Written evidence submitted by the Baptist Union of Great Britain, The Methodist Church and The United Reformed Church

As Christian denominations, we represent a third of a million active members worshipping in over 7,500 churches in England, Scotland and Wales. Many serve disadvantaged communities providing support via projects such as night shelters, foodbanks and debt advice centres.

We are grateful for this opportunity to respond to the consultation on recovering from the pandemic. This response draws on work undertaken during the pandemic listening to church and community leaders as they sought to understand and serve their communities.

What are recent trends in income and wealth inequality in the face of the pandemic?

Community leaders report a rapid rise in household debt amongst already vulnerable families

1. At the beginning of the first lockdown, the Churches instigated a programme of research, undertaking focus groups and surveys amongst local church and charity leaders who served in disadvantaged areas.[i] The purpose was to understand the impact of lockdown on those people who were struggling even before the lockdown occurred, and identify groups newly made vulnerable.
2. The early research found that people were tackling the huge difficulties of finding those who needed support, and then building an infrastructure to ensure needs were reliably met. The energy, compassion and creativity displayed was extraordinary, and placed huge pressures on leaders.
3. By July 2020, a recurring theme from a wide range of community leaders throughout the country was that many families were only able to make ends meet by borrowing. Often this borrowing was initially from friends and family, but it was increasingly clear that many were managing their budgets by delaying the payment of bills, including rent and council tax.
4. It was clear that for many families this was the only way of making ends meet. Those who worked alongside them, however, expressed grave concern for the families when society reopened again, as they were aware that debt repayments on top of already precarious budgets would be crippling.

Many low-income families face reduced incomes

5. While the most vulnerable families usually received benefits, part-time work (often in the form of a few hours here and there) made an important contribution to the pre-lockdown family budget. These sources of income dried up almost completely.
6. A wide range of data from IFS, Resolution Foundation,[ii] and others[iii] supports the observation that families with low-paid and/or insecure employment saw large drops in income from work. The £20 uplift in Universal Credit was important in replacing some of the lost wages, but it is important to recognise that many of these families were already budgeting on a knife-edge, so any loss of income or increased costs made borrowing unavoidable.

Low-income families' expenditure rose

7. Prior to the pandemic, many families had developed elaborate strategies to make their limited incomes stretch. Often this involved shopping in multiple places, and looking for near sell-by date foods and other remaindered items. Lockdown made this impossible, as well as

making it much more difficult to activate the usual mechanisms of sharing and support from neighbours and the wider community.

8. Church and community leaders reported that the breakdown of these mechanisms placed huge strains on the budgets of the people they supported. It left many (even those who had not experienced a drop in income) little choice but to take on debt.
9. This is backed up by Resolution Foundation research which found that low-income households, particularly families with children, increased their spending over lockdown. The cost of food has risen for many, as families have been forced to use more local and expensive shops to avoid public transport, and having children at home has required higher spending on food and energy. By September 2020, over a third of low-income families with children had increased their spending.[iv]

Unequal build-up of household debts

10. Total household debt has fallen during the pandemic. Beneath the aggregate numbers there is a shift of the debt burden from higher income families to lower income families.
11. Households with higher incomes were often able to save and pay off debts during the pandemic. £9.2 billion of credit card debt was repaid over the first months of lockdown, primarily by more well-off households (IFS).[v] Those who were able to work remotely and were not already in financial distress before the pandemic were much more likely to say that their finances had been positively affected, enabling them to save or pay off debts. One in seven of those who worked from home (primarily office workers in stable jobs) have paid down debts.
12. At the other end of the financial spectrum, three in five financially distressed people say their debts have increased as a result of the pandemic.[vi] The result of this is that a group of lower income families who have taken on debt in the last year have been left with a much heavier and far more unequal financial burden as a consequence of the pandemic.

Scale of increase of household debt amongst low-income families

13. An estimated 11 million people have built up £25 billion of arrears and debt since the start of the pandemic.[vii] The financial impact of the pandemic has fallen hardest on people living on low incomes, as they were more likely to be impacted by reduced income and increased expenses. This left many unable to avoid taking on debt to make ends meet.
    - 4.5 million children now live in a family that is using consumer credit to make ends meet
    - 2.87 million people are at risk of long-term debt challenges[viii]
    - Young people, families with dependent children and BAME people have been particularly at risk of falling behind with bills[ix]
    - The number of those affected who have fallen into arrears or borrowed to make ends meet has increased from 4.6 to 5.6 million[x]
14. Much of the new pandemic household debt is 'priority debt'. In November 2020, StepChange[xi] reported that of those experiencing new 'priority' arrears,
    - one-third were behind on rent
    - two-thirds were behind on council tax

As we recover, how do we combat the inequalities that have been exacerbated as a result of the pandemic?

How has the economic impact of the crisis affected disability, gender, and race inequality?

15. Certain demographics have been more vulnerable to increased debt than others. Research by Citizens Advice shows that young people, people with dependent children, BAME people, disabled people, and renters were particularly at risk of falling behind on Council Tax repayments.[xii] The report found that, in January 2021:
    - 9% of disabled people (compared to 7% of non-disabled people) were behind on their Council Tax bills
    - 16% of BAME people (compared to 6% of White people) were behind on their Council Tax bills
    - 22% of disabled BAME people were behind on their Council Tax bills
16. Similarly, StepChange have found that BAME groups were more likely to be struggling to meet financial commitments before the pandemic *and* more likely to be affected by coronavirus.[xiii]

Regional imbalances

How has the crisis impacted on regional inequality?

17. Data from Citizens Advice shows that on average across England, 7% of people in England are behind on their Council Tax bills. However, this varies by region. For example, 8% of people in Yorkshire and the Humber and 12% of people in London are behind on their bills, compared to much lower rates in the North East, East Midlands, and West Midlands, and South East. [xiv]
18. Recent research from the Centre for Cities shows that Covid savings have mostly accumulated in cities and large towns in the South of England, whereas people in cities and large towns in the North and Midlands are more likely to have been pushed into debt. For example, in Exeter, Aldershot, and Reading, at least 2/3 of neighbourhoods are likely to have been saving throughout the pandemic, whereas fewer than 1/4 neighbourhoods in Hull, Blackpool, and Barnsley saved similarly. Likewise, fewer than 3% of neighbourhoods in Exeter, Southend, and Reading were pushed into debt, compared to nearly 50% of neighbourhoods in Liverpool, Hull, and Bradford.[xv]

Intergenerational inequality and housing

What are the trends in intergenerational inequality, and how has the crisis affected them?

19. Citizens Advice research shows that age is a major factor in determining whether a person will be behind on their Council Tax bills. 14% of those aged 18-29 are behind, compared to just 2% of those aged 50 or over.
20. Likewise, 13% of renters are behind on their Council Tax bills, compared to just 5% of home owners. The skewing of home ownership towards older generations means that this will be disproportionately felt by younger people.[xvi]
21. A StepChange report from November 2020 suggests that financially vulnerable groups have experienced disproportionate difficulty with arrears, including young adults no longer in education or able to access family support and families with dependent children, particularly single parents. It found that those aged 25-34 were particularly at risk of falling behind on bills and borrowing to make ends meet during the pandemic.
22. The report found that of those renters (disproportionately younger people and those with lower overall incomes) who had fallen behind on rent in their survey, 13% had been

informed that their landlord would begin eviction proceedings as soon as possible. [xvii] Increased evictions will only serve to highlight existing inequalities.

Conclusions

23. Early in the pandemic, local church and community leaders made it clear that household debt was being built up by families with no other reasonable choice but to borrow or let bills go unpaid. This debt was concentrated in the families they knew were already struggling before the pandemic.
24. Quantitative data from other sources confirms these observations, indicating that around £25bn of household debt has been accumulated by low-income families throughout the lockdown. This debt is focused on already disadvantaged demographics such as single parents, people with a disability and BAME families. Lockdown debt is also geographically unequal, focused on poorer areas and on younger renters.
25. Government lockdown policies were necessary from a public health perspective, but the household debt that has been taken on is a direct result of the unequal impacts of these policies. Welcome measures such as the furlough scheme and the £20 uplift in Universal Credit have been vital in maintaining adequate standards of living for many low-income families and mitigating the worst effects of rising debt, but have been unable to prevent the rise altogether.
26. The Government has ensured that many of the impacts of lockdown debt have been delayed by measures such as the evictions moratorium and restriction on debt collecting activities. These measures are welcome in providing much needed respite to families in debt, but they delay the effects of the issue rather than offering any long-term solution to the problem. These temporary measures are now winding down, with no comprehensive plan in sight.
27. The new Breathing Space scheme is also welcome, as it gives families time to explore options. For some, this space will be all that is needed. However, for many, a short 'breathing space' does not address the root of the problem and fails to provide the tools needed to comprehensively address household debt.

Policy and regulation

28. Responsibility for policy and regulation of household debt is held in bodies throughout Government including Treasury, DWP, MHCLG (for Council Tax), Ministry of Justice (for enforcement) and Cabinet Office (for oversight around debts to government bodies).
29. This framework appears to be designed around the needs of creditors, rather than around the needs of people who are in debt. We have yet to identify a governmental body that holds the overall brief for household debt, or one that primarily looks at the issue from the perspective of the ordinary borrower.
30. The lockdown created a generalised increase in debts across a wide variety of lenders, regulated by different arms of government. This arrangement appears to make joined up policy-making in the interests of the ordinary debtor very difficult to arrange.

Incomes

31. Local church leaders expressed concerns about rising levels of debt. This was because, in their view, the borrowing that families were being forced to undertake was leading to debts that would be unrepayable, even if incomes went back to pre-pandemic levels.
32. This anecdotal view is supported by the StepChange's indication that over 2.5 million families could be driven into long term debt problems by the pandemic. Citizens Advice reports that the average time it takes the people they help with Council Tax debt to repay

their arrears using all of their available income after covering their living costs would be 6 years.

33. Improving incomes is important. However, the scale of Covid-debt in comparison to income (after living costs) is, in many cases, huge. This means that realistic increases in income will not compensate for the huge burden of Covid debt.
34. We note with dismay that the proposal to reduce Universal Credit by £20 a week this September will hit the families most affected by Covid debt the hardest, making these debts even less affordable.

Reset the Debt

35. This response is written on behalf of three Christian church denominations, all of which are supporters of the Reset the Debt campaign.[xviii]
36. The campaign is calling for the chancellor to set up a Jubilee Fund to pay off unaffordable debts accrued by low-income households over the pandemic period. StepChange data indicates that approximately £5bn would be needed to cover such debt.
37. The fund would pay grants to assist households which had sought advice for Covid debt from approved debt councillors. Payments would be either to local authorities and social landlords or direct to families via Universal Credit.
38. It is recognised that this would be a bold policy, but the Reset the Debt campaign is convinced that the unusual circumstances of the pandemic necessitate it. The unequal build-up of debt means that those who entered the pandemic in difficult circumstances will emerge from lockdown further disadvantaged and weighed down by debt. Increased debt advice is welcome, and will make the increased and unequal burden of debt easier to manage, but it does not fully address the problem. Only targeted grants to write off debt can address the underlying inequality.
39. Because of the unequal distribution of lockdown debt, such a policy would assist in addressing the regional, generational, racial and gender inequalities that have been magnified by the pandemic. It is well understood that problem debt has long-term health and economic consequences, preventing families from being able to take opportunities such as moving to new employment.
40. If addressing economic inequalities caused by the pandemic and offering families more equal opportunities as we exit from the pandemic period is a priority, then a comprehensive plan to address the problem of unrepayable Covid household debt is necessary.

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[iv] Resolution Foundation, Pandemic Pressures, Why families on a low income are spending more during Covid-19, 11 January 2021

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[xvii] StepChange (June 2020)
[xviii] Reset the Debt, resetthedebt.uk (2021)

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