

When the protection schemes end: a transition package to help households recover from the coronavirus shock

The government’s interventions have gone a long way to protect people’s incomes and give them options to limit their expenditures during this crisis. In some instances, these measures have not gone far enough, but for most people they are providing some much needed security during the initial phase of this pandemic.

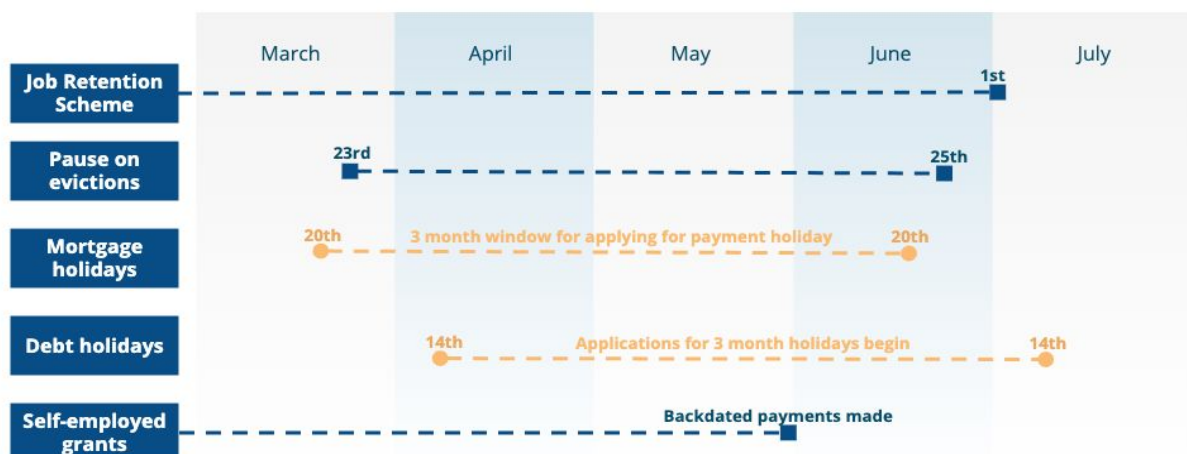
However, these measures are temporary and many households’ finances will be exposed if and when they end. At Citizens Advice, we see millions of people with many different kinds of problems, giving us a unique insight into the protections people are likely to need when that point comes. This paper sets out options for a transitional package of support after the initial measures end.

Summary of initial protections

The government has put the following measures into place:

- The **Coronavirus Job Retention Scheme**, which subsidises 80% of wage costs up to £2,500 a month for eligible workers if employers furlough them, currently until 30th June.
- The **Self Employed Income Support Scheme**. This scheme subsidises 80% of eligible self-employed people’s profits up to £2,500 per month. Payments initially cover a 3 month period.
- The **pause on housing possession action**, staying all repossession claims between 27th March to 25th June.
- **Mortgage holidays**, announced 17th March, giving customers a qualified right to a three month mortgage holiday due to coronavirus.
- **Debt holidays**, given effect by FCA rule changes on 14th April, allowing customers to make no payment on existing debts for 3 months.

Figure 1: Timeline of major interventions



When these schemes end, many people will be on the precipice of a combined income shock and an increase in expenditure on delayed household bills, often in the same month, as Figure 1 shows.

A 35% reduction in GDP in this quarter and 10% unemployment over the course of 2020 has been forecasted.¹ If the effects are as large as predicted, many millions of people are likely to have to make hard adjustments to their lives. In the absence of a transitional package of support, impacts could include:

- **Substantial income losses for workers.** An end to support through the job protections schemes for a forecasted 8.7 million employees receiving on average £1,400 per month² and 3.1 million self employed workers receiving on average £1,060 a month.³ The OBR forecasts unemployment rising by 2 million in the second quarter of 2020, partly as a consequence of these schemes coming to an end.
- **A significant build up of household debt:**
 - 30% of renters report they expect to be or are already behind on their rent as a consequence of coronavirus.⁴ Many will be accruing arrears and facing eviction just as their main source of income is disappearing.
 - 1.6 million households have applied for mortgage holidays already. These households face an accrued debt mountain of £3.6bn at the end of their payment holidays.⁵
 - Many people are already falling behind on other household bills: 1 in 10 (9%) report having fallen behind on at least one household bill excluding rent, rising to 41% of agency workers and 38% of those who are on zero hours contracts.⁶
 - The government has rightly suspended collection of benefit overpayments in UC, but this will lead to deferred debt to be repaid at a later date.

This shock is already being felt by many people who are unable to access the government's schemes or other support, such as those who have been self-employed for less than a year or who have been made redundant by their employers rather than furloughed. Many others will face these shocks in the absence of transitional support. These people have done the right thing through the lockdown to protect people at risk. It's important that the government makes sure they don't face unmanageable debts or a crisis in their household finances as a result.

¹ [Commentary on the OBR coronavirus reference scenario](#), OBR, April 2020

² After tax. The [OBR](#) estimate 30% of employees will be furloughed at a cost of £14bn per month, of which 20% will be returned to the exchequer through tax. ONS estimates the total number of employees is 29 million.

³ Pre tax. The IFS [estimate](#) that 3.13m self-employed people are eligible, at a cost of £10bn for three months.

⁴ Poll of 2,000 adults conducted on behalf of Citizens Advice by Opinium. Q: Are you behind on your rent as a result of the Coronavirus outbreak? Please tick one option only. Base: 589.

⁵ Assuming a 3 month payment and an average monthly mortgage payment of £750 [FLS]

⁶ Opinium polling conducted on behalf of Citizens Advice.

The existing safety net will not be sufficient

Universal Credit will be an important tool in helping households during this transitional phase. The government's increases of the standard allowance and restoring the link between housing allowance and the bottom 30% of market rents have enhanced its generosity.

However, we know that a single person has (on average) necessary outgoings of £960 per month. This figure will vary substantially due to housing costs. For many, it is unlikely that a standard allowance of £410 a month⁷ and an housing allowance set at the 30th percentile of local market rents will meet these necessary outgoings. This is a similar challenge for larger families. For a family in a 2 bed home, average rents can be £400 a month higher than housing allowance outside of London and up to £1,227 in the capital.⁸

Options to reduce necessary outgoings or increase income may be even more sharply limited than in normal times. Lockdown and extended social distancing may place limits on people's ability to move house. With unemployment set to increase substantially, options to move in to work will also be more limited.

Many households who were previously in more secure work or were 'just about managing' may now see unexpected reductions in their income and face significant challenges in adjusting expenditure quickly enough to avoid incurring debts. A significant number of households lack the financial resilience to weather this - 3.7 million adults say their household could not cover living expenses for under a week if they lost their main source of income, alongside 7.4m people with significant debt burdens.⁹

Summary of recommendations

To help households manage as temporary interventions come to an end, we recommend the government implement a transitional package of support with five parts:

1. **A gradual end to the job retention scheme, rather than turning it off at once.** This could, as we suggest below, include ending it on a sectoral basis or introducing more flexibility into the existing system, to allow employers to partly furlough employees. An equivalent approach should be taken for the income support scheme.
2. **A recognition that not all household and financial debts accrued during this period will be paid according to existing schedules.** This may require further extension to existing mortgage and debt holidays, and continued access to these for some people. Further forms of debt relief may be needed to ensure people do not lose their homes or become insolvent through no fault of their own.

⁷ Over 25's rate.

⁸ [1.7 million renters expect to lose their job in the next three months](#), Shelter, April 2020

⁹ [The financial lives of consumers across the UK: Key findings from the FCA's Financial Lives Survey](#), FCA, 2018

3. **Further enhancements of Universal Credit and other benefits.** In normal times, Universal Credit exists both to provide a safety net and ensure people have incentives to re-enter the labour market. But if we are entering a protracted period of social distancing and limited demand for labour, the latter may be less important than the former - and increases should be made as a result.
4. **A Coronavirus Financial Hardship Fund.** This fund would have a different purpose to Universal Credit, which is intended to provide a minimum income to cover essential costs. Instead, it would help people facing particularly significant income shocks and unavoidable outgoings, which take time to adjust to in this context. Applications to this fund would be granted for people whose incomes had been negatively affected by the crisis, such that they can no longer afford to meet their necessary outgoings. Payments could be made as either a grant or a loan depending on applicants' financial circumstances.
5. **Specific protections for the 1.5 million people in the shielded group,** who may have to remain in their homes longer, and be asked to do so again if and when a second peak in the epidemic happens. There is already a need for a change to the Job Retention Scheme to make clear that this group should not be expected to work. Income protection schemes, payment holidays and eviction pauses may need to persist for this group for longer than everybody else.

The government should also extend its other temporary interventions in line with the extension of the Job Retention Scheme, to ensure people have the security they need as lockdown and social distancing measures persist.

Taken together, this transition package will be costly, though still a significant reduction in the current measures' costs. However, taking insufficient action will be costly too. A return to normal economic conditions will require households to have the confidence to spend and the willingness to take advantage of new opportunities. Neither will be possible if their finances have been scarred too badly by this pandemic.

The remainder of this paper sets out:

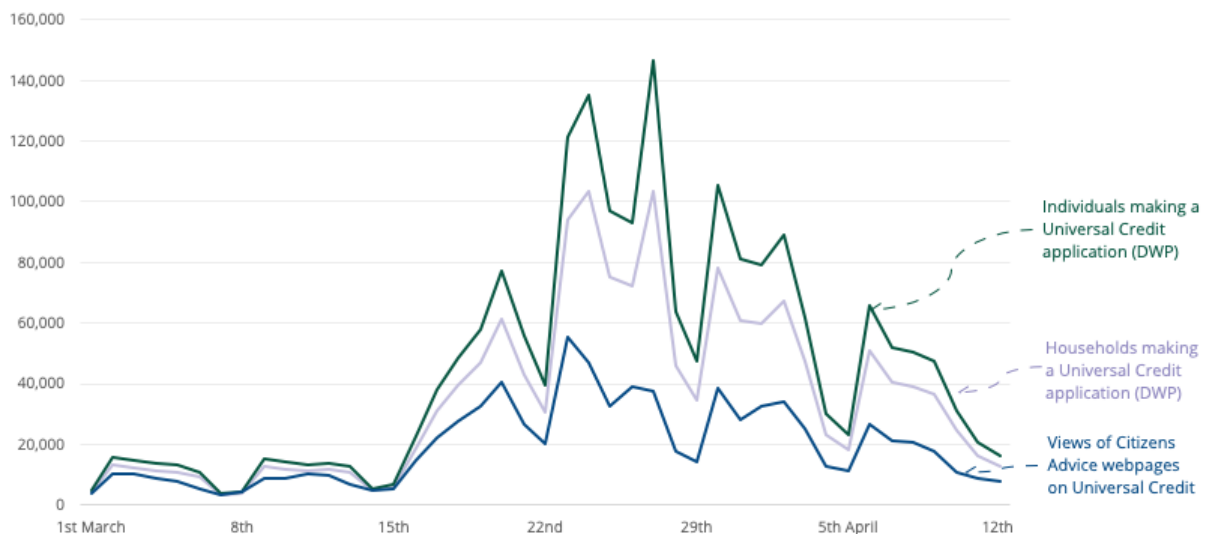
- What our data is telling us about the problems people face during this pandemic
- In more detail, our recommendations for:
 - When the job protection schemes come to a end
 - Greater protections for household bills
 - Further changes to the benefits system
 - Specific protections for the shielded group

What our data is telling us about the problems people face during this pandemic

No other organisation like Citizens Advice supports as many people across so many different issues, that cut across different policy areas. There's been record breaking demand for advice on our website, as well as support via telephone, email and web chat. Our advisers help people (on average) with 3 issues for every 1 question they arrive with. This gives us insight into the challenges people are facing across the country, and how these are changing over time.

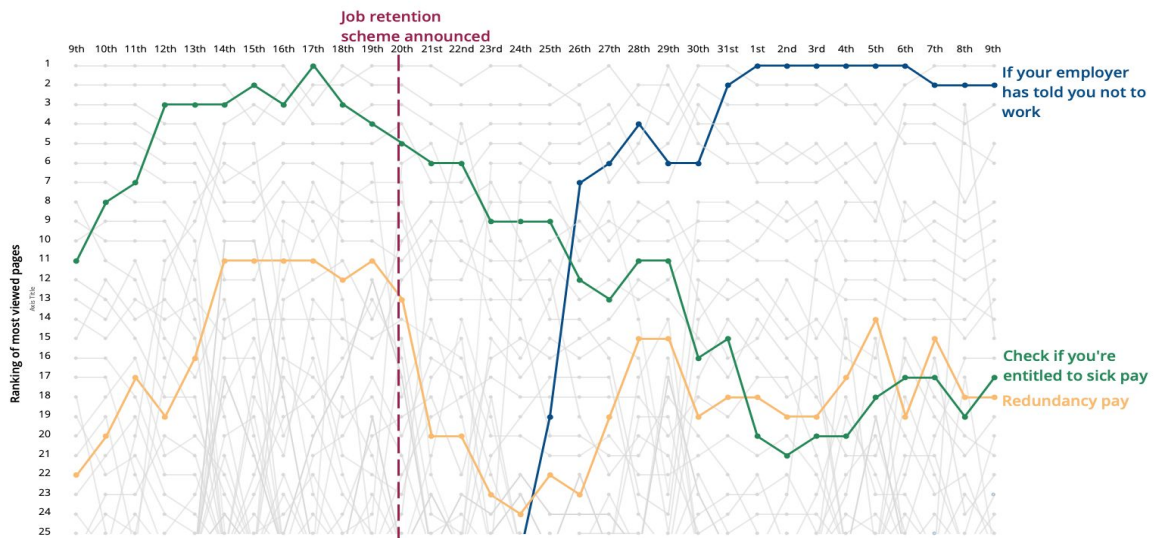
Crucially, our data gives us a real-time picture of the nation's concerns during this crisis, enabling us to identify emerging problems and determine solutions in response. Our data has often tracked underlying trends or government announcements. For example, Figure 2 shows the close correlation between views to our advice pages on Universal Credit and Universal Credit applications.

Figure 2: Close relationship between Citizens Advice web page views and Universal Credit applications



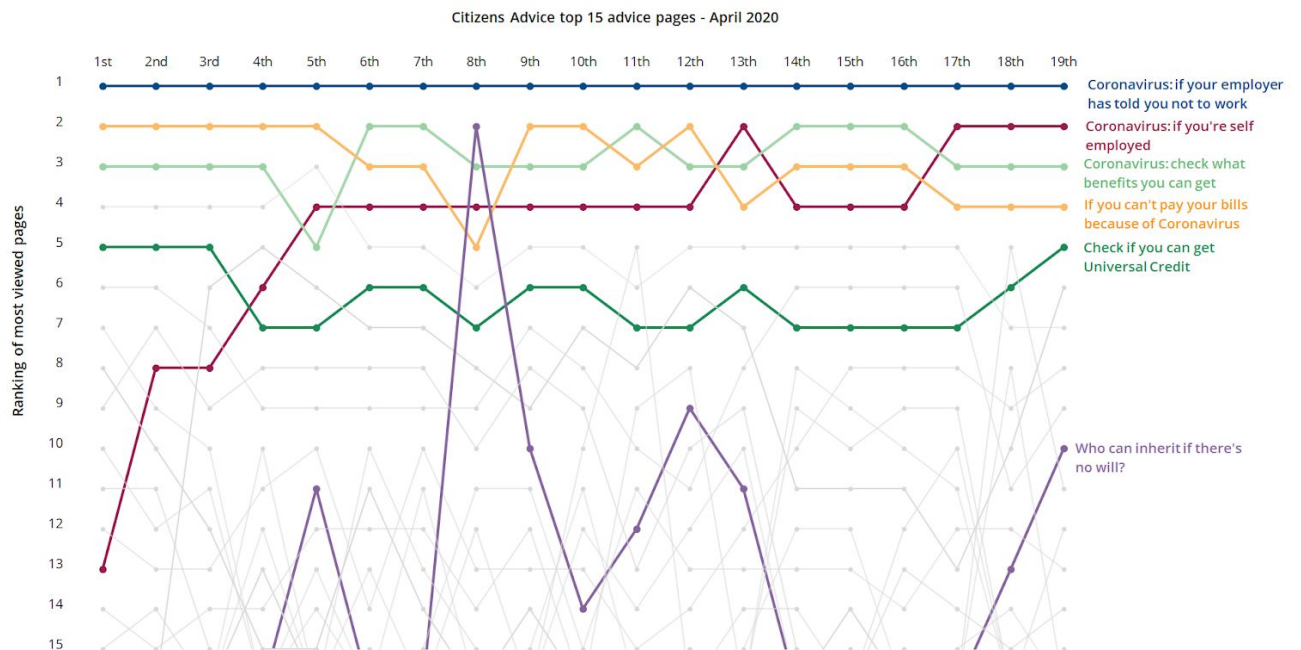
Similarly, advice interest has often peaked in advance of major government announcements, before declining thereafter - showing how certain announcements may be addressing public concerns. For example, interest in our advice on sick pay and redundancy pages dramatically rose in popularity in the weeks leading up to the Chancellor's announcement of the Coronavirus Job Retention Scheme, before declining afterwards. Concurrently, interest in our advice on what to do if your employer has told you not to work became our most popular page.

Figure 3: Popularity of sick pay and redundancy web pages over time



Throughout this crisis, interest has waxed and waned in different topics, but as Figure 4 shows the overall picture is remarkably stable this month: questions about income, employment, benefits and bills continue to dominate people’s concerns. The government has helped answer these questions through its package of support. As this crisis continues, we’ll continue to put our data to the best use of our policy response.

Figure 4: Citizens Advice top web pages: April 1st - April 19th



Action for when the job protection schemes end

The Coronavirus Job Retention Scheme is currently forecast to cost £56bn over the initial four month period, based on a 30% take-up.¹⁰ This equates to roughly £1,500 per month on average for each employee - a significant level of intervention to protect people's wages. What happens as we ease restrictions and the scheme begins to end?

We assume that there will be some gap between the end of lockdown and the end of the scheme; at the time of writing, lockdown has been extended to 7 May and the scheme is due to end on 1st July. When thinking about how the retention scheme ends or transitions to a new phase, we think there are three distinct groups:

- **Natural unwinding:** once lockdown ends, many more businesses will be able to (at least partially) operate safely while following social distancing guidance. A substantial number of employees will therefore be un-furloughed because employers have work for them.
- **At risk sectors:** some sectors, such as restaurants and other service industries, will still be at risk because they will not be able to easily or safely follow social distancing guidance. These sectors are also likely to experience a reduction in consumer demand. Large numbers of workers in these sectors will continue to be at risk without further sector-specific support.
- **Businesses at risk of failure:** given the size of the economic shock, it's to be expected that many businesses will fail, independent of their sector, and their workers will be made redundant when the temporary support comes to an end.

Employees may also see different rates of return to work from the scheme by their employment status. Firms will be seeking flexibility and will be risk averse where possible, given the uncertainties they face. Given the scheme currently bars workers being partly furloughed (i.e. working a reduced number of hours and receiving a wage subsidy for the remainder), firms will have incentives to return people on insecure or flexible contracts (e.g. zero hours contracts) to their workforce earlier.

How many workers face a significant income shock and when depends on government action. If the scheme is shut down all at once, redundancies in businesses at risk of failure and in at risk sectors will be high. There are likely benefits to avoiding this. Firstly, if sectors are only being disrupted due to social distancing guidance, there may be merit in keeping them 'on ice' until that engineered disruption passes. Secondly, it would avoid very high levels of pressure on the benefits system all at once, which has already had to deal with 1.5 million claims in a very tight time period.

The government should consider a transition for ending the job retention scheme. This transition package could include:

- Allowing firms to part-furlough workers when the scheme's current phase ends. This could allow firms to return some employees on a part-time basis, who would otherwise face permanent reductions in hours or redundancy. This will

¹⁰ Adjusted OBR forecast.

help firms manage uncertainty better and hopefully encourage them to return a greater proportion of their workforce to work.

- Considering a staggered approach to ending the scheme, potentially by extending the scheme for sectors which are particularly badly hit by the need to follow social distancing guidance.

The challenges for self-employed people are different. The three month grants through the self-employed income support scheme are not due to be paid until early June, meaning many face an income shock in the interim. Many are already in difficult financial circumstances, as a consequence of not being eligible for the self-employed income support scheme. These financial difficulties should be expected to persist in line with whether their businesses continue to be disrupted by lockdown or social distancing.

Other self-employed people will be in a somewhat better position - some will receive grants in June in addition to receiving Universal Credit payments in the interim. Others will be able to continue working during the outbreak. But many will still face a significant hit to their income after the initial three month grant period expires.

The government should:

- Aim for parity between the job retention scheme and self-employed scheme when moving to the next phase of protections. This will be practically challenging (for example, it may be difficult to segment self-employed workers by industry), but it is important that this group is treated equivalently going forward.

Across the economy, many workers are going to face a substantial or complete shock of income when the job protection schemes end. It's important the government protects and mitigates against this shock both through a transition for the retention scheme and by using other policy levers.

Protection for household bills

Protection for renters

Private renters have the least formal protection as it currently stands with no provisions for rent holidays as exists for mortgages and other debts. Currently the 30% of renters who have fallen into or are worried about falling into arrears are protected by the pause in housing possession action, which means that landlords have no recourse through the courts to evict them. Landlords can still serve notices for non-payment of rent, including through ground 8 of section 8 of the Housing Act 1988 (a mandatory ground) and through 'no-fault' section 21 notices, which may in practice have the effect of people leaving their property.

However, the pause on housing possession action does mean that people will not be coerced into leaving their homes during the period of the crisis, which is a welcome protection. People will have two main problems when the pause lifts:

- Some will have accrued arrears that they are unable to pay back quickly
- Depending on when the retention and self-employed scheme expire, many people will be facing redundancy just as the pause on eviction lifts

Landlords made 25,000 possession claims in the last quarter of 2019. Given the length of lockdown, the court system may take some time to process the number of possession claims. However, given the number of renters potentially falling behind on their rent during and following lockdown and the limited protections in place for this group, this is a potentially serious challenge for the transition out of the lockdown measures.

Therefore, it's now critical that the government fast-tracks the abolition of section 21 'no-fault' evictions, which was announced over a year ago, to make sure renters aren't at risk of losing the roof over their head through no fault of their own.

Alongside that, the government needs to prevent widespread evictions due to arrears built up during the lockdown. For instance by:

- Working with the Master of the Rolls to revise ground 8 section 8 of the Housing Act 1988 from a mandatory ground to a discretionary ground for an initial 6 month period - with provision to allow this to be extended to 12 months. This would allow Judges to use discretion to ascertain whether these arrears have built up due to COVID-19 or social distancing measures - enabling tenants who can stabilise/improve their circumstances to do so.
- Encouraging landlords and tenants to use this time to seek non-court solutions to manage tenants' debt. This includes strengthening and extending the pre-action protocol for social housing to private housing, once section 21 has been abolished and ground 8 has been revised to be a discretionary ground, to enable tenants who can stabilise/improve their circumstances to do so.

Protection for mortgages and other debts

The existing facilities for 3 month payment holidays from mortgages, credit cards, personal loans and other forms of credit are an important source of support for people affected by coronavirus, as well as other steps like the three month pause on recovery of past benefit overpayments.

However, 2 groups of people are likely to require protection beyond the current scope of these schemes:

- Some people who haven't yet required support will encounter financial problems later. This includes people who remain unable to return to work for longer periods, who have been relying on savings or other funds which are now depleted. The support may need to be extended to include this group, including extending the end date for applying for this support.
- Some people who currently benefit from these schemes will be unable to return to work by the time they expire (for example, in the shielded group or in sectors particularly affected by social distancing). Their circumstances should be reassessed and support extended or replaced with other forbearance options, such as reduced payments.

In the longer term people will need help to pay down the debts built up over this period, through sustainable repayment plans and access to financial support. It's likely that this will be insufficient for some people - particularly those who are unable to return to work for long periods of time. Further forms of debt relief may be needed to ensure people do not lose their homes or become insolvent through no fault of their own.

Further changes to the benefits system

18% of people have already had their hours cut, been temporarily laid off or faced redundancies as a consequence of the coronavirus crisis. This situation risks becoming worse, with the Office for Budget Responsibility warning that unemployment could rise to 2 million in the second quarter.¹¹ The longer-term hit to people's jobs and incomes means it's vital our benefits system is an adequate financial safety net during this period.

The Government has already made a number of welcome changes to the benefits system to increase support for those affected by coronavirus. These include increasing the Universal Credit standard allowance by £1,000 for the next year, temporarily suspending the Minimum Income Floor for self-employed people receiving Universal Credit, and uprating the Local Housing Allowance to cover the 30th percentile of local rents.

However, it's unlikely this will be enough for those hardest hit by coronavirus to get by - nearly 4 out of 10 (38%) people have lost income because of this crisis, with nearly 1 in 10 (8%) losing 80% or more.¹² Those with high fixed costs, due to things like family size or living in an area of high rents (with limited chance of moving during this period), may struggle to cover these through Universal Credit.

We think there are a number of measures the Government can take to further bolster support for people needing to access the benefits system:

- Clarify how the capital limit rule for claiming Universal Credit (currently £16,000) applies to business assets to widen eligibility to the benefit to self-employed people
- Temporarily switch advance payments to grants so people applying for Universal Credit receive money quicker and aren't faced with debt later on
- Temporarily suspend the repayment of advance payments for existing claimants
- Temporarily raise or suspend the benefit cap to ensure people can access adequate levels of financial support during this period.
- Increase the value of legacy benefits (e.g. Jobseeker's Allowance and contributory Employment and Support Allowance) to reflect increases made to the standard allowance within Universal Credit and Tax Credits.
- Consider further increases to the Local Housing Allowance to support those struggling to cover the cost of their rent.

The long-term financial detriment that is likely to follow from this crisis means there will be a need to consider more substantial measures to our benefits system. This will be crucial to building people's financial resilience during - and beyond - this pandemic.

¹¹ Office for Budget Responsibility (2020). Coronavirus reference scenario

¹² Opinion polling with 2016 UK Adults, carried out between 2-7 April

Specific protections for the shielded group

It's likely that some people will be in lockdown for longer than others. 1.5 million people are in the 'shielded group', who are extremely vulnerable to coronavirus. The Government has advised them to remain in their home for 12 weeks, with the possibility that this could either be extended or that this group is advised to isolate again if there is a second peak in coronavirus cases. The NHS should have contacted people in this group by Sunday 29th March and people in the group were advised to isolate for 12 weeks from this point (until late June).

From our data, we know many in this group are worried about their employment situation and have jobs that would require them to breach public health advice in the absence of the Job Retention Scheme or the Self Employed Income Support Scheme to protect their incomes. And we are still seeing many reports of employers refusing to furlough employees at all. Initial analysis of our case data suggests that 17% of people who come to us about a coronavirus related employment problem are at greater risk of coronavirus, however only 6% of this number have been furloughed by their employer.

Many of these worries apply equally to people who share a household with the shielded group, who are (at a minimum) having to be particularly stringent in following social distancing advice, and will often be taking the same precautions as those in the shielded group.

This group is considerably more likely to have reported a reduction in their income since the coronavirus outbreak began - 48% have reported a drop vs 27% in the overall population. 46% report that they have already or expect to fall behind on rent (compared to 26% in the overall population). 25% of this group are already behind on one or more other household bills.

The government's temporary measures will be protecting many people in this group currently. If they qualify, their incomes should be sustained by the economic protection measures it has taken, their landlords will be limited in any action they can take as a consequence of rent arrears and they will be able to apply to banks and other debt providers for payment holidays.

However, this group may need to continue isolating beyond the temporary measures. For example, the pause on housing possession action is due to end on 25th June, just as the initial 12 week period expires. And their mortgage and other debt holidays may also be coming to an end, depending on when agreements were sought with their lenders.

People in this group could therefore face mounting financial pressures and a significant loss of income while they are still facing lockdown advice that may have been lifted for others. It is also possible that this group will be asked to shield again in the future, leading to similar problems in the future.

When the temporary measures begin coming to an end, the government should consider what measures should be extended for this group in particular. This could include:

- Retaining the job retention and self-employed income support schemes for the shielded group, allowing or requiring employers to provide protections for these groups
- Ensure that people in the shielded group are not evicted while they are still shielding as a consequence of public health advice
- Considering additional support through the benefits system for this group
- Ensuring this group were eligible for grants from the Coronavirus Financial Hardship Fund described above