Financial Inclusion Commission
Call for action on forbearance
16 February 2021

We welcome all steps already taken to help people through the Covid-19 pandemic and beyond and urge the Chancellor to build on that work by:

- **Announcing a dedicated grant fund scheme for those self-employed and small business owners excluded from existing support;**

- **Giving a commitment to continue with the forbearance measures which have been in place throughout the pandemic;**

- **Continuing the £20 uplift to Universal Credit and Working Tax Credits in recognition of the fact that removing it will put further pressure on household incomes already stretched to breaking point and extending this to legacy benefits; and**

- **Committing the funding required to test a No Interest Loan Scheme to ensure those households for whom access to small scale no-interest credit could help them avoid a debt trap.**

There can be little doubt of the importance of financial inclusion at this time. There are now millions more people facing economic hardship as a result of the Covid-19 pandemic. StepChange debt advice charity found that as of September 2020, 2.6 million people were at risk of a financial crisis due to coronavirus, and 5.6 million people were struggling to pay for essentials.[1] This paints a worrying picture and current numbers are likely to be even higher.

We welcome the Government's package of measures recently announced by the Chancellor, especially the grants for businesses which will provide some short-term relief to business owners impacted by the latest restrictions. However, many people remain excluded from support, including many self-employed and small businesses. We support the call for a dedicated grant fund scheme for those excluded from existing support.

Furthermore, there must be a commitment to continue with the forbearance measures which have been in place throughout the pandemic. It is likely the current lockdown will severely affect millions of people already struggling with the cumulative financial impact of the previous restrictions. Almost one-in-three adults living on a persistently low income through the pandemic say they cannot afford basic items such as fresh fruit and vegetables every day, or to turn on the heating when required.[2] Those who were severely impacted during the first two lockdown periods are likely to have used up their cash reserves or been forced to borrow to cover essential expenditure, and may face continued uncertainty around employment.

Many of those most affected by the pandemic have turned to the social safety net in the form of Universal Credit. By August the number of Universal Credit claimants had increased by 90 per cent from the start of 2020.[3] We welcome the additional support provided over the past year, and believe that

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[1] https://www.stepchange.org/policy-and-research/debt-research/covid-debt-2020.aspx
[2] https://www.resolutionfoundation.org/publications/caught-in-a-covid-trap/
[3] https://www.jrf.org.uk/report/uk-poverty-2020-21?gclid=CjwKCAiAo5qABhBdEiwAOtGmbsG10aix7c7BeWS_qmfzNDRB_1VhWVwNPM8xe5Px_m0qndT8_4RIzRoCSwoQAvD_BwE

maintaining the £20 uplift to Universal Credit and Working Tax Credits is vital, at this time of mounting debt and hardship.[4] StepChange found that, from June to September 2020, 46 per cent of Universal Credit clients had deficit budgets, meaning their incomes were assessed to be lower than the cost of their essential outgoings. In addition, StepChange estimates that removing the £20 uplift will push this figure up by 60 per cent, with the proportion of Universal Credit clients that have deficit budgets rising to almost three-quarters.[5] It is clear that the uplift is providing the right buffer to prevent people turning to high-cost credit to afford to meet their basic needs. We urge the government to continue the £20 uplift to Universal Credit and Working Tax Credit in recognition of the fact that removing it will put further pressure on household incomes which are already stretched to breaking point. Continuing the uplift is a key measure in avoiding the future financial and human costs of unpaid bills, evictions, debt recovery and debt advice and we also strongly believe this should be extended to legacy benefits.

For the most financially vulnerable households there is a real danger that people will have no other option but turn to high-cost credit or illegal lenders to meet basic needs. ONS recently found that nearly nine million people had been forced to borrow money last year because of the impact of coronavirus. Young people and low-income households had been worst hit by the pandemic.[6]

We believe the Government must take the lead in ensuring that there are easily accessible solutions to meet all borrowing needs which minimise the negative impact of continued income and expenditure shocks. One important solution is the development of a No Interest Loan Scheme for those on the lowest incomes, where a small capital repayment-only loan could make the difference between a household failing or surviving financially. We recommend that the government now commits funding to test such a scheme. It's vital that households which could avoid a debt trap and take positive steps forward towards financial health through access to no-interest credit are able to do so.

We urge the Government to commit to these twin measures of maintaining the Universal Credit uplift to provide certainty and support for those struggling, as well as investing in a No Interest Loan Scheme pilot, to help more families avoid being forced to use high-cost credit.

[4] https://www.jrf.org.uk/press/coalition-warns-it-would-be-terrible-mistake-cut-20-uplift-universal-credit
[5] https://medium.com/stepchange/the-universal-credit-uplift-is-keeping-many-struggling-with-debt-afloat-the-government-must-keep-2107e586d617
[6] https://www.bbc.co.uk/news/business-55751598