are fully protected across all essential services:
- Utility and telecoms providers should **pause any action against households or sole traders to recover water, energy or telecoms arrears during this period, and any charges should also be put on hold.**
 - As they have done with energy providers, **the Government should work with Ofcom and telecoms providers to develop a package of measures keep people connected to vital communication channels during the outbreak.**
 - Ofgem, Ofwat and Ofcom should **urgently review protections for microbusiness customers to ensure disconnection of essential utilities and communications are used as an absolute last resort during this period.**
- 7.6 When it comes to consumer credit, many lenders have already announced welcome plans to offer forbearance to customers, and the FCA have set out guidance around their expectations of firms in showing flexibility during the Coronavirus outbreak.
- 7.7 However, we have yet to see evidence of a strong, consistent approach from all lenders, across all the products and services an individual holds. To address this, we would like the Government, regulators and creditors working together to provide increased support for people. In addition to the measures already announced:
- Creditors should be prepared to show additional forbearance over and above their usual practices. This should include **pausing collections activity and temporarily freezing all interest and charges where appropriate.** Hire-purchase and rent-to-own providers should also temporarily halt any repossession of items bought through these agreements.

- **The FCA should require creditors to provide a three-month payment holiday (during which interest and charges are suspended)**, and as long as is appropriate taking into account the circumstances, for those whose income is affected by C19.
- **The FCA should be prepared to issue emergency rules or guidance if needed** to ensure that all lenders are offering suitable forbearance and flexibility.
- Creditors should **recognise that customers may struggle to provide evidence of the financial or health impacts** they are suffering and take a pragmatic approach, including relying on self-disclosure where needed.
- Creditors and regulators should work with credit reference agencies to ensure that people who are proactive in contacting their creditors and putting arrangements in place **are not penalised on their credit file for doing so**.
- Creditors should **provide access to their services across all channels, including digital**, for customers to be able to discuss their financial situation relating to the virus, as not all customers are able to make calls directly.

8. Providing support via the debt and money advice sector

- 8.1 While the current situation is unprecedented, we know from past experience, such as the 2008 financial crisis, that the impact on people's finances will last well beyond the immediate crisis.
- 8.2 It is therefore crucial that there will be help and support available to these individuals (including those who are self-employed and small business owners) now and in the future to help them review their full financial situation, deal with creditors and ultimately get their finances back on a stable footing.
- 8.3 While the Government's focus has understandably been on alleviating the immediate financial impact of the crisis, they will also need to turn their attention to supporting people to deal with the long-term economic impacts.
- 8.4 We are doing all we can to provide support to everyone who needs us during this period, including continuing to provide full telephone and online advice while we are transforming our services to support all colleagues work from home.
- 8.5 However, we – and other debt advice agencies – are already seeing increased demand and this is set to continue. **To help ensure the debt advice sector can meet this demand, we would ask the Government to work with the Money and Pensions Service and Devolved Administrations to consider what additional funding can be made available**, covering the following.
 - In the short-term, the cost to advice agencies of adapting their services to support home-working and continuation of service over the coming months.
 - In the longer term, a significant increase in the availability of debt advice to support people who will still be feeling the impact of this on their finances in the years ahead

- 8.6 The Money and Pensions Service and Devolved Administrations can also assist by **reviewing the requirements in debt advice grant agreements, and on debt advisers, in order to ensure debt advice can remain high quality, but be provided as efficiently as possible.** This includes considering the well-being of advisers who are already dealing with highly challenging cases, and are likely to see more of these over the next while.

9 More information

- 9.1 On Thursday 19th March the Money Advice Trust and StepChange Debt Charity published **joint proposals for a ‘rescue package’ for household and small business finances**, available at <http://www.moneyadvicetrust.org/media/news/Pages/Rescue-package-needed-to-help-household-finances-cope-with-Covid-19.aspx>