Financial Inclusion Commission
Budget Statement: March 2021

Introduction

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. Yet, the environment was already difficult enough for many before the effects of the virus on our society took hold. The UK entered the crisis with half its population financially vulnerable - 12m categorised as 'financially struggling' (generally on low incomes), and 13m as 'financially squeezed' (better off but pretty highly leveraged). The crisis has laid bare the existing weaknesses, vulnerabilities and structural inequalities that cause detriment, providing an opportunity to re-assess how financial exclusion has been addressed in the UK.

The Financial Inclusion Commission welcomes many of the measures announced by the Chancellor in the March 2021 Budget, including the extension of the furlough scheme. We are particularly pleased by the announcement of the funding for a no interest loans scheme pilot which will help vulnerable consumers who would benefit from affordable short-term credit to meet unexpected costs as an alternative to relying on high-cost credit. However, we believe that this needs to be underpinned by a strong social security system that provides support when people need it. We are disappointed that the measures do not go further in protecting people from financial exclusion and providing safe routes out of financial difficulty for those struggling. As highlighted by StepChange, '1.2m people affected by Covid are in severe problem debt with a further 3 million at risk of it – if they are not helped back to their feet, it will act as a drag on any consumer-led recovery.'[1] Furthermore, it is deeply concerning that the freezing of the personal tax allowance will mean that an estimated one million more people will start paying income tax, which will hit low earners the hardest and negate some of the benefit of the increase in the minimum wage.

We believe there are several areas where the Government can help improve financial resilience and by extension create a more financially inclusive economy.

Universal Credit and Legacy Benefits

The six-month extension to the uplift for Universal Credit (UC) is welcome and will be a lifeline for many of those who have been most severely impacted by the pandemic. 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 UC. By August the number of UC claimants had increased by 90 per cent from the start of 2020.[3]

However, the termination of this uplift in September will be a cliff edge for millions. StepChange estimates that removing the £20 uplift will push their clients who are in defecit budgets up by 60 per

[1] https://www.stepchange.org/media-centre/press-releases/budget-2021.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

cent, with the proportion of UC clients that have deficit budgets rising to almost three-quarters.[4] 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 UC 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. Many new claimants of UC as a result of the pandemic will not be aware that the £20 uplift is not part of their general UC entitlement and will be shocked when it is removed. Continuing the uplift is a key measure in avoiding the future financial and human costs of unpaid bills, evictions, debt recovery and debt advice. Furthermore, the Working Tax Credit uplift provision through the £500 lump sum makes budgeting difficult for families already on the edge and should instead be provided on a weekly basis similarly to the UC uplift. Yet, if termination of the uplift is pursued, we believe that this should be through a tapered withdrawal of support with the decision communicated early to give households certainty.

Furthermore, there is a worrying anomaly between legacy benefits and UC which has seen around 2.2 million people on legacy benefits deprived of this uplift. This is particularly important given that three quarters of those claimants are disabled and on Employment Support Allowance.[5] This has created a two-tiered social security system which has left many struggling to cope with the extra financial costs of life in lockdown. Evidence from the Disability Benefits Consortium found that 67% of disabled claimants have had to go without some essential items at some point during the pandemic.[6]

We strongly believe this uplift should be extended to legacy benefits immediately.

Apprentices

We welcome the increased support offered to employers as an incentive to take on apprentices, given the severe lack of skills the economy faces and the harsh effects of the pandemic on young people's prospects. However, many young people in the most deprived households will be unable to access such apprenticeships because their parents or adult carers will lose benefits, such as UC and Housing Benefit, as a result. While young people living at home but staying on at school and earning will not result in this benefit penalty for parents, those of the same age living at home while pursuing apprenticeships will.

We believe that this is an anomaly of the social security system which is little recognised but that should be addressed urgently.

The Self Employed

The Commission welcomes the support announced for the self-employed including the extension of the Self-Employment Income Support scheme. In particular, the extension of the scheme to the more recently self-employed through 2019/2020 tax returns is a lifeline for many who have struggled to cope with the financial impacts of Covid-19.

Although these changes are generous, we are concerned that many self-employed continue to be excluded arbitrarily. For example, those self-employed who have made a profit of more than £50,000 in recent years still remain excluded from claiming anything as well as those who make just under half their income from self-employment. This creates an arbitrary cliff edge and could be smoothed out via a more

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[4] https://medium.com/stepchange/the-universal-credit-uplift-is-keeping-many-struggling-with-debt-afloat-the-government-must-keep-2107e586d617

[5] https://www.trustforlondon.org.uk/news/why-the-uplift-in-universal-credit-must-be-extended-to-those-on-legacy-benefits/

[6] https://disabilitybenefitsconsortium.files.wordpress.com/2021/02/pandemic-poverty-stark-choices-facing-disabled-people-on-legacy-benefits-final.pdf

tapered approach. We strongly believe that this would provide help to more of those in need so that those who are just beyond this threshold are still eligible for support.

Yet, millions of self-employed, contract workers and freelancers also remain excluded from any government help such as zero-hour contract workers. We urge the Government to urgently bring forward plans for how it can help, including through a discretionary grant scheme. In addition, the self-employed who are on UC receive a reduced entitlement because of an assumption that they are at least earning the equivalent of minimum wage. We urge the Government to base payments on actual earnings instead.

Small Businesses

The introduction of new recovery loans for businesses is a welcome step which will help many small businesses as the country starts to emerge from the pandemic and look towards recovery. In addition, the threshold for the increase in corporation tax of £50,000 profits means small businesses are safeguarded from an increase in payments at a time when many are struggling. However, long term affordable credit must also be more accessible for small businesses and these government loans that have to be paid back at a later date. Whilst the Bounce Back Loans helped some small businesses weather the crisis, this debt is a burden on small businesses who are already struggling to stay afloat and will struggle to repay these loans. Estimates suggest that around half are not expected to pay back these loans.[7]

Although a recent ONS Business Impacts of Coronavirus Survey suggested that almost 15% of UK businesses are at risk of closing permanently by the start of April[8], the level of insolvencies during the pandemic has remained relatively low. For example, the number of registered company insolvencies in January 2021 was approximately half the number registered in the same month in the previous year.[9] This indicates there is likely to be a hangover problem for firms once support ends. This is particularly pertinent given personal and small business finances often overlap and many single director firms have been unable to access government support schemes during the pandemic. There is a need to restructure payments so small businesses are able to recover, for example by converting loans to a student loan-style system, where firms pay back based on the profits they make.

In addition, the provision of training through the help to grow plan is a welcome step which will undoubtedly benefit small businesses. However, we are concerned that there is no funding available for upskilling those who are out of work beyond the Kickstart scheme as many small businesses struggle to find the right skills to employ. Furthermore, discounts on productivity software to aid digital growth and presence for small businesses alongside free advice is welcome, especially as digital and financial exclusion intersects. This is particularly important as a report by the Entrepreneurs Network and Xero stated that more than a third of UK SMEs have very low levels of digital adoption.[10] Of those who didn't use digital technologies, 1 in 5 (18%) said they lacked the skills to use them. Setting up business accounts can be daunting and all too often small business owners use their personal accounts. Digital upskilling will

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[7] https://www.ft.com/content/8a551c37-2de8-446b-a8b8-d4a61d33ef73

[8] https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/businessinsightsandimpactontheukeconomy/latest

[9] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/962493/Commentary_-_Monthly_Insolvency_Statistics_January_2021.pdf

[10] Xero, *Xero calls on UK Small Business Minister for digital campaign to accelerate SME recovery*, July 2020. Available at; https://www.xero.com/blog/2020/07/xero-calls-on-uk-small-business-minister-for-digital-campaign-to-accelerate-sme-recovery/

play a significant role in helping small businesses adapt to the current landscape. The recent FinTech Review led by Ron Kalifa reflected the importance of upskilling adults to meet the need of the UK FinTech sector; it is estimated that 90% of the UK workforce will need to be reskilled by 2030.[11] However, many still struggle to access reliable and affordable broadband so the success of small business digital adoption will depend heavily on investment in digital infrastructure.

Local government

Councils have continued to play a significant role in leading local efforts to support those who have been most impacted by the pandemic. The Government has provided a significant financial package of support so far to help, but councils still face substantial cost pressures and income losses. The Commission is concerned about the spending plans for public services, which ignoring virus spending, shows that an additional £4bn a year is being trimmed from spending when compared to the November forecast. At a time when national services will need to catch up on lost time during the pandemic, any cut to funding will have a damaging impact on already stretched services. In particular, the Commission is disappointed by the sparse detail on plans for social care and urge the Government to bring forward proposals to immediately shore up social care services, and to secure the long-term future of care and support.

Investment

We welcome the announcement of the new two-year capital allowances 130% 'super-deduction' for main plant and machinery. Although we note that the changes are only available to companies subject to corporation tax not sole traders, partnerships or limited liability partnerships.

However, a recovery dependent on consumer spending alone won't suffice. We believe that investment is needed to create higher-paying, higher-productivity jobs. The 130% super-deduction for investment should be broadly-framed to encourage this, including for modern digital industries, not just restricted to plant and machinery.

[11] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/965034/KalifaFintechReview_Exec_Summary.pdf