

Closing the gaps

Additional steps to support household finances through Covid-19

20 April 2020

1. Introduction

The Covid-19 emergency has reached into almost all areas of people's lives and, for many, the financial impact has ranged from severe to devastating.

It has now been a month since the Chancellor announced an emergency package of measures to help household finances, including the Job Retention Scheme. Since then, a host of further announcements have followed, as Government and regulators seek to limit the impact of the income shocks faced by both households and small businesses.

The package of support now available is unprecedented – but still incomplete. The sheer scale of the financial impact of Covid-19 demands further scrutiny on the accessibility and effectiveness of this support – and urgent attention on the groups of people at risk of falling through the gaps in the help available.

The Money Advice Trust provides free debt advice over the phone and online to hundreds of thousands of people every year. We run National Debtline – which helps individuals with problem debt – and Business Debtline – the UK's only dedicated free debt advice service for self-employed people and other small business owners.

Our services are already seeing the acute impact that Covid-19 is having on people's finances – many of which were already precarious even before the outbreak hit. In this briefing, we set out the emerging insights gathered through our services in the last month – and the steps needed to close the gaps in the Government's response.

STALL COUNCIL TAX BILLS

PROTECT THE SELF-EMPLOYED

support renters

& FIX
UNIVERSAL CREDIT

2. Summary of recommendations

Based on the impact we are already seeing on those contacting us for help, we are asking the Government to urgently address the following gaps in its policy response.

Stall council tax bills and pause arrears collection for three months

The Government should provide additional funding to local authorities to enable them all to offer payment holidays and other forbearance on council tax bills, as well as directing all local authorities to pause arrears collections and enforcement activity (contact, as well as visits) for a minimum of three months (*see page 6*).

Protect self-employed people experiencing immediate hardship

The Government should create a dedicated hardship fund for self-employed people experiencing immediate hardship while they await help from the Income Support Scheme, and to help those not eligible. In the absence of a dedicated fund, councils should consider ring-fencing an element of the existing hardship funding specifically for residents who are self-employed. HMT should also ensure income support is available for owner-directors who receive their income mainly through dividends (*see page 8*).

Support renters who are unable to meet their rent payments

The Government should help private tenants to meet their rent payments by increasing the rate for Local Housing Allowance to cover 50% of average market rents in each local area. Funding for Discretionary Housing Payments should also be increased (*see page 10*).

Fix Universal Credit by ending the five-week wait

Crucially, in addition to closing these gaps, the Government must act to end the five-week wait for Universal Credit payments, to get help fast to the huge numbers of people falling back on the benefit system. All remaining deductions should also be suspended (*see page 11*).

3. Recap of Covid-19 financial support introduced so far

Employment support

- Coronavirus Job Retention Scheme.
- Self-employment Income Support Scheme.

Support for small businesses

- Coronavirus Business Interruption Loan Scheme.
- Business rates holiday for certain businesses.
- £10,000 grants for eligible small businesses (£25,000 for hospitality, retail & tourism).

Support through the benefits system

- Year-long increase of £20 a week to the standard rate of Universal Credit and the basic element of Working Tax Credit
- Local Housing Allowance rate increased to cover 30% of average market rents.
- Suspension of the self-employed Minimum Income Floor in Universal Credit.

Hardship funding

- £500 million hardship fund via local authorities in England, who have been directed to largely channel this support through Council Tax Support schemes.

Tax and benefit debts

- A three-month suspension of recovery action for debts owed to the DWP, specifically Universal Credit, and legacy benefit, overpayments, tax credit debts and social fund loans, but not Universal Credit advances, or deductions for other debts.
- Deferral of self-assessment payments for self-employed people to January 2021.
- Deferral of VAT payments until after 30 June 2020.
- Extension of the HMRC Time to Pay service for those struggling to keep up with repayments.

Housing

- Three-month mortgage payment holidays, delivered by lenders.
- Three-month pause on rent evictions (six months on some tenancies in Scotland), and an extension of the minimum notice period on tenancies to at least 3 months in the period between 26 March and 30 September.
- Suspension of all housing possession action until at least the end of June.

Consumer credit

- Temporary payment freeze on credit cards and loans for up to three months, and proposed payment breaks on other consumer credit borrowing.
- £500 interest-free overdraft for customers with existing arranged overdrafts who have been financially affected by Coronavirus.
- Consumers using temporary payment freezes will not have their credit file affected.

Help with essential bills (energy, water, telecoms)

- Debt repayments and bill payments being reassessed and reduced if needed.
- Pauses on most collection and enforcement activity.
- No disconnections for energy credit meters during the period of the outbreak.
- Additional help to ensure those on pre-payment meters remain connected, including providing discretionary credit.

Taken together, this represents a significant package of measures and the Government, firms and regulators should be congratulated for acting swiftly. In mid-March, the Money Advice Trust and StepChange Debt Charity set out joint proposals for a Rescue Package¹ to support household and small business finances through Covid-19. We are pleased to see that many of the priorities for action highlighted in our proposals have since been addressed. For many people, the help they get now will go a long way to protecting them against longer-term financial difficulty.

However, as we are already seeing through our services, there are still a significant number of people who fall through the gaps in support and we are concerned about people that, even with access to some of this support, remain at risk of experiencing significant financial hardship. The impact on people who were already in problem debt as the UK entered the Covid-19 crisis is particularly concerning.

¹ Money Advice Trust and StepChange Debt Charity, *Proposal for a rescue package to support household and small business finances through Covid-19*, 19 March 2020

4. What our debt advisers are hearing

For the past month, we have continued to provide our National Debtline and Business Debtline advice services, with all advisers working from home. Our advisers are speaking to people every day about their finances, and many more are seeking support through our website, including our dedicated Coronavirus advice factsheets.² By monitoring and analysing the impact of Covid-19 on those contacting us for help we have gathered unique insight into how household and small business finances are being affected, as well as how effective and accessible support is proving to be.

The impact on debt problems is already being felt, but the full effects are still to come

For some people, the Coronavirus outbreak has been a tipping point into debt. For others, it is exacerbating their existing debt problems and making them harder to deal with. For many more we expect the full impact is yet to come, with people desperately seeking support now in an effort to stop themselves and their family falling into debt. If support measures do not reach or work well for these people, or if help is removed too soon, we could see a sudden and very significant increase in the number of people experiencing severe financial difficulty.

Many people, and those who are self-employed in particular, have experienced a total drop in income

The introduction of social distancing measures meant that many people, and particularly those who are self-employed, saw an almost total drop in income, often overnight. Many have little or no savings to get them through and have no idea how they will pay their bills.

“As a taxi driver, my work has completely disappeared. My partner is in the extremely vulnerable group so I can’t do taxi work for fear of catching and passing anything to her. I was already struggling financially prior to Covid-19 as recently I had surgery for cancer so was getting back up to speed work wise, now this.”³

“We are a small family partnership running a pub/hotel and we have had no income since 17 March. We are a tourist led business and our busy time was just about to start. We have received no help from anybody and our suppliers are still charging us - even to suspend contracts they are applying admin charges for as long as the contract is suspended.”

People think that government support will help, but have nothing to live on while waiting for payments

Our advisers report that people they are speaking to are positive about the Job Retention and Self-employment Income Support schemes. People who will be eligible are saying they think the schemes will help them meet their living costs and pay their bills, when the payments come through. However, the delay in payments is causing a huge problem for people. We are hearing from many who have no idea how they will pay their bills in the coming weeks and months as they wait to receive support payments. Many are being advised to apply for Universal Credit, but there remain issues with the five-week wait and not all are eligible for the benefit.

“We can survive one month - then we are done - we need emergency help now. Our dedicated staff, on minimum wages will be on zero wages if we cannot access such support. Our main income was from our shop. It has all gone!”

² See: www.nationaldebtline.org and www.businessdebtline.org

³ All quotes in this document are taken from an instant survey of people using the National Debtline and Business Debtline websites. Insight as a whole is based on actual calls we have received and feedback from advisers about the circumstances of those who have contacted us for help by phone and webchat.

Many self-employed people are also concerned that they will not be eligible for the Self-employment Income Support Scheme.

“We are partners in our own training company (Ltd.), with no other employees. We have cancelled all of our training for the foreseeable future. Our income will completely run out by June and I don’t think we’re eligible for the government schemes.”

Keeping up with council tax payments and other essential bills is a big worry for many

Many people contacting us for help say their primary worry is being unable to cover their essential bills, such as their mortgage or rent, council tax, energy and water bills. While some sectors have schemes that apply across the board, in other sectors there is a greater variation in approach. We are particularly seeing this when it comes to council tax. Whether or not someone can get a payment break, and what the consequences of non-payment are, varies significantly between local authorities. This is causing anxiety for people who are struggling to make their payments.

“I haven’t worked for three weeks, because I have symptoms of Coronavirus and I’m self-isolating. I am still suffering from a symptom of Coronavirus and in accordance with government advice, I must continue my self-isolation, so I have real problems paying my bills.”

Many renters are at high risk as the response from landlords can differ significantly

People living in rented accommodation were already over-represented amongst debt advice clients even before Coronavirus hit. With rental payments often the largest, single monthly cost many households face, renters experiencing an income shock due to Coronavirus are at high risk of falling behind.

“I’m a private renter in East London. Due to loss of work/income, I will go into rent arrears in less than a month, even with Universal Credit, as I’m subject to the benefit cap. I’ve asked my landlord if I could pay a reduced (by 20%) amount of rent for the next 3 months, and am waiting to hear back.”

Difficulties and delays in getting through to creditors are creating worry and anxiety

Our advisers are speaking to many people who have been trying to get through to creditors to explain their circumstances and seek specific help, but who have been unable to. While we understand that creditors, councils and government departments are facing unprecedented demand from people trying to contact them, the inability to get through is leaving people anxious. People do not feel they have reassurance about what will happen if they miss a payment, or whether they are eligible for support.

“I can’t get to talk to the lender as they are too busy, I need to have a freeze on my payments which are due this week but no money will be in the account!”

People’s circumstances are changing quickly, meaning many are having to delay decisions about dealing with debts

Many people were struggling with problem debt even before Covid-19 hit, but the impact of the outbreak is making it harder for people to deal with their debts. With people’s circumstances being so uncertain – particularly as people wait to see what will happen with their job or whether they will get support through government schemes – it is hard for people to commit to longer-term solutions to getting their finances back on track. People already in solutions, such as Individual Voluntary Arrangements (IVAs) and Debt Management Plans (DMPs) may find it hard to keep up their payments, putting their way out of debt at risk.

5. How the Government could close the gaps

The insight from our services suggests that while many of the support measures are positive, households still face a number of challenges that risk tipping them into serious financial difficulties. In this section, we set out **three key gaps** we have identified and how these need to be addressed⁴, in addition to the urgent need to **end the five-week wait for new Universal Credit claims** that this crisis has made even more pressing.

STALL COUNCIL TAX BILLS

Stall council tax bills and pause collections and enforcement action on arrears for three months

The Covid-19 emergency hit just as people were receiving their council tax bills for 2020/21. After housing costs, this can be one of the biggest essential costs that households have to pay each month. Even before the outbreak, many people were already struggling to pay their council tax. Almost 30% of National Debtline callers last year had council tax arrears and the most recent official figures available show £3.2 billion was owed in council tax debt in England alone.⁵ The number of people falling behind on their council tax payments is only likely to grow as the financial impact of Coronavirus hits people's incomes.

Local authorities in England have been given £500 million for hardship funds and directed to use this to reduce the council tax bills of those eligible for Council Tax Support, amounting to a reduction of £150. This support is welcome. However, many of those who have lost income due to Coronavirus will not already be receiving Council Tax Support, so are unlikely to be able to access this help. Some councils are using some of their hardship funds for discretionary schemes, but there are also questions over whether this level of funding will be enough to help everyone who needs it.

There are already concerns about the number of people who may be defaulting on their April council tax payments (although as there is no central reporting of monthly defaults it is impossible to put a number to this). People missing their first payment is particularly concerning as the Council Tax (Administration and Enforcement) Regulations 1992 state that two weeks after a missed payment people can become liable for their entire annual bill.

Some individual councils have announced additional forbearance for people struggling to pay their council tax, such as pausing collections activity or offering payment holidays until June. However, these practices are far from consistent and vary greatly between councils. Bailiff visits for council tax arrears, which continued for several days after the announcement of social distancing measures, have now been paused on public health grounds, but other contact from bailiffs chasing people for payment continues. In some cases contact is still being made by bailiffs threatening future visits, despite the pause.

⁴ Note: This is not intended to be a comprehensive analysis of all the possible gaps in government support, but rather presents three pressing issues based on the experiences of the people National Debtline and Business Debtline have been hearing from over the last month.

⁵ Ministry of Housing, Communities and Local Government, *Collection rates and receipts of council tax and non-domestic rates in England 2018-19*, 26 June 2019

Without clear, consistent and binding guidance from the Government that applies across all councils, and additional central government funding, many people could still face unreasonable pressure to pay and there will continue to be high levels of anxiety among people over how they will be treated if they cannot pay.

With local authorities under significant pressure and with already stretched resources being redirected to cope with the Covid-19 emergency, the Government needs to step in and provide additional help.

- Central government should provide additional funding to local authorities in England and Wales to enable them all to **offer payment holidays and other forbearance on council tax bills in a consistent manner**. Funding should be provided for similar payment holidays on council tax in Scotland and rates in Northern Ireland.
- The Government should amend the Council Tax (Administrations and Enforcement) Regulations 1992 to **remove rules that mean people become liable for their whole council tax bill after one missed payment**.
- The Ministry of Housing, Communities and Local Government should issue clear guidance to local authorities in England and Wales **that collection and enforcement activity on council tax arrears, including all bailiff contact (not just visits), should be suspended** for a minimum of three months.
- In addition to, or in the absence of, action from central government, **councils should consider new ways of helping households with council tax bills within existing rules**. For example, most local authorities require council tax payments to be made in ten monthly instalments with no payments being taken in February and March, at the end of the financial year. Local authorities could consider following the example of some councils who have already taken the step of automatically moving these payment-free months for the 2020/21 tax year to this May and June.

Protect self-employed people facing immediate hardship

Coronavirus is now the most common reason for financial difficulty among people contacting our Business Debtline service. With many lacking sufficient savings to get through the next three months, the self-employed people we are hearing from desperately need help now.

Once up and running, the Self-employed Income Support Scheme will be a lifeline for millions of self-employed people whose businesses have been hit harder by the Coronavirus outbreak than many could ever imagine. However, we are already seeing that having to wait until June for payments to come through is causing real hardship for many callers to Business Debtline. The Institute for Fiscal Studies estimates that, without additional help, almost half of self-employed people – around 2.5 million people – will see their family income fall by at least 40% between March and May if their work has dried up.⁶

“I am a personal trainer who leases a studio to work from. I have spent several thousand pounds building the business and now have zero income. I have a young family with three children.”

The Government has suggested that self-employed people in this situation should claim Universal Credit. However, not all will be eligible and those who are eligible still face a five-week wait for payment, or will have to take on further debt in the form of an advance payment.

One group of small business owners that form a particularly significant omission from the Government’s support measures thus far are owner-directors, who receive most of their income through dividend payments. Around a third of callers to Business Debtline are directors of small limited companies and their current support options are limited.

Owner-directors are not eligible for the Self-employment Income Support Scheme, and while the Coronavirus Job Retention Scheme allows them to furlough, the 80% income support provided through this scheme only applies to income they receive through PAYE (at most, £800 per month), and not to income received through dividends. This has proved a contentious issue due to the lower tax rates that apply to dividend income, and the real technical challenges of identifying the dividend income that could be treated as eligible.

Urgent action is needed to protect self-employed people from immediate hardship between now and payments arriving in June at the earliest, and to help those who will not be eligible for the Self-employed Income Support Scheme once it is established.

- The Government should **create a dedicated hardship fund for self-employed people**, completing the support already announced. This should enable fast, cash **payments to self-employed people struggling to pay for essentials** while they await help from the main Self-employed Income Support Scheme, as well as providing a route to support for those not eligible for the main scheme.

⁶ Institute for Fiscal Studies, *Income protection for the self-employed and employees during the coronavirus crisis*, 2 April 2020

- One way of achieving this would be to pass additional funding to local authorities in England (with corresponding amounts for devolved governments in Scotland, Wales and Northern Ireland) to enable them to **dedicate portions of their Coronavirus hardship funds specifically for self-employed residents.**
- In the absence of action from central government, **local authorities should consider following the example of some councils which have already ring-fenced a proportion of their existing hardship funding for self-employed residents.** Regardless of how this is funded, local authorities will need to ensure eligibility is expanded beyond those already in receipt of Council Tax Support, in recognition of the significant income shocks self-employed people have faced.
- HM Treasury should bring forward plans **to ensure that owner-directors have access to income support based on their whole incomes, including income received through dividends and not just PAYE.** In recognition of the different tax treatment of this income, a decision could be taken to set the level of support on this income at less than the 80% that applies elsewhere if felt appropriate.

Support renters who are unable to meet their rent payments

For many households, housing is the biggest single cost they face each month. Keeping up with these payments during the Covid-19 outbreak is one of the most significant worries our advisers are hearing from callers to National Debtline and Business Debtline.

Welcome protections for mortgage holders was one of the first aspects of the support package to be announced and the provision of mortgage payment holidays by lenders is very welcome. The fact that over 1.2 million payment holidays have already been put in place (equivalent to 1 in 9 mortgages in the UK)⁷ shows the scale of the number of people having difficulty meeting their housing costs due to Covid-19.

Renters, however, have not received the same level of direct support so far. The Government has helped indirectly by extending mortgage payment holidays to Buy-to-let Landlords, and says that it “would encourage tenants and landlords to work together to put in place a rent payment scheme” where tenants are struggling to meet rent payments.⁸ This less direct approach is particularly concerning given analysis shows renters are more likely to have been working in the sectors most affected by social distancing measures.⁹

To help people meet the costs of private rented accommodation, the Government has acted to increase the rate of Local Housing Allowance (LHA) – to cover 30% of average market rents in each local area. This step was welcome. However, not everyone will feel the benefit of this measure,¹⁰ and many people – especially new claimants – will have rental costs that are higher than even the increased LHA rate. Without additional help, we could see people very quickly building up significant levels of rent arrears and left at risk of losing their home in just a few months time.

The Government has acted on the issue of evictions. The extension of eviction notice periods to three months in England and Wales (and to six months for some tenancies in Scotland), as well as the pause on all on-going housing possession action within HMCTS means no one should be evicted during the Covid-19 outbreak period. This is vital, not just for people’s finances but also for public health reasons.

However, it is important to note the limits of this protection. Notices to quit can still be issued during the period if people cannot meet their rent payments, even if there is then a delay in the actual court process of eviction. Without proper payment holidays, we could see a significant increase in evictions as soon as courts reopen and the emergency legislation and rules expire.

The Government needs to act now to support renters in both the private and social housing sectors, and avoid a rent arrears crisis in the wake of the Covid-19 outbreak.

- The Government should **increase the rate of Local Housing Allowance (LHA) to cover 50% of average market rents in each local area, to help people meet their rent payments during the outbreak.**

7 Data from UK Finance, 14 April 2020

8 MHCLG, *Government support available for landlords and renters reflecting the current coronavirus outbreak*, 26 March 2020

9 Resolution Foundation, *Housing Outlook Q2 2020*, April 2020

10 Ibid.

- The Government should **help renters to secure forbearance from private landlords** by acting to raise awareness of tenants' rights and options during the Covid-19 crisis. **The Government should work with buy-to-let mortgage lenders** to ensure that landlords able to access payment breaks are pro-actively contacted and encouraged to explore this option with their tenants.
- The **Government should increase funding to local authorities to enable them to offer an increased number of Discretionary Housing Payments** to help those struggling to cover their rent due to Covid-19. This will also help support tenants whose landlords cannot offer a payment holiday (for example because they do not have a mortgage and rely on their rental income to cover their own essential costs).



Fix Universal Credit by ending the five-week wait

Crucially, in addition to closing these gaps, the Government must act to end the five-week wait for Universal Credit payments, to get help fast to the huge numbers of people falling back on the benefit system due to the Covid-19 outbreak.

Addressing the five-week wait for payments and other structural improvements have long been needed, but the Covid-19 outbreak has made these changes even more pressing – and this would complement the Government's welcome measures to increase the Universal Credit Standard Allowance, and remove the Minimum Income Floor in light of the outbreak.

The Government should act on growing calls for action to tackle the five-week wait in Universal Credit to help people through the Coronavirus crisis (and beyond), and broaden the range of deductions that have been suspended.

- The Government should **convert Universal Credit advance payments from loans into non-repayable grants** for the duration of the Covid-19 outbreak. This should apply both to new claimants and retrospectively to existing claimants, and **should be offered by default**.
- The Government should **broaden the range of Universal Credit deductions that it has temporarily suspended** to include the recovery of existing advance repayments, and deductions to repay council tax, rent, energy and water arrears, for a period of three months.

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