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Introduction

Standard Life Foundation is committed to running a series of six Tracker surveys to assess the impact of the COVID-19 pandemic on UK households. Two waves of data have been collected (in the second week of April and second week of May) and two reports have been published, with a third due for publication in the first week of July[1]. These reports have assessed:

- The immediate effects of the lockdown on households' finances and financial well-being
- The effectiveness of the CJRS and SEISS in protecting household incomes
- An up-date of the effect of the lockdown and financial prospects for households over the next three months

This submission draws on all of these and addresses three of the Committee's questions:

- How effective have the CJRS and SEISS been in maintaining employment and reducing job losses?
- What gaps in coverage still remain and are changes required to increase their effectiveness?
- What will be the impact on inequalities within society and how should the Government address inequalities that may have been exacerbated by the crisis?

How effective have the CJRS and SEISS been in maintaining employment and reducing job losses?

On the whole, these schemes have been fairly effective, although there is evidence that the SEISS has been the less effective in keeping households out of financial difficulty than the CJRS – largely because of the wait before the first grants were paid.

Together, the CJRS and SEISS have protected the earned incomes of 8.7 million of the UK's 28 million households but there are two groups that give particular cause for concern:

- 2 million households that have had their incomes only partially protected by either CJRS or SEISS and so have experienced a fall in income and anticipate a further fall in the coming months; half of whom think it very likely they will be hit by job loss in the coming months and half that they will see a further fall in their earned income
- 3 million households that have experienced an earned income loss as a direct result of the COVID-19 pandemic, but were not covered by either scheme

Households with earned incomes covered by the CJRS or SEISS

At the beginning of May, three in ten (equivalent to 8.7 million) households had their earned income protected (at least in part) by either the CJRS or the SEISS – or they expected their incomes to be covered in this way.

About half of these (15 per cent of all households – 4.2 million) had not suffered an income loss[2] as a result of the pandemic and almost all of these had their earnings covered by the furlough scheme.

[1] https://www.standardlifefoundation.org.uk/our-work/coronavirus-finance-tracker2/coronavirus-finance-tracker/april
https://www.standardlifefoundation.org.uk/our-work/coronavirus-finance-tracker2/coronavirus-finance-tracker/cfit-june

[2] Households which had experienced a loss of income included those where the respondent or their partner had either: (a) lost all their earnings, through being temporarily laid off work or made redundant or ceasing to trade as self-employed; or

Given the stability of their earnings, it seems very likely that their employers were, themselves, paying the 20 per cent of salary not covered by the furlough scheme. We refer to these as '*Protected'* households in our report.

The remainder (16 per cent of all households – 4.5 million), *had* experienced a loss of income. Four in ten (41 per cent) of these '*Partially Protected*' households had submitted (or planned to submit) an application to the SEISS. Three quarters (77 per cent) had earnings covered by the furlough scheme, but given their income loss it would seem that their employers were not supplementing the money received from the Government to pay them a full wage. Two in ten (18 per cent) reported being covered by *both* schemes, suggesting that they had had more than one shock to their household income.

Both groups were disproportionately in full-time work, in manual jobs (including skilled, semi-skilled and unskilled ones) and worked in the manufacturing, transport and construction sectors. The key differences between them was that the *PartiAlso ally Protected* households included many more self-employed people and people doing contract work or finding work through an agency or online platform (often referred to as gig workers). They also included above-average numbers of households with the householder employed in the hospitality or arts and entertainment sectors. And compared with the *Protected* households fewer worked in wholesale or retail jobs.

On the whole, the estimated 4.2 million *Protected households* were reasonably secure financially currently and did not expect to lose their job in the coming months. In other words, the furlough scheme had not only helped their employer to protect their income at the present time, but also seemed likely to protect their job in the medium term too.

The same was not always true for the 4.5 million *Partially Protected* households. More than four in ten of whom (45 per cent) were currently either *struggling to make ends meet* or were *in serious financial difficulty*.[3] Moreover, almost four in ten (36 per cent or 2 million householders) of them thought it very likely that they would lose their job (19 per cent) or suffer a further loss of earned income (18 per cent) in the next three months or so. And slightly more (44 per cent) were in the bottom two deciles on our measure of future financial prospects. Levels of current financial wellbeing and future financial outlook were much the same whether they had earned income covered by the CJRS or the SEISS. In other words, Government support seemed to have given these 2 million households some temporary, and partial, financial relief but this could be relatively short-lived as these schemes are gradually withdrawn. However, for the remaining 2.5 million Government support could help to sustain their earned income in the medium term at least.

In summary, of the 8.7 million households that had earned income protected by either the CJRS or SEISS, 6.7 million could have their jobs protected in the medium term, albeit with a reduced income and associated financial difficulties for 2.5 million of them at the current time. But around 2 million had not only suffered an immediate income loss but believed that they were also very likely to suffer further income losses in the next few months, with around 1 million anticipating losing their job and a further 1 million having their hours or wages cut.

(b) had seen their earnings / self-employed income fall substantially (based on their own definition of substantial).

[3] This was based on a composite score of financial wellbeing, using a nine detailed questions about the levels of financial stress experienced by a household and the financial reserves they had to deal with financial shocks. This was used to segment the UK population into four broad groups, of which those *in serious financial difficulty* had the lowest scores and the ones *struggling to make ends* meet the second lowest

What gaps in coverage still remain and are changes required to increase their effectiveness?
A further one in ten households (11 per cent, equivalent to three million) reported a reduction in their income as a result of the pandemic, but their earned incomes were not being covered (or likely to be covered) by either the CJRS or the SEISS. We have called these households '*Unprotected',* in the sense that they were not covered by either of these assistance schemes. However, it should be noted that one in ten of them (10 per cent) had received Government support through a claim for Universal Credit (a higher proportion than in any of the other three groups).

They appeared to be a diverse group. Like those who were *Partially Protected*, four in ten (38 per cent) had received income from self-employment in February (prior to the lockdown) and a further two in ten (19 per cent) from contract work or work found through an agency or online platform (a minority on a self-employed basis). They included disproportionate numbers of households with a householder working in the construction, education or arts and entertainment sectors. A relatively high proportion (30 per cent), were in the 'AB' social grades, and over half (54 per cent) had a degree – considerably higher than the *Protected* and *Partially Protected* groups.

There are several reasons why employees had failed to have their earnings covered by the furlough scheme. These included: job loss and working reduced hours or on reduced pay, but also new employees that were not already on the payroll on the cut-off date of 19 March. In other words, they fell outside the eligibility criteria. Self-employed householders who fell outside the SEISS included those who: were deriving less than half of their income from self-employment; had trading profits that were above £50,000 in previous years, or were newly self-employed and had not, therefore, filed the tax returns needed to qualify.

What will be the impact on inequalities within society?

Although the economic effects of the COVID-19 pandemic and associated lockdown have been felt by a large proportion of UK households, some groups have been more adversely affected than others, and in ways that could widen inequalities in society.

The immediate effects could already be seen in early April, at the time of our first Tracker survey. In the first three weeks after the UK government introduced the 'lockdown', an estimated 7 million households (a quarter of all households in the UK) had lost either a substantial part or all of their earned income as a consequence of the COVID-19 crisis. Government support has, as we see above, gone some way to mitigating these income losses.

However, the immediate consequences of the crisis for UK households could be seen in the large numbers (28 per cent) who were experiencing financial difficulties. An estimated 3.1 million households (11 per cent) were *in serious financial difficulty* and a further 4.6 million households (17 per cent) were clearly *struggling to make ends meet*.[4] Anxiety about money was widespread, with half of all householders saying that thinking about their financial situation made them anxious. These proportions had not changed by the time of the second Tracker survey in early May, but there was evidence that the financial problems had deepened from some of those in *serious financial difficulty.*

Who has been disproportionately affected?

As noted above, self-employed people and those working in the gig economy have been badly hit For example, 14 per cent of households *in serious financial difficulty* or *struggling to make ends meet* relied on earnings from the gig economy – including contract work and work found through an agency or on-line platform such as Uber or Deliveroo. This is almost double that found among all UK households (8 per cent). On the whole, it is manual workers (both skilled and unskilled) who have borne the brunt of the effects.

The types of household most likely to be *in serious financial difficulty* or *struggling to make ends meet* or were:

- families with dependent children and lone parents, in particular (around four in ten compared with a quarter of all UK households)
- social tenants, and (to a slightly lesser extent) private tenants (six in ten compared, double the level among all households)
- householders with a health problem or disability that had lasted (or was expected to last) more than 12 months and limited their day-to-day activities a great deal (two in ten compared, again double the level among all households)

And they included large concentrations of both new Universal Credit claimants since the beginning of March – an also of existing claimants. Over half (53 per cent) of households *in serious financial difficulty* were claiming wither in-work or out-of-work benefits at the beginning of May as were one in three (28 per cent) of those *struggling to make ends meet.*

The financial outlook was also worst for all these groups of households and workers.

International comparison

A comparable survey has been conducted in Norway[5] and this shows that, at the beginning of April, the Norwegian population was faring far better. The proportion of Norwegian households *struggling to make ends meet* or *in serious financial difficulty* was less than a third of the UK level (8 per cent compared with 28 per cent). The extent the lockdown at that time was very similar in the two countries and the nature of the government financial support to households directly affected by the crisis (the use of a furlough scheme and self-employed grants was very similar, although in Norway both schemes had already been operational for a while, in contrast to the UK, where neither had come into operation at the time of the survey). But most of the explanation for the difference between the two countries almost certainly lies in three main factors: the smaller proportion of Norwegian households who were either self-employed or working in the gig economy (5 per cent, compared with 21 per cent in the UK); the higher level of financial resilience of Norwegian households before the crisis (only 11 per cent had no savings compared 22 per cent in the UK) and the far higher amounts of money paid to people claiming social security and unemployment benefits. Norwegian unemployment benefit, for example, is paid at two-thirds of final salary.

How should the Government address inequalities that may have been exacerbated by the crisis?

A number of policy implications stem from our work and it is possible only to highlight these and not to discuss them in detail.

With many people already having lost their job, or ceased trading as self-employed, and more likely to do so in the coming months, there will be a real need for policies relating to skills development and job creation for those affected. Moreover, this crisis has shown just how insecure work in the

[5] https://fagarkivet.oslomet.no/nb/item/asset/dspace:18355/SIFO-Rapport%205-2020%20Hvordan%20g%C3%A5r%20det%20med%20folks%20%C3%B8konomi%20i%20koronatider.pdf

‘gig economy’ can be, highlighting a need to look at the types of contract that many of these workers have and whether this sector of the economy needs closer regulation.

As the CJRS scheme draws to a close, some employment sectors will be hit harder than others if they are not able to operate normally as the taper starts. There, therefore, is case for a more nuanced approach to job retention in these sectors.

The adequacy of out-of-work benefits is questioned by our research findings, as many of the households that relied on Universal Credit for part or all of their income were experiencing financial difficulty, despite the temporary increase in the payments. The consequences of returning to the former rates would be considerable.

With families with children particularly badly affected, we can expect to see a considerable growth in the numbers of children in poverty, with policies needed to mitigate this, including an increase in the level of child benefit as the top priority plus the removal of the benefit cap and the two-child limit. It is also significant that the temporary increase in Universal Credit rates takes no account of family size, and families with children have received exactly the same increase as single adults.

And finally, the financial consequences for households affected by income loss will be faced by them for some time. Payment holidays for mortgages and unsecured credit can only be a short-term solution, as can forbearance for rent or arrears on other household bills. Longer-term solutions need to be found. This has implications for the provision of debt advice, which will struggle to meet the additional demand that will build up in the coming months. It is, therefore, welcome that HMT has announced that it is providing a grant to the Money and Pension Service of £37.8 million, plus £5.9 million to the devolved governments of Northern Ireland, Scotland and Wales, to fund the provision of debt advice and other support for people experiencing financial difficulties as a result of the COVID-19 pandemic. This situation needs to be kept under review.

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