

# Proposal for a rescue package to support household and small business finances through Covid-19

19th March 2020

We welcome the Government's bold measures during this unprecedented period to support the finances of businesses and households. Support to preserve jobs and employment income now is better than dealing with hardship and unemployment later.

However, this action is unlikely to be enough by itself. **Households need significant, direct financial support. Without it, many will find themselves dragged into problem debt.**

As an urgent priority, we believe that:

- **Government needs to get direct cash support to households as quickly as possible, sufficient to replace the income lost as a result of the Covid-19 crisis.**
  - This could be done through direct cash grant payments to affected households, ensuring that universal credit advances are made available as grants and expansions of available hardship funds.
  - There should be a particular focus on those who have already seen their income fall, such as the self-employed and those in insecure work or who have been temporarily laid off from hospitality and retail businesses.
- **Government, regulators and providers should work together to ensure people who fall behind on essential bills and credit commitments are protected, with immediate pauses on all forms of collection and enforcement activity, including deductions from benefits to repay debt.**
  - The recent announcement on protecting renters against eviction is welcome and very important. We look forward to measures coming into effect as soon as possible.
- **Local authorities, housing associations and landlords should be supported to offer payment holidays – for example on rent and council tax – to those who need it, funded by central government.**
- **As debt advice charities, we are doing everything we can to help people during this time. To support these efforts, we ask for additional funding to 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 Covid-19.**

## Introduction

As debt advice charities, collectively helping millions of people in financial difficulty every year, we understand how quickly financial worries can spiral into serious debt problems without targeted help and intervention.

Unfortunately, the scale of the financial shocks ahead for households and businesses means we expect debt problems to increase significantly. Currently, households are exposed to two main risks. Firstly, those who are ill or self-isolating are at risk of losing vital income from wages if they are not able to access adequate sick pay provision. Secondly, there is a much wider risk around how the economic shock of Coronavirus, particularly social-distancing measures, affect individual households and small businesses. People are at risk of being temporarily or permanently laid off; while self-employed people face having work and contracts cancelled. Small business owners may see trade dry up, and face making difficult decisions about their finances.

Recent announcements have focused on helping businesses, and this is of course welcome as support for businesses can help protect people's jobs and incomes. We have also seen moves to speed up access to Statutory Sick Pay (SSP) and Employment and Support Allowance (ESA). The announcement that renters will be protected from eviction is very welcome.

However, this action is unlikely to be enough by itself. **Households need significant, direct financial support. Without it, many will find themselves dragged into problem debt.**

This is likely to be especially true for renters, self-employed people and those in insecure employment – who remain hugely vulnerable to falling into financial difficulty.

There is action that can be taken now to reduce this risk, and protect people financially during this period. As debt advice charities, we will do all we can to provide support to those who need us during this period. However, we also need strong action from government, regulators, creditors and providers. In this document, we set out our suggestions for what this could look like, based on our shared experience of supporting people in financial difficulty.

## Assessment of measures so far - which groups remain most at risk?

Decisive action by the Government and Bank of England to support businesses through the anticipated economic downturn is important, and should help protect people's jobs and incomes. Additional lending, business rates relief and grants for the smallest businesses are all welcome measures.

However, much of the action to date has focused on small businesses with premises in the retail and hospitality sectors. We remain concerned about the impact particularly on those who are self-employed – for example electricians, builders, physiotherapists and freelancers. We have already heard reports of people having all their work cancelled as people adhere to social distancing advice and reduce all non-essential visitors to their homes and workplaces. This group are not eligible for Statutory Sick Pay (SSP) and may not be eligible for Employment and Support Allowance (ESA) if they have not paid enough National Insurance contributions in the past 2 years.

The fact that SSP and ESA can be paid from day 1 for those with the virus or self-isolating is welcome, as was support for small businesses to meet these costs. However, the rate of both SSP and ESA are still relatively low: below 30% of average earnings. People who have to self-isolate therefore still face a significant financial shock and may struggle to keep up with their essential costs without further support.

The Government and lenders have worked together to offer three month mortgage payment holidays to those who need them. This is a positive step, as is the move to prevent renters being evicted: no one should be at risk of losing their home during this period. Many of the most financially vulnerable households live in rented accommodation. Over 80% of StepChange clients are renters, as are half of the self-employed and small business owners helped through Business Debtline.

## Measures required from government, regulators, creditors and providers

### Getting short-term financial support to households as quickly as possible

Many households are already seeing their income drop, particularly self-employed people who have had pieces of work cancelled and those who have already been temporarily let go as restaurants and shops close due to social isolation. Government needs to get direct cash support to households as quickly as possible. There are a number of ways this could be done:

- The Government could be proactive in sending **direct cash grant payments** to affected households identified as being in need.
- The Government could introduce a **new temporary benefit payment** to those whose income has dropped due to Covid-19. This could be linked to a percentage of average earnings and applied for through a simple, online portal.
- The Government should also consider **increasing the value of Statutory Sick Pay and extending eligibility** to those below the Lower Earnings Limit and the self-employed, as well as increasing the amount paid out by Universal Credit.
- In addition, **funding should be increased for the hardship fund for households affected by Covid-19**, with local authorities given freedom to distribute these funds as they see fit (and not necessarily solely via Council Tax Support, which will not reach some key groups such as people living in Houses of Multiple Occupation).

### Debt owed to central and local government

During this period, people need to receive the maximum possible income and central and local governments should be prepared to extend the same type of flexibility and support that some commercial lenders are offering in its own debt collection.

In particular:

- The Department for Work and Pensions should put a **temporary pause on all deductions from Universal Credit and other benefits to repay debts or overpayments.**

- Central and local governments in England and Wales should **temporarily suspend all use of bailiffs** (Enforcement Agents) to collect debts, and should pause other collection activity for people impacted by the pandemic. Central government should provide additional funding to local authorities as needed to enable them to **offer payment holidays and other forbearance on council tax bills**.
- 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**.
- Universal Credit **Advances should be turned into non-repayable grants**.

## Providing support via the debt and money advice sector

While the current situation is unprecedented, we know from past experience, such as the financial crash, that the impact on people's finances will last well beyond the immediate crisis. It's crucial that there will be help and support available to these individuals (many of whom 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.

To help alleviate this:

- Significant **additional funding should be made available to fund debt advice** covering:
  - 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
- Regulators and the Money and Pensions Service **review 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.
- Our agencies are working up these proposals with MaPS, and will shortly share a more detailed request with HM Treasury.

## Providing further support to self-employed people

As well as creating a new, temporary benefit payment to support people including the self-employed, we recommend that:

- **The Department for Work and Pensions should extend the scrapping of the Minimum Income Floor in Universal Credit for a year to all self-employed people** (rather than just for those who have Covid-19 or who have to self-isolate, as was announced in the Budget).
- **The Government should temporarily waive the National Insurance contribution quota for contribution-based ESA** to provide financial support to self-employed people, who may not have access to SSP or Universal Credit.

- **The Government should create a dedicated hardship fund for self-employed and sole traders to help cope with the impact of Covid-19 on their business.** This could replicate the £3,000 government grant scheme for small businesses with premises, that was announced in the Budget.

## Helping people who fall behind with essential bills

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. To help people cope:

- It is welcome that the Government has said they will **pass emergency legislation to temporarily pause evictions**. This now needs to be introduced as quickly as possible.
- Landlords should be supported to offer this with mortgage forbearance and support from government. **The three month mortgage payment holiday should apply to buy-to-let landlords** whose tenants are struggling to keep up with rent due to the impact of Covid-19.
- 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.
- **Ofcom should restrict disconnections for debt**, to ensure households have access to essential communications services.
- **Ofgem should urgently bring forward proposals to protect energy prepayment customers at risk of self-disconnection or self-rationing**, and work with firms to extend fuel voucher schemes to those affected. Energy suppliers should **provide discretionary credit to prepayment customers** where needed.
- **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.

## Helping people with existing credit commitments

Many lenders have already announced plans to offer forbearance to customers, and this is very welcome. We need to see a consistent approach across industry, including across the full range of credit products that a household may have. 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 **Financial Conduct Authority (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.

## Action required from employers

Many employers are working hard to keep their staff safe during the pandemic. Employer support and flexibility not only protects people's health, but also supports people's financial wellbeing. To help people during this time:

- Employers should, as far as possible, **implement sick pay policies that adequately reflect the difficulties that people may face** if they are required to self-isolate or become unwell.
- As far as possible, employers should **implement flexible working practices that enable all workers, but especially those in vulnerable groups, to work from home** if this is realistic for their role.
- Employers should **signpost the existence of free debt advice and other relevant support services to employees** who need them.

## What debt advice charities are doing

We are continuing to do all we can to support people worried about their finances during this period. As charities, we are:

- Taking all reasonable steps to ensure that we can **continue to provide our services** to people who need them at a time when demand may be higher than normal, even if our workforce is smaller than normal.
- Working with creditors to understand when we can implement **forbearance policies for people making payments through debt management plans** if they are unable to pay.
- **Protecting our staff** by implementing improved sick pay policies and flexible working where this is possible.
- Offering daily updates to our **coronavirus information pages** aimed to signpost help to anyone who is worried about their finances in the wake of coronavirus – see:

**StepChange** - <https://www.stepchange.org/debt-info/debt-and-coronavirus.aspx>

**National Debtline** – [www.nationaldebtline.org/coronavirus](http://www.nationaldebtline.org/coronavirus)

**Business Debtline** – [www.businessdebtline.org/coronavirus](http://www.businessdebtline.org/coronavirus)

- Ensuring that our **online debt advice tools** will be able to cope with increased numbers of people who may wish to use it (even if our phone lines are busy). These can be accessed via:

**StepChange** - <https://www.stepchange.org/start.aspx>

**National Debtline** – <https://www.nationaldebtline.org/>

**Business Debtline** - <https://www.businessdebtline.org/>

- Providing more advice by **web chat and email**, where feasible.
- **Working with each other** to ensure that we operate in a mutually supportive way to help meet people's needs when demand may be high.
- **Understanding the new financial challenges** our existing and new clients are seeing, and using that insight to inform government and creditor action.
- Working with our creditor partners and funders to **ensure that we have the financial and operational resilience** necessary to weather a turbulent period.

**For further information on anything in this document, please contact:**

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