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IPPR Scotland

WEATHERING THE WINTER STORM

STRENGTHENING FINANCIAL SECURITY IN SCOTLAND THROUGH THE ONGOING COVID-19 CRISIS

Rachel Statham, Henry Parkes
and **Russell Gunson**

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SUMMARY

Through the decade following the financial crisis, we have seen a significant shift in who burdens risk in society. Increasingly, we've seen responsibility for risk previously shouldered by the state through social security provision, and by employers through employment rights and protections, transferred to individual citizens and workers. Across the UK, a decade of austerity, the erosion of social security provision, and the growth of insecure work has pushed risk onto those who are least able to bear it. Now, the Covid-19 crisis poses multiple new threats to the financial security of people and families across Scotland.

Just as some groups of people have been disproportionately exposed to the threat the virus posed to their health, so have some been more exposed than others to its impact on their finances. Already, the crisis has tested many to – and beyond – breaking point. There is an urgent need to repair household finances across the country and build financial security and boost financial reserves for future peaks of the virus, and its economic effects – protecting people through this winter and beyond.

Financial security means having an income that is not just adequate, but can be relied on, and costs that are manageable. It means being in control of your finances and having a reasonable expectation that you will be able to make ends meet both now and in the future. And it means having access to 'shock absorbers' and safety nets that offer resilience in the face of unforeseen circumstances and hard times, ensuring that a period of financial strain does not spiral into a life-altering event.

No one should have to live on the edge of financial disaster, or to feel as if they do. Financial insecurity harms people and their families, as well as our workplaces and wider economy. We find new evidence that financial insecurity is detrimental to the mental health of people under strain across Scotland: over 50 per cent of people struggling to get by financially prior to Covid-19 reported symptoms of anxiety and depression. High levels of financial insecurity can harm our collective health and prosperity by hampering our ability to participate fully in our communities, and to fulfil our potential at work.

Despite gradual improvements to levels of financial security in Scotland over the last decade, 220,000 households across Scotland were struggling to get by at the point the pandemic struck. One in four people in Scotland – 1.1 million people – reported that they could only cope for a month or less if they lost their main source of income, rising to one in three working-age people. Even before the crisis, one in 10 people in Scotland were living in a household that was behind on bills – rising to one in four among the poorest fifth of households in Scotland.

From this starting point, the Covid-19 crisis has exacerbated financial insecurity for families across Scotland and drawn many more people into a state of insecurity. In May, one in five people in Scotland were concerned about being able to make their financial commitments over the coming months, with those who had experienced furlough even more likely to fear for the future than others who had not. Just under half of workers in Scotland reported experiencing a pay drop *at some point* between April-June, with those who were already struggling financially most likely to have seen a significant fall in income through the crisis.

While we are all weathering the storm of Covid-19, we are not all in the same boat. It is already clear that low income families – who reported lower levels of financial resilience coming into this crisis – are at risk of deepening insecurity.

In the months ahead, increased pressure from the withdrawal of disruption of care services puts **parents and carers** at risk of long-term reductions in earnings, or of being pushed out of the labour market altogether. This presents a significant threat to women's equality in Scotland's labour market.

Meanwhile, **young people** across Scotland are facing some of the toughest labour market conditions in memory. Our modelling suggests we could see youth unemployment peak with over 100,000 young people facing unemployment by next year – over one in three of Scotland's young workforce.

Disabled people, who were 37 per cent more likely than non-disabled people to report struggling financially coming into this crisis, risk being disproportionately exposed not only to the physical health impacts of Covid-19, but to its financial impacts, too.

We also find concerning evidence that across the UK, **black and minority ethnic workers** have been disproportionately exposed to job loss over the first few months of the Covid-19 crisis.

Our analysis on the impact of the Covid-19 crisis on the financial security of people across Scotland finds that **renters** are far more exposed than homeowners, across those who own their home outright and mortgagors. We also find that **self-employed** people are over 50 per cent more likely than employees to have experienced a fall in pay over the past few months.

There is clearly long-term work required to rebalance risk in Scotland and across the UK, away from those least able to bear it. That will be the focus of future reports as part of this research programme. However, there is also a need for shorter-term action, that's possible – both in legislative and capacity terms – over the coming months. This report focusses on the urgent action needed to prepare for winter, and to get people and families in Scotland through the next few months.

Crucial to the financial security of people and families in Scotland is clearly the health of the economy. It is therefore critical that the UK government undertakes additional spending, beyond the money invested in protecting the economy, to boost the economy through an economic stimulus. This would allow the Scottish government, in a way that it cannot through existing powers, to provide a stimulus in Scotland.

In addition, the report makes a number of recommendations that we believe can be delivered in the rest of this parliamentary term, between now and May next year.

CROSS-CUTTING RECOMMENDATION

1. The Scottish government should work with relevant stakeholders to develop a **financial security tracker, supported by a financial resilience strategy** for Scotland by the start of 2021.

INCOME-SIDE RECOMMENDATIONS

Social security

2. The UK government should make its temporary increases in benefit payments permanent and consider additional support for families with children.

3. The UK government should remove the benefit cap and two-child limit within the benefit system and reform its sanctions and assessment regimes.
4. The Scottish government should consider how to provide urgent financial support for families with children this winter.
5. The Scottish government and the Convention of Scottish Local Authorities (COSLA) should introduce automatic payment of local level benefits and entitlements in time for 2021/22.

Work

6. The UK government must enhance its job support scheme to prevent needless unemployment in Scotland and across the UK
7. The UK government must consider new small-scale furlough schemes for those sectors, areas and population groups (such as shielders) who will continue to face significant economic restrictions for the foreseeable future.
8. The Scottish government should ensure that Covid-19 business support is contingent on employers' conducting full-scale equality impact assessment on any decisions on redundancy or hours reductions over the coming time
9. Business and Scottish government should adopt a '100,000 challenge' to fight youth unemployment and deliver 100,000 new opportunities for young people in Scotland across education and employment by the start of 2021.
10. The Scottish government must significantly increase reskilling and upskilling capacity through the jobs crisis.
11. The Scottish government must prioritise keeping schools and childcare open, where it is safe to do so, in any future lockdowns.

COST-SIDE RECOMMENDATIONS

12. The Scottish government should introduce a new Covid-19 arrears scheme to offer affordable credit to people who have amassed unaffordable debt and arrears due to the Covid-19 crisis.
13. The Scottish government should work with housing associations and councils to deliver write-offs for rent and council tax arrears built up by tenants through the Covid-19 crisis.
14. The Scottish government, landlords, and tenants groups should work urgently to avoid a potential cliff edge of evictions in March 2021.
15. The Scottish government, and local authorities, should consider extending eligibility for free school meals.

FINANCIAL RESILIENCE/SAFETY NETS

16. The Scottish government should expand access to affordable credit, including exploring how the developing social security system in Scotland can best link with non-profit affordable credit options.
17. The Scottish government should consider how the social security system can best promote new routes to savings for low income families in Scotland.
18. The Scottish government, COSLA, and third sector partners, should review before the end of the year, how the Scottish Welfare Fund, discretionary housing payments, and other third sector crisis funds have operated through the initial emergency phase of the pandemic.

INTRODUCTION

The Covid-19 crisis began as a public health emergency. As the crisis has unfolded, however, its economic impact and its effect on household finances have become clearer. Covid-19 is a disease that has claimed thousands of lives in Scotland, but it will see many other victims from its economic effects. Already, we have seen an economic contraction like nothing seen before in this country and across the world. As we look ahead to the rest of this year and the prospect of unprecedented levels of unemployment, it is clear that this pandemic will continue to pose a significant threat to lives and livelihoods across Scotland for some time to come.

While the crisis has affected us all, it has not affected us all equally. For peoples' finances, the crisis has tested many to, and beyond, breaking point. In the years prior to the Covid-19 crisis, we saw average levels of financial security gradually improving in Scotland, recovering from the impacts of the 2007/08 financial crash. Even so, there remain signs of significant levels of financial insecurity across Scotland, with hundreds of thousands of households struggling to get by.

This persistent financial insecurity in spite of record employment levels has been driven, in part, by a great risk shift over the last decade, across the UK. A decade of austerity has signalled a significant transfer of financial risk from the state onto individuals, with collective welfare provision weakened across the UK, and a substantial transfer of risk from employers onto workers. This has been clear in the rise of precarious work, greater levels of self-employment and so-called 'bogus' self-employment, which has pushed risk from employers onto contracted workers. Taken together, these factors meant that when Covid-19 struck people, families across Scotland (and our society as a whole) were far less resilient to its impacts than they could have been.

For those who were already facing financial hardship, the impact of Covid-19 has put financial security even further out of reach. For many families across Scotland who were just about managing to get by, they now face greater insecurity, and new risks.

As we look towards ongoing restrictions and uncertainty through the difficult winter months ahead, we must urgently repair levels of financial security and resilience in Scotland to weather the rest of the Covid-19 storm – however long it may last for. But we must also learn the lesson that pushing financial risk onto those least able to bear it leaves people at the mercy of chance. There is an urgent need to shift risk away from those least able to bear it in order to provide a lifeline through this crisis, and to create a stronger and fairer economy on the other side of Scotland's recovery. Failing to intervene now could make both the human and economic costs of the crisis far worse.

As large swathes of Scotland's economy were fully or partially shut down and the economic fallout from Covid-19 began to emerge, the Scottish government, like the UK government, issued urgent support to businesses and the economy. As we move beyond the initial emergency phase, we will need to see investment to support families with a similar level of urgency to stop people from falling through the cracks, and to stop financial insecurity now becoming poverty and destitution later. Failing to act would hold back countless people and families – and hold back Scotland as a whole.

This report considers levels of financial security immediately prior to the Covid-19 crisis and assesses what has happened to peoples' finances through the crisis. We then make recommendations for the near term, implementable over the coming months to help people and families in Scotland weather the rest of the Covid-19 storm, however long it lasts.

1. WHAT IS FINANCIAL SECURITY?

In this chapter, we consider the definition of 'financial security', and outline the key principles that underpin it. We also consider some of the drivers of insecurity and why it matters – for individuals, for the economy and for society more generally.

Defining 'financial security'

There are multiple and competing definitions of financial security and a variety of terms that are often used interchangeably with the term financial security.

Research exploring financial security and insecurity began with ideas of **financial literacy**, which sought to assess whether people had the knowledge and skills to make informed and effective judgements about their finances (Noctor et al 1992). This work was measured by a single score of financial literacy based on survey questions seeking to measure individuals' knowledge, and was underpinned by the core assumption that financial literacy could be taught in the classroom (Kempson 2019). This approach was critiqued in the work of behavioural economists and policymakers, who wanted to understand why people knew what they 'should' be doing to manage their finances, but were often not following those steps. This saw a shift to a focus on consumer behaviour and the relationship between knowledge and behaviours (Kempson et al 2017).

From this work evolved the concept of **financial capability,** which focussed on behaviours that support greater financial wellbeing – or on "what you actually *do* in contrast to financial literacy which puts greater emphasis on what you *know*" (ibid). This model measured whether people could manage their money to make ends meet, plan ahead for the future, make informed choices, and get appropriate help. This approach tends to focus on the behavioural drivers associated with financial security. In doing so, however, it can risk missing some of the structural and systemic factors in relation to financial security, such as poverty and inequality, and of course that adequate income levels and manageable costs are necessary – but not sufficient – to realising financial security.

The literature on financial wellbeing makes clear that relying on any single measure alone risks only developing a partial picture of a person's or a household's financial health. More recent research has developed a multi-dimensional concept of financial wellbeing, defined as "[t]he extent to which someone is able to meet all their current commitments and needs comfortably, and has the financial resilience to maintain this in the future" (ibid). Kempson et al developed a conceptual model of financial wellbeing, that mapped out how socio-economic environment, knowledge, skills, and experience and psychological factors shape behaviours, and how these in turn shape financial wellbeing. This concept brings together three key components: the ability to meet financial commitments, feeling comfortable (which is heavily influenced by subjective measures), and resilience for the future (ibid).

The Scottish government has sought to measure resilience – or the lack of it – by developing a measure of **financial vulnerability**. This analysis defines a household as **financially vulnerable** when there are not enough savings to cover basic living costs – such as rent, food, and energy – for three months (Scottish Government 2020h). By this measure, 34 per cent of households in Scotland were financially vulnerable over 2016–18. This rose to 73 per cent among lone parent households, who were most exposed to financial vulnerability.

Recent work from the RSA has focussed on measuring the 'economic insecurity' of people living across the UK, exploring the drivers and impact of living on a precarious income. This work argues that a growing share of both low and middle income workers are experiencing ongoing insecurity driven by inadequate income that does not provide a decent standard of living, growing income volatility, and declining resilience (Wallace-Stephens 2019).

In this report, we use the term 'financial security' as an all-encompassing term, allowing us to consider the financial circumstances of people and households in Scotland from a range perspectives. In this chapter, we set out a number of principles of financial security, to outline how the term – as we use it – overlaps with others, and our key areas of interest.

Financial security beyond income

Financial security is more than having enough income to live on or reaching a minimum standard of income. Financial security looks beyond achieving an adequate level of income to consider certainty and reliability of income; the cost-side aspects of financial wellbeing, such as manageable and predictable outgoings; and the 'financial resilience' or 'safety net' aspects of household finances, such as access to savings, affordable credit or relevant insurance.

While the debate on living standards and economic inequality over the last parliament has largely focussed on reducing child poverty, this report takes a wider view of how to bolster the financial security of families in Scotland. We look beyond the 'in poverty' population to encompass families on low and middle incomes, drawing on various measures of financial security to determine what factors are associated with greater security, or greater exposure to financial strain.

The principles of financial security

Drawing on the existing literature on this subject and a series of group discussions with relevant stakeholders and experts working on financial security in Scotland, we have attempted to put together a common set of principles in relation to how we use the term 'financial security'. We will aim to further develop these over the course of the rest of this project, including testing with people with direct experience of financial insecurity.

1. **Income is adequate to meet material needs and participate in society** – adequate levels of income are necessary to achieve financial security, but are not sufficient in and of themselves.
2. **Income is reliable over the medium term** – income needs to be secure and reliable, as income volatility undermines financial security.
3. **Costs are manageable and plannable** – costs for basic essentials need to be manageable and predictable. Volatility in costs or significant cost rises or shocks can undermine financial security.
4. **An expectation of making ends meet now and in the future** – feeling in control of finances now and expecting to make ends meet in the months and years ahead.
5. **Financial resilience** – access to 'shock absorbers' and 'safety nets' that help us cope with bad luck and unforeseen circumstances, in a way that prevents financial shocks from becoming life changing events.

6. **Financial skills and access to financial tools** – access to appropriate financial advice and products, and having the skills and capability to manage finances as well as is possible.
7. **Power and control** – autonomy over personal finances and the opportunity to make own financial decisions.

Overall, financial security is about ensuring people and households do not bear unmanageable levels of financial risk. No one should have to live on the edge of financial disaster or feel like they do. It is about being able to cope with bad luck, and money problems, without them becoming factors that limit life chances and wellbeing.

It is important to also recognise that while financial security tends to be analysed at the household level, it is also profoundly shaped by intra-household dynamics. While a household may rely on one person's income from work, who has access to that income, and on what terms, can determine relative financial security within a particular household. These dynamics can be shaped by gender, caring responsibilities, disability, and intergenerational dynamics. Younger people living at home may experience greater financial security as a result of their parents' relative security, or insecurity might be compounded across generations. Income might also reach a household through a single bank account that can be controlled by one person – as is frequently the case in contexts of economic abuse, where a perpetrator controls access to financial resources. With domestic abuse rates rising sharply during lockdown, these dynamics will be even more important to consider in the weeks and months ahead, and in designing routes to greater security.

Dimensions of financial security

In line with our definition above, we have identified three key dimensions of financial security: **income-side drivers**, **cost-side drivers**, and **financial resilience**.

Income-side drivers relate to household incomes, in terms of adequacy of incomes to meet essential costs and reliability of those income sources. For most people, this is likely to be from work, the benefit system, or a combination of both.

Cost-side drivers relate to the level and predictability of costs faced by families, including childcare and other costs associated with dependent children, transport, energy and other utility costs, as well as the increased costs associated with disability. It also includes costs associated with borrowing and unmanageable debt.

Financial resilience factors relate to the ability of households to cope when costs unexpectedly rise or incomes fall. It relates to the ability to access to savings and affordable credit, as well as the ability to reduce spending if needed. This includes the ability to save for an adequate level of income in retirement.

WHY DOES FINANCIAL SECURITY MATTER?

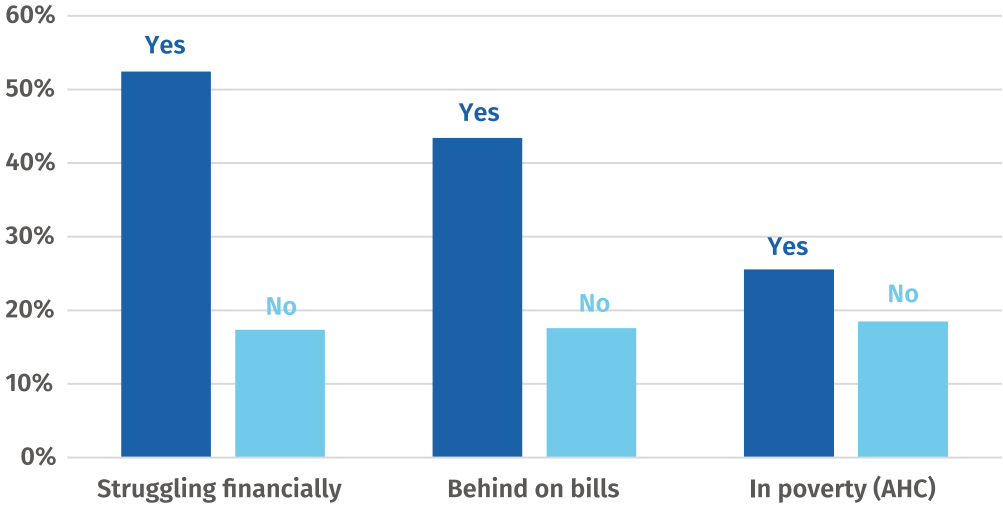
Financial insecurity is detrimental to wellbeing

Research finds that perceived financial wellbeing is a key predictor of overall wellbeing, comparable to job satisfaction, physical health, and relationship satisfaction, and that money management stress has "a serious detrimental effect on the wellbeing of low income individuals" (Netemeyer et al 2017). Only high income individuals are found to be protected from the negative effects of money management stress on overall wellbeing. The unpredictability associated with precarious work can also have negative effects on financial security, as well as workplace progression – which can itself contribute to financial insecurity over the long term (White 2016).

Our analysis finds that symptoms of depression and anxiety (as measured by the General Health Questionnaire (GHQ)) are significantly more prevalent among people in Scotland who are experiencing financial distress, as indicated by some of the measures we outlined above.

FIGURE 1.1: PEOPLE IN SCOTLAND EXPERIENCING FINANCIAL INSECURITY ARE MORE LIKELY TO REPORT SYMPTOMS OF ANXIETY AND DEPRESSION

Percentage of respondents reporting symptoms of anxiety or depression by financial insecurity measures



Source: IPPR analysis of University of Essex 2020a.
Notes: Data refers to wave 9 (2017–2019). 'Financially struggling' refers to those finding it 'quite' or 'very' difficult to get by financially. 'Behind on bills' refers to a person living in a household who is behind on household bills, council tax, or housing payments.

Among those who said pre-Covid-19 that they were struggling to get by financially, over 50 per cent had symptoms associated with depression and anxiety, compared to less than 20 per cent among those who said they were not struggling financially. Similarly, those who said they were behind on bills also had significantly higher prevalence of these symptoms, which included: losing sleep over worry, being unable to concentrate, and thinking of themselves as worthless.

Financial insecurity is detrimental to business and the wider economy

Financial insecurity is also bad for business. Worry about financial security and indebtedness harms productivity and health of employees, and therefore a company's bottom line. Stress about money acts as a 'cognitive tax' and has been found to increase rates of accidents at work, even when controlling for a host of other factors (Leana 2019). Metlife's UK *Employee Benefit Trends* research finds that 39 per cent of UK employees were living paycheck to paycheck in 2017, with more than one in three distracted at work due to money worries (Metlife 2017). Research from the Chartered Institute of Personal Development has made the case for employers to invest in the financial wellbeing of their workforce in order to help "improve people's financial competence and productivity, reduce time off work due to stress and thereby improve organisational performance" (CIPD 2017). There is therefore a clear case for employers to be invested in the financial wellbeing of their workforce.

2. PROTECTING FINANCIAL SECURITY THROUGH THE CRISIS SO FAR

Over only a few months, the Covid-19 crisis has transformed the financial security of families across Scotland. This chapter outlines some of the UK and Scottish government policy responses in relation to financial security since the global pandemic began.

THE ECONOMIC EFFECTS SO FAR

The Covid-19 crisis has already caused huge economic damage. Across the UK we have seen the largest contraction in the economy in modern history, with an estimated drop of 20.4 per cent between April and June 2020, vastly higher than the recessions seen following the financial crash and through the 20th century (ONS 2020a).

It is increasingly clear that the recovery from this level of contraction will not be the quick 'V-shaped' recovery hoped for earlier this year. Instead it is likely that the economic recovery will take years with levels of unemployment lagging behind the recovery in the size of the economy as a whole (OBR 2020a).

UK GOVERNMENT ACTION

Overall, the UK government's policy response to the Covid-19 crisis so far is expected to cost around £190 billion in 2020/21 – a near-unprecedented level of intervention in peacetime (Resolution Foundation 2020). Below, we outline the UK government interventions geared towards protecting levels of financial security across the UK.

The coronavirus job retention scheme and self-employment income support scheme

On 20 March 2020, just prior to the UK entering lockdown, the UK government made a series of significant economic announcements. This included the coronavirus job retention scheme (CJRS). The CJRS funded employers to keep jobs open throughout the lockdown period, in an attempt to avoid a wave of redundancies as businesses were forced to close, at least temporarily. The scheme provides employers with up to 80 per cent subsidy of salary costs, up to a cap of £2,500 per month. Employers can top-up wages beyond the government contribution. In late May, the UK chancellor announced the phasing-out of the scheme, with employers able to claim back part-time working and asked to take on greater proportions of salary costs from July through to the end of the October when it will end.

At the end of June, there had been 9.6 million workers on the CJRS across the UK, of which 780,000 were in Scotland – representing just under one in three workers (HMRC 2020a). The scheme is projected to cost £47 billion UK-wide (OBR 2020a).

A similar scheme – the self-employment income support scheme (SEISS) – was also implemented for self-employed workers, offering up to 80 per cent of average previous earnings up to the equivalent of the CJRS salary cap for those earning less than £50,000 per year. As with the CJRS, support from government will be tapered before the scheme ends in October. As of the end of June, 2.6 million self-employed workers across the UK were accessing the scheme, with 157,000 of those in Scotland (HMRC 2020b). The scheme is projected to cost £15 billion UK-wide (OBR 2020).

There have been concerns that in being designed quickly, as the pandemic struck, the furlough schemes left significant gaps in protection, including for those newly employed or newly self-employed. Estimates suggest up to 3 million workers across the UK were ineligible to access either scheme (Adam et al 2020).

Universal credit

We have seen huge increases in claims for universal credit (UC), since the crisis. reflecting that many households have faced an income shock through lost work and hours. In the first two months of lockdown, there were 2.4 million new recipients of UC – far higher than any period since its introduction (DWP 2020). In Scotland, we have seen similar proportional increases, with the UC caseload growing by 200,000 people between March and June (Scottish Government 2020f).

In March, the UK government announced temporary increases to the benefit system. This included a one-year uplift in the standard allowance of UC (and tax credits) of £1,000 and increases in the generosity of local housing allowances – used to calculate levels of housing support. The cost of the UK government's additional welfare measures is expected to be £9.3 billion in 2020/21 (OBR 2020).

While these temporary increases have been very important through the crisis so far, they still leave a significant gap between levels of UC entitlement and average wages, meaning many workers who lose their job will still face a significant income shock. Equally, UC rules mean those with savings over £16,000 or with a partner who continues to earn, will see much lower levels of support than others leading to far higher income shocks. Furthermore, some people will see no benefit from these changes, for example those still receiving 'legacy benefits' which UC is planned to replace who have not seen these temporary increases and others, and others such as people with 'no recourse to public funds' status, and others such as migrants who are unable to establish an entitlement to benefits. For these families there is only a minimal safety net – if one exists at all – to prevent them being dragged into poverty and destitution. Recent research has estimated that on average a worker who loses their job and receives UC will see a 47 per cent reduction in their income, compared to only a 9 per cent income shock for those who have faced furlough (Brewer and Handscomb 2020).

Business grants and loans

In the early part of the crisis, the UK government also announced a package of business grants and loans. The grants and tax holidays mainly applied to England through the business rates system (with consequential increases in the budgets for the devolved administrations) including tax holidays for sectors hardest hit by the crisis, and grants for small businesses. These are expected to cost £32 billion across the UK in 2020/21 (OBR 2020).

The UK government also pledged up to £330 billion in loans and guarantees to support the economy across various schemes. This included the UK government's 'bounce back loan' scheme, which has seen businesses affected by Covid-19 able to apply for between £2,000–£50,000 (up to 25 per cent of turnover) in lending from private lenders with a 100 per cent government guarantee (for small businesses), or an 80 per cent government guarantee (for medium and large businesses). The ultimate cost to government depends on default rates but it is currently estimated to be £20 billion in 2020/21 (OBR 2020).

Mortgage and loan holidays

In March, the UK chancellor announced a UK-wide mortgage payment holiday of up to three months for those affected by Covid-19, alongside a suspension of repossessions due to mortgage arrears through to the end of June (FCA 2020a). As of 11 June, figures from UK Finance showed that 1.9 million mortgage payment holidays had been put in place, accounting for over one in six mortgages across the UK (UK Finance 2020).

In May, the measures were extended for a further period through to the end of October (FCA 2020b). Similar voluntary measures have been offered to borrowers in relation to personal loans, car finance, and credit cards. The Financial Conduct Authority published guidance in August 2020, outlining how mortgage providers should work to transition customers back into making repayments on their mortgage to avoid a wave of home repossessions when the measures end at the end of October (FCA 2020c). No such guidance exists for borrowers returning to repayments from payment holidays on other forms of credit.

Taken together, analysis from the latest Standard Life Foundation financial impact tracker estimates that 13 per cent of households across the UK had taken up a full or partial repayment holiday on their borrowing due to Covid-19 – equivalent to 3.7 million households (SLF 2020c).

Eviction ban

In March 2020, the UK government extended the notice period in England for evictions to three months. This was later extended to six months, with eviction proceedings unable to start earlier than 20 September. The UK government stated this would protect tenants from eviction through to the end of March 2021 (UK Government 2020b).

At the same time, the UK government announced the extension of mortgage holidays to buy-to-let mortgages across the UK, in the hope that mortgage holidays would be passed on to tenants through rent holidays (ibid).

Summer update measures

In July 2020, the UK government announced a further range of measures in its summer update. These included a new Kickstarter Job Fund, to provide subsidised employment opportunities to young people across the UK, a stamp duty reduction for house purchases in England (with consequential budget increases for devolved administrations), bringing forward of capital spending, a temporary VAT cut for most accommodation, eating out and attractions spending, and an 'Eat Out to Help Out' meal voucher scheme to encourage people to return to spending in restaurants. In addition, the UK government announced a coronavirus job retention bonus, offering employers £1,000 for every employee that has been furloughed that they retain in continuous employment to January 2021, for roles paid at least on average £520 per month. These measures taken together are estimated to cost a further £30 billion in 2020/21 (Resolution Foundation 2020).

Job support scheme

In September 2020, the UK chancellor announced the job support scheme that will act as a successor to the job retention scheme. The scheme will open on 1 November and run for six months, with the aim of keep workers on in 'viable jobs' where they are facing reduced demand over the winter months, by contributing towards wage bills for employees working reduced hours. IPPR and others have raised concerns about the extent to which the scheme offers sufficient incentives to employers to prevent layoffs, and the lack of provision for industries and areas of the country in which fundamentally viable firms are not able operate due to ongoing restrictions. In early October, the chancellor announced an extension of the Job Support Scheme that will see two-thirds of wages paid to workers in firms told to shut due to local lockdowns over the winter.

SCOTTISH GOVERNMENT ACTION

As outlined above, many of the UK government responses to the Covid-19 crisis so far apply across the UK, while other spending and tax changes from the UK government will see consequential increases in Scotland's budget.[1]

The Scottish government's response to Covid-19 currently amounts to over £4 billion in 2020/21. Most of this spending is currently being directed to grants and tax holidays for businesses in Scotland through Scotland's business rates system, amounting to around £2.2 billion in 2020/21. The Scottish government has also invested additional funding for public services such as health and social care, rail, and local government as the pandemic increases demand for some services and decreases demand (and income) for others (Hudson 2020).

For landlords, in May 2020, the Scottish government announced a £5 million private rented sector (PRS) landlord (non-business) Covid-19 loan fund, to provide an interest-free loan to landlords with fewer than five properties to cover rent shortfalls from tenants through the crisis (Scottish Government 2020a). It was designed for landlords who had already taken-up mortgage holidays on buy-to-let properties.

For tenants, and prior to similar moves by the UK government for England, the Scottish government announced a temporary extension to eviction notice periods, meaning most tenants could not be evicted prior to March 2021. In September, the Scottish government announced a new £10 million Tenant Hardship Loan Fund, as called for by IPPR Scotland, due to open in the autumn to help tenants with housing arrears.

The Scottish government announced an increase in devolved benefits spending through a temporary uplift in the devolved carers' allowance supplement in the form of an additional one-off payment of £230.10, made in June to people in Scotland in receipt of the UK-wide carers' allowance benefit. In addition, the Scottish government announced a £350 million package of spending on welfare and wellbeing which included a £45 million increase in crisis funds paid by the Scottish Welfare Fund (administered by local authorities in Scotland) and £50 million for additional demand for the council tax reduction scheme and other social security payments in Scotland linked to receipt of universal credit (and legacy benefits) (Scottish Government 2020d). Around £30 million has been made available to local authorities to tackle financial insecurity, including through the provision of free school meals through the winter break.

Since the UK government's summer update, there have also been some additional consequential increases in funding that have yet to be allocated. This has included the estimated £133 million increase in funding stemming from the UK government's stamp duty cut in England. Around £33 million of this has been allocated to smaller changes to the equivalent tax in Scotland, with £100 million set aside for a Scotland-only job scheme for which details will follow imminently (SFC 2020a).

1 The funding available to the Scottish parliament can increase either due to spending increases to devolved policy areas in England or the rest of the UK, or due to reductions in tax revenue per (for example through tax cuts) to devolved taxes in England or the rest of the UK.

At the start of the Covid-19 crisis, the Scottish government announced a delay to the implementation of its new Scottish child payment, which was due to begin rolling out to under-sixes from December 2020, before a full roll-out to under-16s by 2022. The payment will see £10 per week per child, paid to families in receipt of UC (and legacy benefits) with no cap or limit on the number of children eligible. Recent estimates suggest that, once fully rolled-out, the payment will cost around £180 million per year, benefiting up to 350,000 children in Scotland, and lifting 30,000 children out of poverty (SFC 2020b). In August 2020, the Scottish government announced the payment would now begin at the end of February 2021 (roughly a 10-week delay), with applications opening in November (Scottish Government 2020e).

A JOBS CRISIS?

As outlined above, a quick bounce-back is now looking unlikely, with the economy projected to take years to recover to its pre-Covid-19 levels of output (OBR 2020). Even following these unprecedented interventions, unemployment across the UK is forecasted to lag behind GDP recovery, peaking at 11.9 per cent in the last quarter of 2020, with very little improvement well into next year and unemployment projected to remain considerably higher for years to come (OBR 2020).

Without question, we are entering a jobs crisis unlike anything seen for many decades. We will consider youth unemployment later in this report, but it is clear that while this jobs crisis will likely hit people across society and across the country, young people are likely to be among those hit the hardest, with youth unemployment potentially reaching unprecedented levels.

3.
FINANCIAL SECURITY: TRENDS PRIOR TO COVID-19

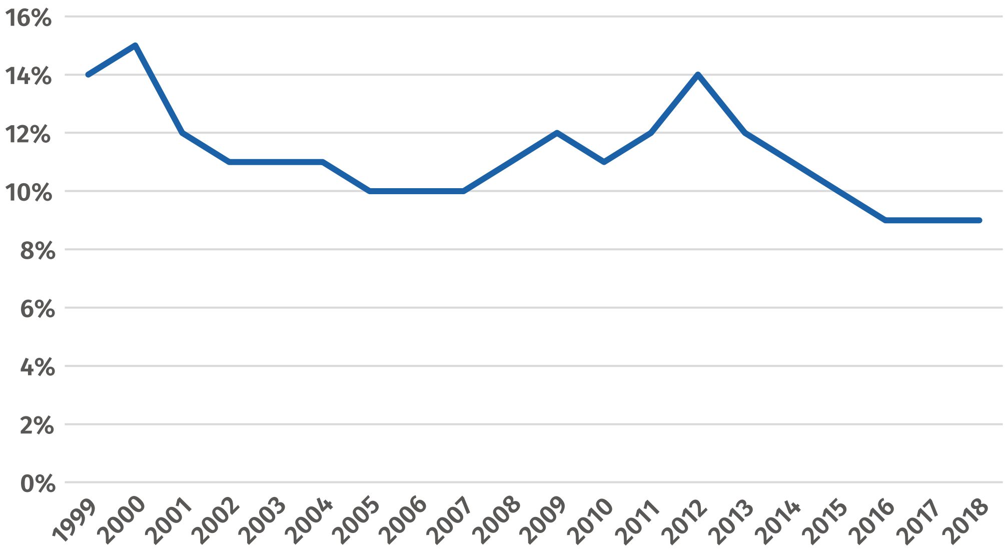
Reliability of income is one of the key principles of financial security identified earlier in the report, and job quality and job security are crucial to delivering it. Likewise, the ability of the social security system to deliver reliable income is crucial to delivering financial security. This chapter considers levels of financial security prior to the arrival of Covid-19 and considers some of the labour market and social security changes seen in recent years.

FINANCIAL SECURITY SINCE THE FINANCIAL CRASH

The Scottish Household Survey has, since 1999, tracked how households think they are managing financially. Running up to the financial crisis, the proportion of households who were struggling financially (defined as either 'not managing well' or 'in deep financial trouble') fell from 14 per cent to 10 per cent, before rising again to levels not seen since the early 2000s in the wake of the financial crash. The proportion of households struggling then fell continuously until 2016 at which point it has stabilised at just under one in 10 households.

FIGURE 3.1: PROGRESS TOWARDS REDUCING FINANCIAL INSECURITY IN SCOTLAND HAD STALLED PRIOR TO THE COVID-19 CRISIS

Proportion of households in Scotland who are not managing financially



Source: Scottish Government 2019h

Despite these improvements, this still represents over 220,000 households in Scotland who were likely struggling financially in 2018. The substantial rise observed following the last recession is a stark warning that any progress made could easily be reversed by the impacts of Covid-19.

Further, recent trends in the labour market and social security means that workers are potentially more exposed to future risks than previously:

LABOUR MARKET TRENDS PRE COVID-19

One of the reasons for significant levels of financial insecurity prior Covid-19 could be changes in the labour market following the financial crash of 2007/08.

Despite much celebrated record high levels prior to Covid-19, employment rates are a blunt instrument with which to measure the functioning of the labour market. During and after the 2007/08 financial crisis, the labour market underwent a structural shift which left many workers in a more precarious position. Increasingly, being in employment *per se* does not guarantee financial security. As such, the fall in workless households that has been seen has *not* led to falling poverty because the work has in some cases been of insufficient quantity or quality or both. As a result, the proportion of households in poverty who are in work has risen.

We consider several long-term labour market trends which suggest that work quality has fallen since 2008: underemployment, rising self-employment, and a greater prevalence of zero-hours contracts. In addition, earnings growth has failed to keep up with inflation meaning that the average worker was no better off in 2017 than in 2008.

Zero-hours contracts

Zero-hours contracts (ZHCs) refer to contracts with no guaranteed minimum working hours each week. As such, they are associated with fluctuating income levels which present challenges for managing household finances as well as greater precarity. Prior to 2012, statistics suggest that less than 1 per cent of UK employees was employed by them, however they have since tripled to over 3 per cent of employees in the second quarter of 2020. Although the ONS attributed an initial uptick in the statistics between 2012 and 2013 on increasing awareness of the term, ZHCs have continued to rise in prevalence since then. In Scotland in 2020, the statistics show that the number of workers on ZHCs in the second quarter of 2020 has increased by 18 per cent on the previous year to 83,000 workers – constituting 3 per cent of the workforce (ONS 2020b).

Our analysis of available survey data suggests that job satisfaction is much poorer for those who use ZHCs, with just 40 per cent of people employed on ZHCs satisfied with their job compared to 56 per cent among those who aren't. Relatedly, workers who used ZHCs were over twice as likely to say they were finding it quite or very difficult to get by financially than those who did not use ZHCs (12 per cent compared to 5 per cent). While workers on zero-hours contracts represent only a relatively small share of the wider workforce, they are likely symptomatic of a wider problem that also includes short-hours contracts, whereby workers' contracts guarantee a small number of hours work per week (see CIPD 2015; D'Arcy & Rahman 2019). While a worker on either a zero-hours or a short-hours contract might regularly work more hours than is offered by their contract, this type of employment fosters insecurity.

Rising self-employment

We have also seen a rising trend of people who are self-employed, increasing by around one-fifth in Scotland since the recession to now account for over 12 per cent of workers (Scottish Government 2020). Although self-employment is not necessarily a negative in of itself and is desirable for many workers, there is concern that a shift to a labour market with greater self-employment leaves more workers potentially exposed to financial insecurity through greater income volatility, as well as lack of sick pay and employer pension schemes. Some areas have seen more substantial growth in self-employment than others, with increases of over 50 per cent in Glasgow, Dundee City, East Ayrshire, and West Lothian between 2005 and 2019 (Scottish Government 2020b).

Poor pay growth since the last recession

Since the last recession, increases in weekly earnings in Scotland have failed to keep pace with the rate at which prices have been rising – the median weekly earner was only slightly better off in 2019 than they were in 2008. This real-terms stagnation in wages represents a missed opportunity to bolster financial security over the past decade.

FIGURE 3.2: PAY IN SCOTLAND TOOK OVER A DECADE TO RECOVER FROM THE LAST RECESSION

Real pay growth in Scotland since the great recession

Source: IPPR analysis of ONS 2020f and 2020g
Note: Real pay growth is calculated by taking the percentage growth in median weekly earnings in Scotland and subtracting inflation as measured by the consumer price index.

Underemployment

In the last recession, the proportion of people who wanted to work more hours than they could get rose substantially from below 7 per cent prior to the crisis to over 10 per cent. Although this has since fell, the proportion remains higher than before the financial crisis, and there is early evidence of an uptick in the second quarter of 2020 (ONS 2020b). We may expect hours to fall and for (involuntary) part-time work to grow through the economic crisis to come, along with rising unemployment.

Income volatility

As a result of these, and other, wider, shifts across the UK labour market, we have also seen rising income volatility. This has been driven by rising rates of low paid self-employment alongside a shift towards insecure work in the form of non-standard (including zero-hours) contracts, 'gig' work, agency work, and bogus self-employment (RSA 2019; CEJ 2018). In the UK, the development of the 'gig economy' and other forms of casualised work has happened faster and gone further than in other developed economies, with greater flexibility offered at the expense of hard-won employment protections (CEJ 2018; Manyika et al 2016). Research published by the RSA in 2019 found that nearly one in four workers are finding it difficult to make ends meet as a result of income volatility, and 36 per cent of workers would struggle to pay an unexpected bill of £100 – rising to 56 per cent for a bill of £500 (Wallace-Stephens 2019).

SOCIAL SECURITY REFORMS IN THE PERIOD BEFORE COVID-19

Over the past decade, we have also seen a major change in the social security system through the introduction of universal credit, which replaced six previous out-of-work benefits into a single social security benefit. Many of these changes could have contributed to the levels of financial insecurity seen prior to the Covid-19 crisis.

Various aspects of UC design have been criticised for increasing financial insecurity.

- UC is not payable until approximately five weeks after a claim is made in usual circumstances. Individuals can claim an advance, but this must be repaid from future UC payments.
- The UC assessment period assesses income over a rolling one-month period from the date of application. This can introduce greater volatility to monthly payments, as administrative payroll errors can introduce considerable volatility to benefit entitlement (see CPAG 2018).
- The benefit is paid monthly (rather than weekly) by default, which presents challenges where income is inadequate, or for those who have difficulty budgeting.
- There are more stringent work search requirements to receive benefit compared to the previous system. It is therefore easier to be subject to a 'benefit sanction', where benefit is temporarily withdrawn.

New policy across the benefit system more widely has affected both the generosity of payments and their reliability.

- The benefit cap, which limits the total benefits that a household can receive to £385 a week in Scotland across many elements of the benefit system.
- The 'benefit freeze', which prevented benefit rates from rising with inflation, meaning that value of most benefits was eroded in real terms between 2015 and 2020 prior to Covid-19.
- The two-child limit, which limits (in UC and child tax credits) the number of children born after 2017 for whom parents can receive additional benefit payments for.
- Reductions in work allowances – the amount of money which can be earned in the benefit system before benefit is withdrawn.
- Changes to how local housing allowances are set; these determine the generosity of housing payments, and were moved from from the 50th percentile of local area rents to the 30th per centile.
- The removal of the spare-room subsidy, or the 'bedroom tax', whereby housing payments are docked if an individual is deemed to have a spare room, despite the fact there may be limited options for downsizing in the local area.
- The removal of the Work-Related Activity Group (WRAG) component of ESA for disabled people, meaning that those in the ESA WRAG group receive the same amount as those who do not have limited capacity for work.
- The introduction of personal independence payment (PIP) to replace disability living allowance, with more frequent re-assessment and more stringent criteria in many cases.

Taken together, these changes represent a shift in risk from the social security system onto individual people and families. In doing so, they have forced greater insecurity onto people in receipt of social security payments. In light of the Covid-19 crisis, this insecurity has been laid bare, as a wider group of people have had to fall back on the social security system than in normal times. This has exposed both the gaps and inadequacies of current social security provision.

4.
FINANCIAL SECURITY IN SCOTLAND WHEN THE CRISIS HIT

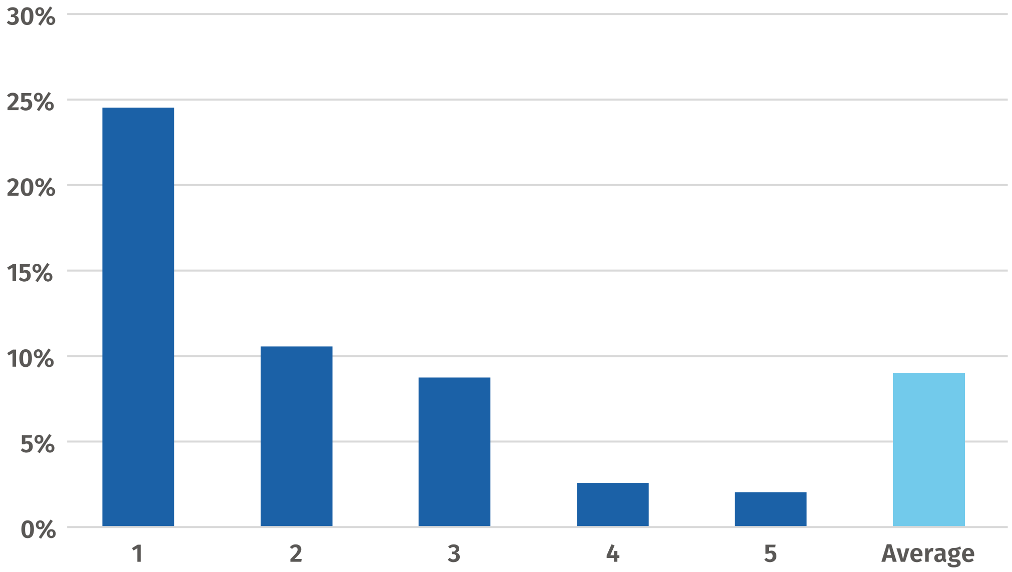
Alongside decreasing job quality and social security reform, Scotland entered the Covid-19 crisis with weak levels of financial security, limiting the ability of some households and families to cope with a financial shock. This chapter considers some of the available measures of financial security, and outlines the levels of financial security in Scotland, on a range of measures, when the Covid-19 crisis hit.

Behind on bills

We examined whether or not households report being behind on bill payments (utilities and council tax) or their housing costs, and the proportion of people who live in such households. In the latest available data (2017–19) this was around **one in 10** (9 per cent), or 400,000 adults. These people were largely concentrated (although not exclusively) in the poorest income quintiles, with one in four of the poorest households struggling with their bills.

FIGURE 4.1: ONE IN 10 SCOTTISH PEOPLE LIVE IN A HOUSEHOLD BEHIND ON BILLS, AND THIS IS THE EXPERIENCE OF ONE-QUARTER OF THOSE IN THE POOREST INCOME QUINTILE

Percentage of adults who live in households behind on bills and housing payments by equivalised income quintile (after housing costs)



Source: IPPR analysis of University of Essex 2020a. Data from Wave 9 (2017–19).

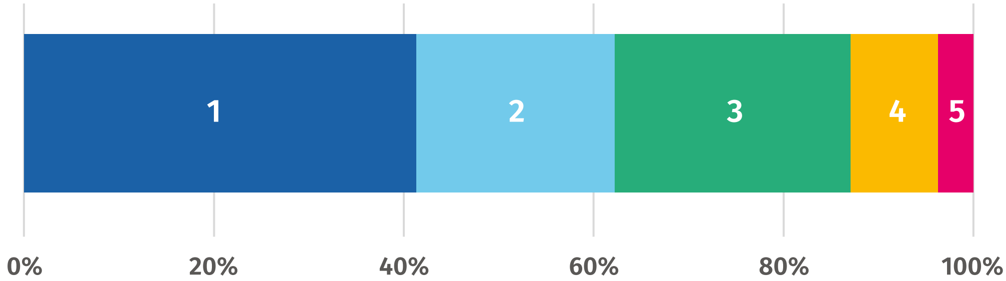
Proportion of people who are 'struggling financially'

We found that one-quarter of adults in Scotland say they are "just about getting by" or worse, with **7 per cent of adults** saying they are finding it "quite difficult" or "very difficult" to get by financially, equivalent to 310,000 people.

There are people who describe themselves as "struggling financially" across the income distribution, though they are certainly concentrated in lower income households.

FIGURE 4.2: THE MAJORITY OF THOSE WHO ARE FINDING IT DIFFICULT TO GET BY FINANCIALLY ARE IN THE POOREST TWO INCOME QUINTILES, BUT PEOPLE ACROSS THE INCOME DISTRIBUTION WERE FEELING THE PINCH PRE-CRISIS

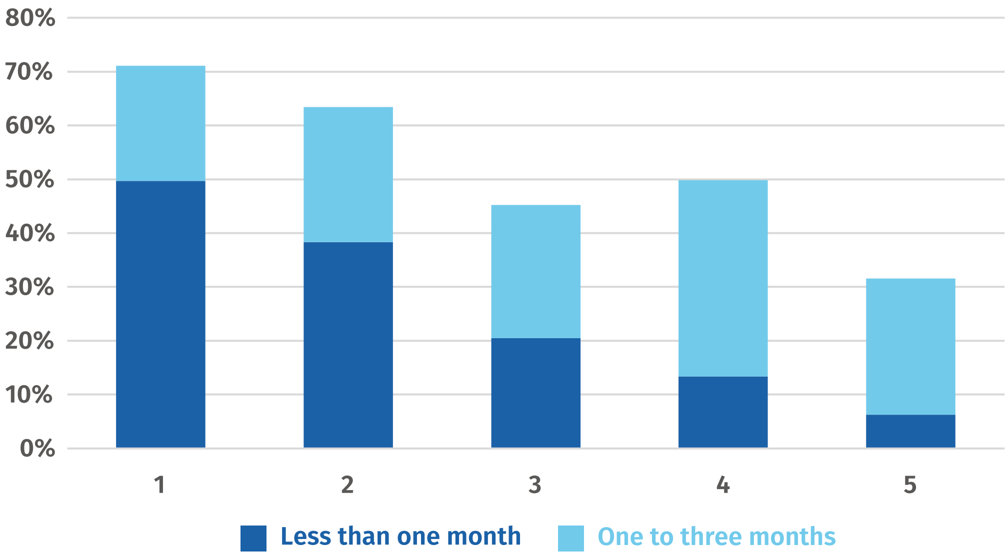
Percentage of adults in Scotland who are finding it "quite difficult" or "very difficult" to get by financially, by income quintile (after housing costs)



Source: IPPR analysis of University of Essex 2020a. Data from Wave 9 (2017–19).

FIGURE 4.3: ACROSS THE INCOME DISTRIBUTION, MANY PEOPLE IN SCOTLAND FEEL THEY ARE ILL-PREPARED FOR AN INCOME SHOCK

Percentage of people in Scotland who would be unable to cope for three months or less if they lost their main source of income, by income quintile



Source: IPPR analysis of ONS 2020h. Data collected between 2016 and 2018 from the Wealth and Asset Survey.

Perceived ability to cope with falling income shock

Some measures of financial security relate not to a person's current situation, but the extent to which they feel able to cope with a hypothetical future income shock. This could be through a combination of accessing savings, reducing discretionary spending, or relying on others to get by.

The Wealth and Assets Survey asks individuals how long they would be able to cope with an income shock (ONS 2020h). Our analysis of the latest data (2016 to 2018) finds that:

- 25 per cent of people in Scotland say they would only be able to cope for less than one month if they lost their main source of income (1.1 million people)
- this rises to 29 per cent among working-age people in Scotland.

On this measure, higher income households were – perhaps unsurprisingly – more resilient than lower incomes households.

25%

of people in Scotland say they would only be able to cope for less than one month if they lost their main source of income (1.1 million people)

Household debt

Accumulating debt can be both a symptom and a driver of financial insecurity: signalling financial insecurity in the present, and potentially driving deeper financial insecurity in the future, as the need to make repayments reduces resources available to meet other costs, and reduces resilience to future financial shocks.

Before the pandemic struck, unsecured household debt in the UK was at record levels (TUC 2020).[2] We know that the least wealthy households share a greater debt burden as a portion of their total wealth than more wealthy households – which drives financial insecurity.

The greatest challenge debt poses to financial security is problem debt, or over-indebtedness, when someone is unable to pay their debts or other household bills. Analysis from the ONS found that 3 per cent of Scottish households in April 2016 to March 2018 were identified as having 'unmanageable debt' – or 74,000 households. Across the UK, private renters were twice as likely to report problem debt than average, and households in problem debt were six times more likely to have an unemployed household head (ONS 2019)

Financial insecurity goes wider than those in relative poverty (after housing costs)

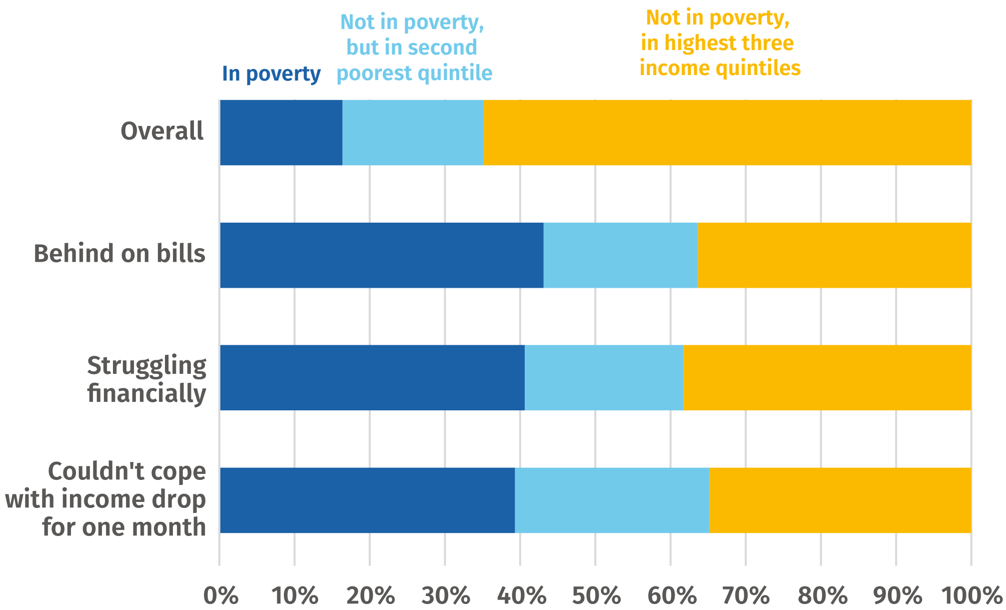
A common estimate of financial security is relative poverty, measured as the proportion of people whose household income is 60 per cent below the median. This figure is typically adjusted for housing costs and accounting for who lives in the household.

Our analysis of Understanding Society data finds that **18 per cent** of adults in Scotland were living in relative poverty pre-crisis (equivalent to 800,000 people). We find that this measure has considerable, but far from perfect, overlap with the measures of financial insecurity outlined above. A significant number of people who are not in poverty by this measure, but who are behind on bills, might describe themselves as struggling financially, or who would have limited resilience in the face of an income shock. Similarly, not everybody categorised as living in relative poverty reports struggling with their bills or says that they are struggling to get by financially. This is partially driven by the subjective nature of some of these questions, where one person's perception of 'getting by' or 'coping' could be quite different to somebody else's, and this could vary by income level and background.

2 Unsecured debt refers here to non-mortgage debt.

FIGURE 4.4: WHILE THOSE IN POVERTY ARE SUBSTANTIALLY OVER-REPRESENTED AMONG PEOPLE EXPERIENCING OTHER MEASURES OF INSECURITY, MANY PEOPLE LIVING ABOVE THE POVERTY LINE ARE ALSO EXPERIENCING FINANCIAL INSECURITY

Relative poverty breakdowns by different measures of insecurity



Source: IPPR analysis of University of Essex 2020a and ONS 2020h. Overall breakdowns shown are from USOC data.

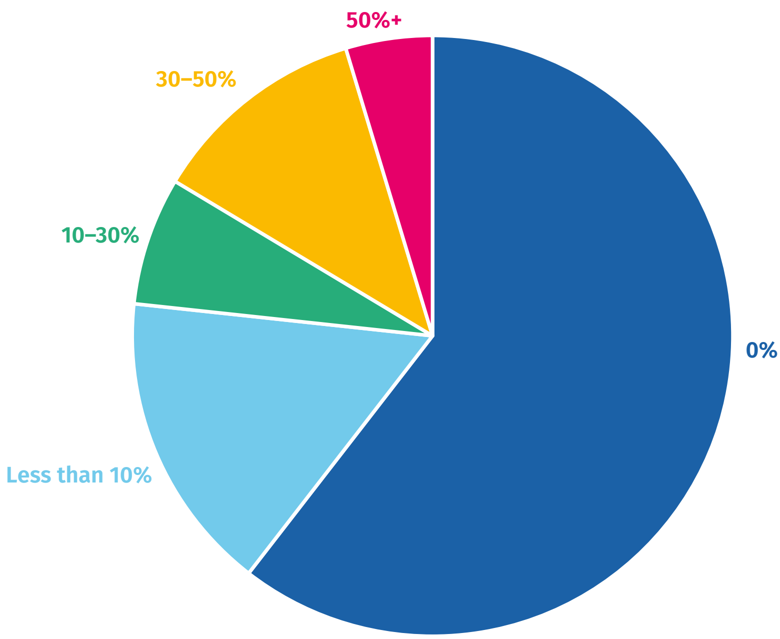
Clearly, there are different ways of looking at financial security and no one measure should necessarily dominate. We find that around **13 per cent of adults in Scotland** were behind or bills and/or struggling to get by financially before the crisis hit. Among working-age people, 29 per cent felt they were ill prepared to cope should they lose their main source of income. This represents significant levels of insecurity across Scotland's population prior to the Covid-19 pandemic.

5.
FINANCIAL SECURITY THROUGH THE COVID-19 CRISIS: HOW HAVE PEOPLE FARED SO FAR?

As Covid-19 has caused economic disruption on a scale that is unprecedented during peacetime, the knock-on effects for financial security have been profound. Despite the suite of interventions and their widespread take-up as outlined in chapter 3, many people and families have faced significant hits to their finances through the crisis so far. This chapter considers evidence around the effects on financial security through the available survey data in Scotland.

FIGURE 5.1: IN MAY, AROUND ONE IN FIVE PEOPLE IN SCOTLAND WERE CONCERNED ABOUT BEING ABLE TO MAKE FINANCIAL COMMITMENTS OVER THE NEXT THREE MONTHS

Stated likelihood of making your financial commitments over the next three months



Source: IPPR analysis of University of Essex 2020b
Note: Data collected in May 2020.

OVERALL FINANCIAL SECURITY

We also looked at how concerned people in Scotland were about being able to meet their financial commitments in the months ahead, using survey data from May 2020. We found that around one in five (17 per cent) had significant concerns about running into financial difficulties over the coming months – the equivalent of over 700,000 people in Scotland (see figure 5.1 below). One in 20 – or around 200,0000 people – thought it was very likely that they would be unable to meet their commitments.

And it was not just those who reported to be struggling with their finances who also reported concern about meeting their financial commitments over the next three months. Almost two-fifths (39 per cent) of those 'just about getting by' reported a high likelihood of running into problems, alongside more than four out of five of those 'finding it quite difficult', and nine out of 10 of those 'finding it very difficult'. This suggests that concerns for the future were widespread across the financial security spectrum.

INCOME SHOCKS

Universal credit

As we outlined in chapter 3, across the UK, more than 2.4 million additional claims were made for universal credit between March and May 2020. In Scotland, we saw similar proportional increases with the numbers of people in receipt of UC increasing from around 250,000 in March to over 450,000 by June (DWP 2020; Scottish Government 2020f). Recent research has estimated that those who lose their jobs and move to the UC system see an average income drop of 47 per cent (Resolution Foundation 2020).

The increases seen in UC claims in Scotland came from across all ages, with particular spikes for 25 to 65 year olds in the early part of lockdown. However, as we have moved into June and July, we saw a higher proportion of recipients aged between 16 to 24 than at any point over the last few years – potentially pointing to the beginnings of a spike in youth unemployment (Scottish Government 2020f).

At the same time, we have seen significant increases in the number of claims capped by the benefit cap. The UK government imposes a benefit cap of £20,000 per year (or £13,400 per year for single adults), capping most claims at a maximum of these amounts. The numbers of claims in Scotland capped in this way increased from 3,700 in March to over 6,000 in May (a 62 per cent increase). As of May, 97 per cent of families in Scotland who had seen their support restricted by the benefit cap were families with children, with just over 4,000 (66 per cent) from lone parent families (ibid).

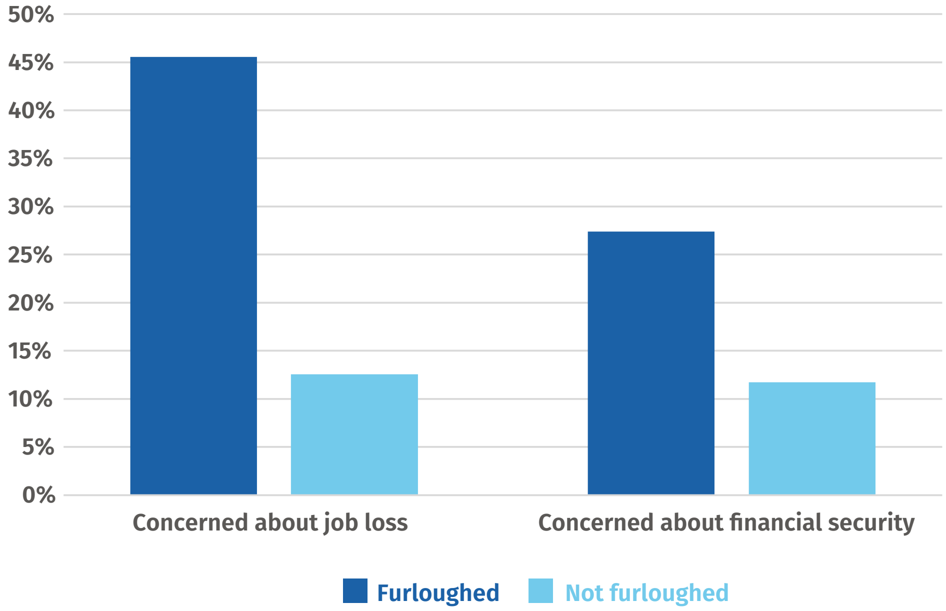
Furlough

Across the UK, the furlough scheme for employees has supported nearly 10 million jobs, with 779,500 workers (or 31.5 per cent of all workers) in Scotland having accessed the scheme since its launch (HMRC 2020a). For those workers facing furlough, recent research from the Resolution Foundation has estimated that on average they would face a 9 per cent income shock (Resolution Foundation 2020).

We found that those who had been furloughed felt considerably gloomier about their future jobs prospects than those who had avoided furlough. Indeed, in May, **46 per cent** of those furloughed reported feeling worried about their job security over the next three months, compared to **13 per cent** among those who had not been furloughed – a smaller but still substantial share. This difference between those furloughed and those not was also mirrored in the levels of confidence people had that they would be able to make their financial commitments over the next three months. Of those who had been furloughed, 27 per cent were concerned about meeting their financial commitments, compared to 12 per cent among those who had not been furloughed.

FIGURE 5.2: FEAR AROUND JOB LOSSES AND FINANCIAL SECURITY IS HIGH, PARTICULARLY FOR THOSE WHO HAVE EXPERIENCED FURLOUGH

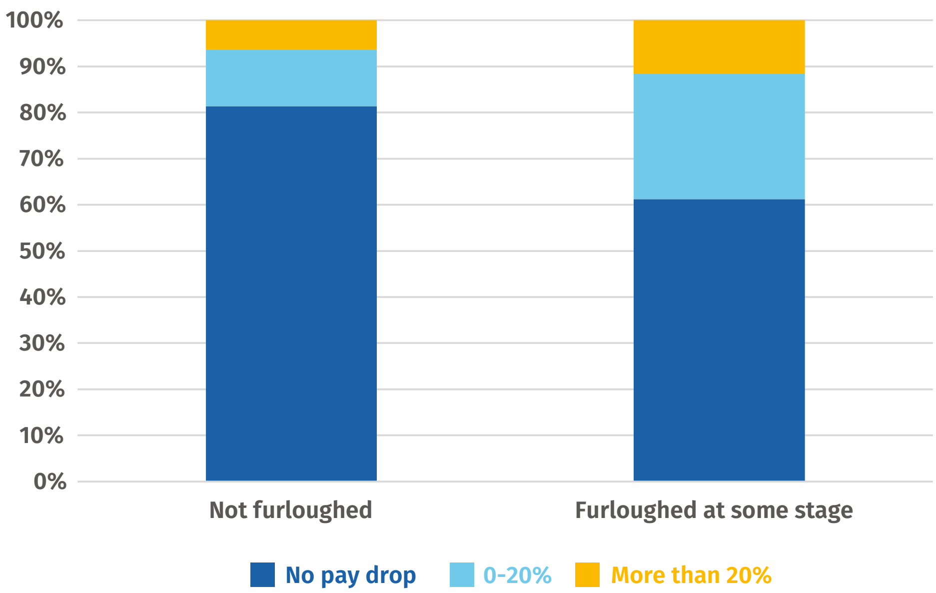
Employment and financial prospects by furlough status in Scotland



Source: IPPR analysis of University of Essex 2020b
Notes: Data collected in May 2020. 'Furlough status' refers to whether respondents had been furloughed at any point in the crisis as of May. "'Concern' is defined as having stated they had a 30 per cent or above chance of losing their job or having difficulty making future financial commitments.

FIGURE 5.3: WORKERS WHO HAD BEEN FURLOUGHED REPORTED SUBSTANTIAL DROPS IN TAKE HOME PAY BETWEEN JUNE AND JANUARY, BUT OTHER EMPLOYEES ALSO EXPERIENCED PAY DROPS AS WELL

Prevalence of pay reductions in Scotland in June (employees only)



Source: IPPR analysis of University of Essex 2020b
Note: Data collected in June 2020.

Of people who were employed in January/February of this year, but had been furloughed at some stage, 39 per cent reported lower pay in June than at the start of the year. Among those who had been furloughed and experienced a pay drop, around 1 in 3 had seen their income fall by 20 per cent or more. While some employees who had *not* been furloughed also reported a fall in income, they were much more likely to have maintained their incomes than those who had.

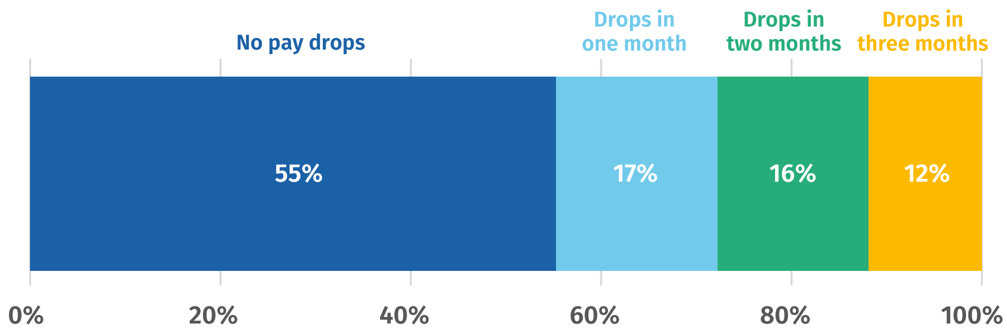
> **"Half of self-employed workers in Scotland surveyed in June reported a drop in pay from the start of the year. 45 per cent of employees reported a pay drop at some point between April and June"**

Among self-employed workers in Scotland surveyed in June, **half reported a pay drop from the start of the year.** This estimate does not, however, factor in the self-employment income support scheme (SEISS) which will allow some self-employed people to re-coup income in future.

Although 28 per cent of employees in Scotland surveyed in June reported a drop in pay relative to the start of the year, we found that a substantially higher proportion – 45 per cent – reported experiencing a drop in pay *at some point* between April and June. 43 per cent of those employees who reported a drop in pay in June had experienced a sustained fall in income through April–June – in other words, their income had not recovered to levels reported at the start of the year.

FIGURE 5.4: NEARLY HALF OF ALL EMPLOYEES SURVEYED IN JUNE HAD EXPERIENCED A PAY DROP SINCE THE START OF THE YEAR, AND ONE IN 10 EXPERIENCED PERSISTENT LOWER PAY THROUGHOUT APRIL TO JUNE

Persistence of pay drops among employees in Scotland



Source: IPPR analysis of University of Essex 2020b
Note: Refers to data collected between April–June.

Our analysis of Understanding Society data from May finds that of those who had experienced a drop in pay, around **half** said they had coped by reducing their spending (University of Essex 2020b). **One-quarter** had made use of savings to get by and **one in 10** had resorted to borrowing either formally or informally. We may expect that as the crisis wears on and savings are drawn down, more people will depend on borrowing to get by – if they can access it. Where access to secure and affordable borrowing is out of reach, this will cause even greater strain.

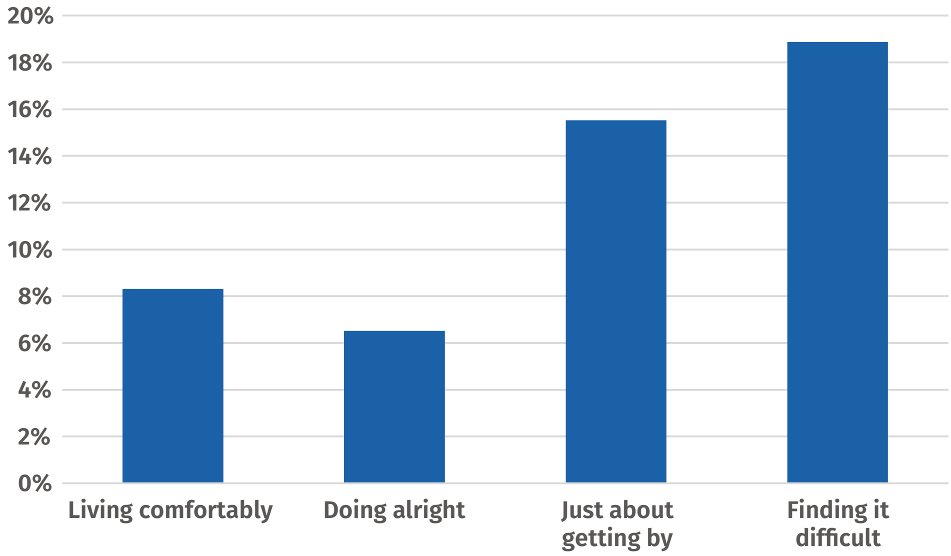
Analysis from the Standard Life Foundation's financial impact tracker for April finds that one in five people reported using credit to pay for food or essentials – a much higher proportion (Standard Life Foundation 2020a). IFS analysis of the Living Cost and Food Survey (IFS 2020) has shown that people living on lower incomes are less able to reduce their total spending than those on higher incomes and thus are less resilient to financial shocks, as a bigger proportion of their budget is taken up by essentials such as housing and food costs. The poorest fifth of people spend 55 per cent of their total budget on essentials compared to 39 per cent for the richest fifth.

Crucially, we find that people in Scotland who have experienced a fall in pay since March were also more likely to have been struggling financially before the pandemic struck. Respondents who reported substantial income drops (a fall in income of 20 per cent or more in June as compared to reported income for January or February) were more likely to have been struggling financially before the crisis that those whose incomes were relatively better protected.

"People in Scotland who have experienced a fall in pay since March were also more likely to have been struggling financially before the pandemic struck."

FIGURE 5.5: THOSE WHO WERE STRUGGLING FINANCIALLY IN SCOTLAND PRE-CRISIS WERE MOST LIKELY TO REPORT A SUBSTANTIAL (20 PER CENT OR OVER) DROP IN PAY COMPARED TO BEFORE THE CRISIS

Proportion of employees experiencing a pay drop of 20 per cent or more by their pre-Covid-19 financial situation



Source: IPPR analysis of University of Essex 2020a and 2020b
Note: Pre-Covid-19 financial situation refers to judgement made in the previous survey wave (2017–19).

Almost one in four respondents in Scotland who were struggling to get by financially pre-pandemic had experienced a fall in pay of 20 per cent of more during the period from April to June.

Analysis from the Standard Life Foundation's financial impact tracker found that at the end of July, one in five households across the UK were still experiencing a loss of income as a direct result of the pandemic. Exposure to income loss was not evenly spread across the population. Those households who were partially supported or unsupported by government schemes were disproportionately likely to be in skilled manual work, or to include workers in the arts and entertainment, construction, manufacturing, accommodation and food services, or transport sectors (Standard Life Foundation 2020c).

6.
'THE SAME STORM, DIFFERENT BOAT'
HOW ARE DIFFERENT GROUPS EXPOSED TO FINANCIAL INSECURITY DURING COVID-19?

While the impact of the pandemic has disrupted lives and livelihoods across Scotland, its effect is not being evenly felt across the population. Just as the virus left some more exposed than others to the immediate threat Covid-19 poses to our health, some are more exposed than others to the economic fallout from the virus. The pandemic has intensified existing financial pressures for many and pulled people who were managing pre-crisis into financial insecurity.

As well as considering the aggregate effects of the crisis on financial security, we also wanted to explore how financial insecurity among groups of people in Scotland prior to the pandemic, and during the Covid-19 crisis. This chapter focusses on some key population groups that faced barriers to financial security coming into this crisis, and who may be disproportionately exposed to the economic fallout from Covid-19 in Scotland. This includes low income families, parents, lone parents, self-employed workers, young people, renters, and disabled people.

Low-income families

Some workers, including many more likely to be in higher paid, more secure work, have seen their finances improve through the crisis. Others, including low paid workers and low paid families have been hit hardest by the economic effects of the crisis.

Recent evidence for the UK as a whole from the Bank of England shows that, as of July, those households with earnings of £35,000 and above had increased their net balances on average, while those households earning less than that had seen them decrease (BoE 2020). In May, the Standard Life Foundation's financial impact tracker found that those households in the lowest two income deciles were most likely to be experiencing serious financial difficulties – suggesting that the pandemic is deepening existing insecurities. It also found that insecure employment was most common among households in the lowest income decile, half of whom had experienced a fall in income of one-third or more, and three-quarters of whom expected to see their incomes fall in the months ahead (Standard Life Foundation 2020b). The Standard Life Foundation's most recent financial impact tracker also pointed to families on higher incomes being among the most likely to anticipate an improvement in their financial prospects over the next three months (SLF 2020c).

49%

of families with children in Scotland reported they were 'struggling to make ends meet' or experiencing more serious financial difficulty

Parents and carers

In May, nearly half (49 per cent) of families with children in Scotland surveyed by the Standard Life Foundation's financial impact tracker reported that they were 'struggling to make ends meet' or experiencing more serious financial difficulty.

Our analysis of Understanding Society data finds that across Scotland's workforce, parents are more likely to have sustained a fall in pay of 20 per cent or more during the pandemic than non-parents.

Beyond immediate financial threats, we have also seen intensified pressure on parents – and on mothers in particular – which are likely to feed into labour market outcomes over the coming months. As the Covid-19 crisis hit, schools and childcare providers were forced to close across Scotland, and many grandparents and other carers were forced to stay away from grandchildren and children they cared for, cutting off informal care networks. This has driven a significant transfer of care work from the state onto parents and carers. Recent research exploring the impact of Covid-19 on household time use finds that in the UK, as in Australia and the US, working women are doing the majority of childcare and home-schooling across all wage brackets (Adams-Prassl et al 2020).

A recent United Nations study warned that the pandemic could threaten decades of progress towards gender equality (UN 2020). Research from Close the Gap and the IFS (among others) has raised concerns about the gendered labour market fallout from Covid-19 – with women's jobs potentially disproportionately exposed to the disruption that is anticipated over the coming months (Close the Gap 2020; Blundell et al 2020). The economic fallout from Covid-19 is therefore likely to continue to be gendered; increasingly so as we enter what is likely to be a jobs crisis later this year. Policy supporting families through this crisis and into a sustainable economic recovery will need to pay close attention to women's experiences of the pandemic.

Lone parents

Our analysis shows that, coming into the Covid-19 crisis, lone parent families in Scotland were more exposed to financial insecurity than other family types. This picture is consistent across a variety of measures, including how people feel they're managing financially, whether people report being behind on bills, and on relative poverty (see figure 6.1).

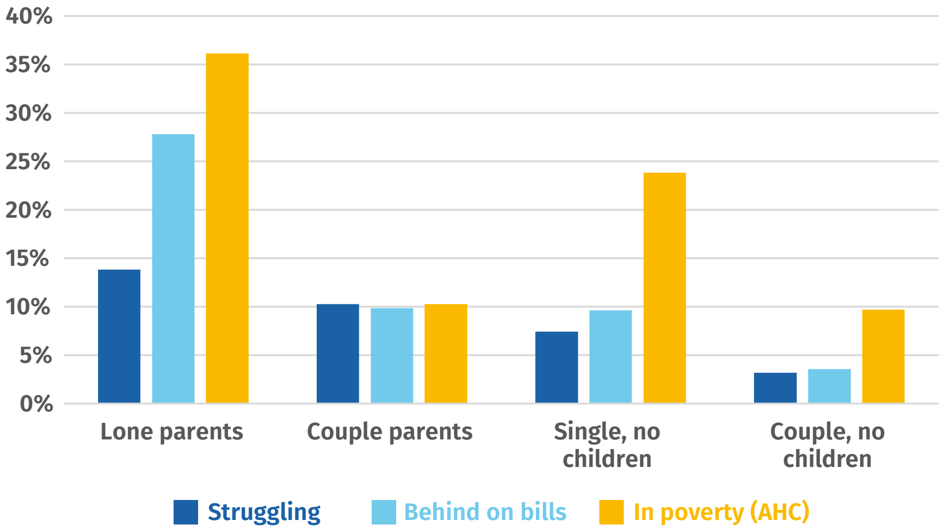
Lone parents are particularly exposed to financial insecurity as compared to other types of families because they cannot rely on a second income source if they are out of work or unable to work. They also face additional pressure in balancing both paid work and unpaid work. This can often restrict lone parents from getting into work, affect the type of work they can take on, and limit working hours or opportunities to progress. While 14 per cent of lone parents reported 'struggling to make ends meet' or experiencing more serious financial difficulty in the latest available pre-pandemic data, this proportion remained unchanged in May (University of Essex 2020a and 2020b).

Lone parents are also more exposed to the demands of caring for children during lockdown, while schools and nurseries are closed, or while children are advised to isolate or stay home. A recent report from One Parent Families Scotland on lone parents' experiences during lockdown points to a rise in fuel, food, and mental health crises – suggesting serious threats to financial security (OPFS 2020).

The looming employment crisis, and potential for future peaks of the virus, pose a particular threat to lone parent families, who do not have a second income to rely on, or another working-age person who might be able to go out to work. Equally, once lone parents are out of work, they may face additional barriers to getting back into work, particularly in the form of childcare arrangements and costs. To keep lone parents connected to their jobs and out of unemployment, it will be crucial that they have access to appropriate, affordable childcare, alongside a strong safety net, and flexibility from their employers.

FIGURE 6.1: LONE PARENTS WERE VERY LIKELY TO BE EXPERIENCING FINANCIAL INSECURITY PRIOR TO THE CRISIS

Financial insecurity measures in Scotland by family type, pre-Covid-19



Source: IPPR analysis of Understanding Society wave 9 (2017–19) (University of Essex 2020a)

Young people

While we don't yet have Scotland forecasts for unemployment, the latest forecasts from the Office for Budget Responsibility (OBR) foresee significant increases in unemployment across the UK. If accurate, they would see UK unemployment peak at a staggering 11.9 per cent in the last quarter of 2020, with very little improvement well into next year, and unemployment staying well above pre-crisis levels for years to come (OBR 2020). We already know that across the UK, youth unemployment is systematically higher than unemployment across the whole population. If this OBR forecast is borne out, then our modelling suggests we could see youth unemployment peak with over 100,000 young people facing unemployment by next year – over one in three of Scotland's young workforce. This would see youth unemployment reach a greater scale than in the wake of the financial crash, signifying the highest rate of youth unemployment since records began.

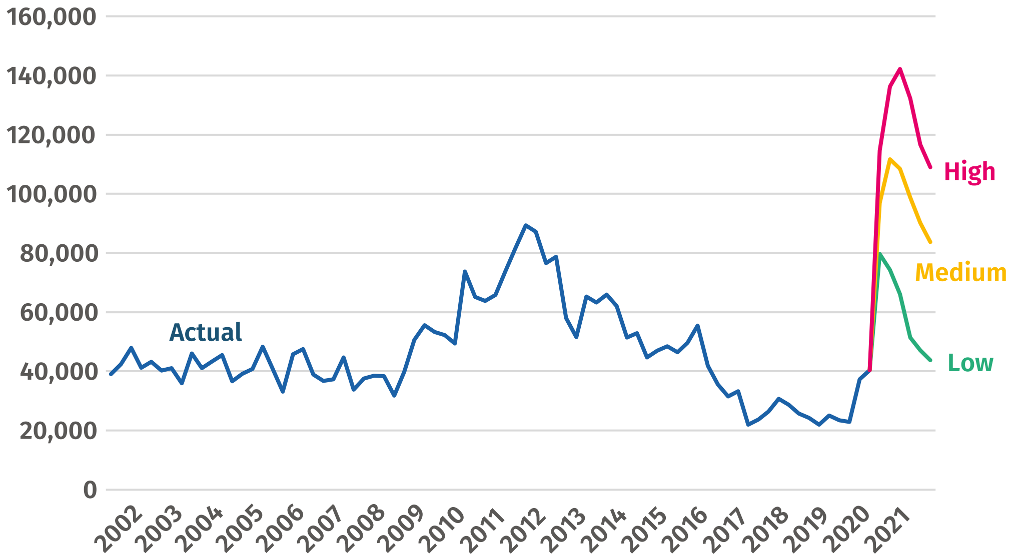
> we could see youth unemployment peak with over
> **100,000**
> young people facing employment by next year (over 1 in 3 of Scotland's young workforce)

We forecast that in the low (or best-case) scenario, youth unemployment would remain below the peak previous seen in the 2010s. This estimate, however, requires the 'upside' OBR forecast to materialise, youth unemployment not to rise faster than general unemployment, and for the share of UK-wide youth unemployment seen in Scotland to be lower than what we might expect given historic data.

In the high (or 'worst-case') scenario, youth unemployment in Scotland would peak at over 140,000, in a situation where the 'downside' OBR forecasts materialise, young people's employment is disproportionately impacted, and the share of unemployment seen in Scotland is higher than expected (for example, as a result of the sectoral composition of Scotland's economy increasing its exposure).

FIGURE 6.2: YOUTH UNEMPLOYMENT COULD EXCEED 140,000 IN SCOTLAND IN A LIKELY WORST-CASE SCENARIO

Comparisons of different projections for youth unemployment in Scotland



Source: IPPR analysis using OBR 2020 and ONS 2020b–e.
Note: For details of assumptions, see annex A.

Disabled people

The Covid-19 pandemic is also likely to exacerbate inequalities experienced by disabled people in Scotland.

Pre-crisis, disabled people were already disproportionately exposed to financial insecurity. Our analysis of Understanding Society data finds that disabled people in Scotland are more likely to be experiencing financial security by a variety of measures pre-pandemic. Before the pandemic struck, disabled people in Scotland were 37 per cent more likely than non-disabled people to be struggling financially, and were more likely to report being behind on bills.

Through the crisis, there is some evidence of increased costs for disabled people. Glasgow Disability Alliance estimate that disabled people face additional living costs averaging over £500 per month, associated with higher bills for fuel and food, equipment costs, the costs associated with accessible transport, and charges for social care services (GDA 2020). Early evidence from disabled people's organisations reports members under intensified financial pressure over the past few months, as they have been forced to make impossible choices between protecting their health or their income, face additional barriers to work if they or members of their household are shielding, and are experiencing rising living costs while essential social care services are withdrawn.

The latest Standard Life Foundation financial impact tracker shows that, across the UK, 26 per cent of those with a disability that limited them a lot were in serious difficulties compared to 10 per cent of the whole population (Standard Life Foundation 2020c).

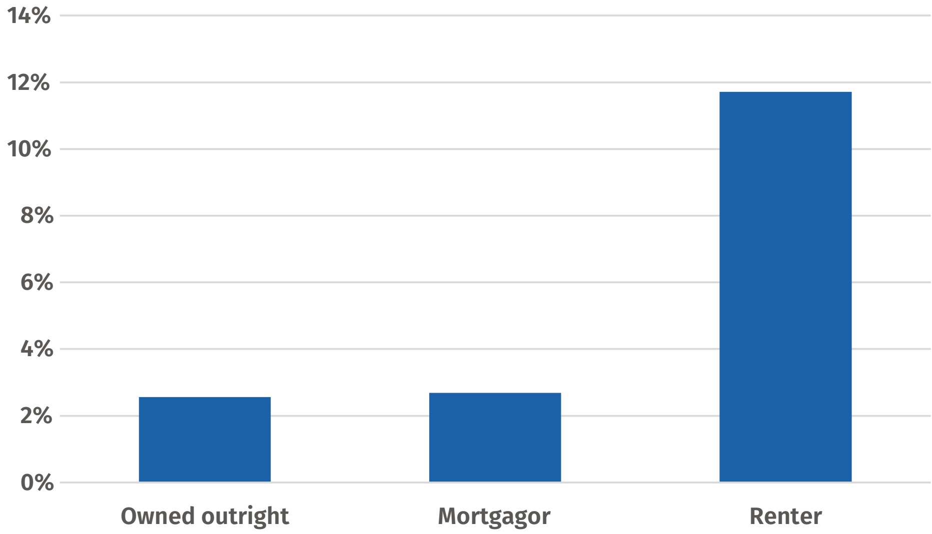
It is a clear and urgent problem that disabled people are disproportionately exposed not just to the health risks posed by Covid-19, but to the risk to their financial security too. In order to ensure existing inequalities are not further exacerbated, and that more disabled people are not pulled into financial insecurity, disabled people's experiences and perspectives must be at the heart of planning for both emergency measures and Scotland's recovery from the pandemic.

Renters

Our analysis on the impact of the Covid-19 crisis on the financial security of people across Scotland finds that renters are far more exposed than homeowners, across those who own their home outright and mortgagors. Figure 6.3 shows reported rates of financial insecurity by housing tenure type; renters are three times more likely to feel insecure about their finances than homeowners paying off a mortgage.

FIGURE 6.3: RENTERS IN SCOTLAND ARE THREE TIMES MORE LIKELY TO BE STRUGGLING WITH THEIR FINANCES DURING COVID-19 THAN HOMEOWNERS

Proportion of people in Scotland struggling with their finances by pre-pandemic housing tenure



Source: IPPR analysis of University of Essex 2020a and 2020b
Note: Data from May 2020 matched with housing tenure data from Understanding Society Wave 9 (2017–18).

We also find that renters are more likely to have been furloughed than homeowners who are paying off a mortgage – meaning those whose are at greater risk of experiencing a drop in income or job loss have less in the way of a financial buffer, and cannot take advantage of mortgage payment holidays. For those who own their homes outright, furlough rates are higher than those among mortgagors, but lower than those among renters, likely reflecting higher exposure to furlough and higher rates of outright home ownership among people aged 60 and over.

Self-employed

Self-employed workers have been disproportionately exposed to disruption resulting from Covid-19 due to the less secure nature of their work, and their heightened exposure to income shocks.

Our analysis shows that self-employed people are over 50 per cent more likely than employees to have experienced a fall in pay over the past few months. Some of these workers may later expect to recoup a portion of their lost income through the SEISS but many will not. The Standard Life Foundation's Financial

Impact Tracker found that 41 per cent of households that included a self-employed person were 'unsupported' by government schemes, as compared to 11 per cent of all households across the UK – suggesting a substantial gap in the government support being offered (Standard Life Foundation 2020c). Among those surveyed in May, self-employed workers were 65 per cent more likely to be feeling worried about their finances than employees.[3] This data was, however, collected prior to the extension of SEISS, which likely offered some reassurance for those eligible for support at least.

Risks for this group are also borne out in UK-wide analysis through the Standard Life Foundation's most recent financial impact tracker, which found that self-employment and involvement in the 'gig economy' were statistically significant drivers of financial strain, over and above the lower income on average associated with self-employment (Standard Life 2020c).

Black and ethnic minority communities

Prior to the crisis, ethnic minority groups were more likely to report struggling financially or live in a household behind on bills than the general population (Parkes et al 2020).

Of those working in January, our analysis suggests that 12 per cent of ethnic minority workers were no longer working in June compared to just 5 per cent of all workers across the UK (Parkes et al 2020; University of Essex 2020b). Furthermore, ethnic minority respondents surveyed in May were considerably more pessimistic about whether they would be able to meet their financial commitments in the near future than white respondents (ibid).

3 We define people as 'worried about their finances' here where a respondent has estimated that they have a 30 per cent chance or more of not being able to make their financial commitments in the next three months.

7. REPAIRING THE FINANCIAL RESILIENCE OF HOUSEHOLDS ACROSS SCOTLAND OVER THE COMING MONTHS

The global pandemic has exposed the weaknesses in our social security system, and that levels of financial risk borne by many were too high. This will require long-term reform to learn the lessons from prior to Covid-19 and act on them. However, as we see a resurgence in the virus, and as we see the economic impacts of Covid-19 take hold, there is also a need for short-term action, to help families through the winter and the coming months.

Our recommendations for this report focus on those short-term interventions that we believe could be taken quickly over the coming months. The urgency required, and the timescales we believe are necessary, mean certain policy routes are unlikely to be possible. Equally, capacity constraints across government may make new initiatives and interventions very difficult to implement.

However, there have been incredibly impressive examples of old barriers and inertia within and beyond government being broken down in the face of a national emergency. The Louisa Jordon Hospital, built in a matter of days, is a notable example of how this collective effort can result in change being realised at a rapidly accelerated pace. But there are also many smaller and less notable examples across Scotland of change that would have taken months and years in 'normal' circumstances, if it happened at all, taking place over a matter of days and weeks at the start of the crisis. We must recapture that collective ability to implement effective change quickly in relation to financial security for this next phase of the crisis.

THE WIDER ECONOMIC CONTEXT

It is clear that a key component of driving financial security, will be the strength and level of demand in the economy. We therefore need to see a significant **economic stimulus across the UK**, beyond the significant sums already borrowed and spent to try to limit the damage from economic lockdown, designed to boost the economy and protect demand. We want to see this stimulus directed in ways that create good jobs quickly, that support household incomes and that reduce living costs. This would ensure that the rhetoric at the UK level of 'build back better' becomes a reality. Given that the Scottish parliament's existing powers limit its ability to conduct its own fiscal stimulus, it will only be following UK action that opportunities for a Scotland-designed stimulus will be possible through any consequential increases in the Scottish parliament's budget.

RECOMMENDATIONS

CROSS-CUTTING RECOMMENDATION

1. The Scottish government should work with relevant stakeholders tto develop a financial security tracker, supported by a financial resilience strategy for Scotland by the start of 2021.

The path of the global pandemic is unclear, but the Covid-19 crisis has exposed two key challenges for financial security in Scotland. First, that prior to the crisis we had pushed too much financial risk onto those least able to bear it. We must the lessons as we recover through and following the pandemic. Second, as the damage caused by the unfolding recession and rising unemployment is felt across Scotland, and as further local lockdowns look likely, and national lockdowns possible, many more households across Scotland are likely to experience significant, potentially multiple, income and cost shocks over the coming months or years. We must repair household finances and boost financial resilience over the next few months to ensure that the potential economic damage from financial insecurity is minimised.

By establishing a financial security tracker, the Scottish government can better identify the financial impact of Covid-19 in the coming months and develop effective strategies to boost the financial reserves of families who are struggling. This should be supported by a financial resilience strategy, published by the end of 2020, should consider how we can ensure those most exposed to financial insecurity can see help to boost incomes, reduce unmanageable costs, generate financial certainty and autonomy and provide access to savings, affordable credit, and appropriate insurance to protect them when things go wrong. A financial resilience strategy would need to specifically include consideration of key population groups and workers at risk of financial insecurity including: parents and lone parents; self-employed workers; renters; young people; people from black, Asian, and minority ethnic backgrounds, and disabled people. Crucially, it should develop measures of financial security in Scotland and offer early warning of problems and the ability to track progress over time.

INCOME-SIDE RECOMMENDATIONS

Social security

2. The UK government should make its temporary increases in benefit payments permanent and consider additional support for families with children.

3. The UK government should consider how it can offer further help to low income families across the UK. A first step should be to make the temporary benefit uplifts in universal credit and legacy benefits permanent, including the up to an additional £20 per week in standard allowances, offering security and certainty to recipients and potential recipients. Furthermore, we continue to call for increases in payments made to families with children.

4. The UK government should remove the benefit cap and the two-child limit within the benefit system and reform its sanctions and assessment regimes.

The UK government must consider the removal of some of the most pernicious parts of the UK-wide benefit system. The two-child limit, and the benefit cap were wrong in the pre-pandemic context, they are even more so as we continue through restrictions and recovery. The UK government should consider how it can follow the

Scottish government in allowing split payments, and applying a primary carer test to the individual within the household who receives payments. The existing system is hitting families with children, women and mothers, larger families and disabled people hardest. These are some of the groups most impacted by the crisis and the benefits system must adapt to respond.

Furthermore, the existing sanctions regime, work requirements, and capability assessments are not fit for purpose in the age of Covid-19. They must be removed or reformed to offer security and certainty to low-income families in the context of rising unemployment, and disabled people in receipt of ESA and other disability benefits.

5. The Scottish government should consider how to provide urgent financial support for families with children this winter.

Families with children have been hit particularly hard through the crisis. The Scottish child payment is a hugely welcome move that will see additional financial help for low income families with children. However, its implementation for the under-sixes has been delayed by 10 weeks, costing families around £100 per child. Equally, families are not due to receive support for children over five through the payment until 2022.

Given that families with children have been among the hardest hit through the crisis so far, the Scottish government should come forward with plans to get urgently get help to families with children this winter.

Options include the following.

- For school-age children, the Scottish government should consider a winter school clothing grant payment to low income families in Scotland – a £200 payment to those deemed eligible at the start of the school year, would cost around £25 million, helping at least 120,000 families.
- For under-sixes, backdating the first Scottish child payment in March back to December would see an additional £100 payment for low income families in Scotland per child. We estimate this would cost around £15 million and support over 150,000 children in Scotland.

6. The Scottish government and COSLA should introduce automatic payment of local level benefits and entitlements in time for 2021/22.

A number of local authorities in Scotland have developed innovative ways of automating local payments, sometimes removing application processes for eligible families altogether. This sees eligible recipients proactively identified and payments arranged automatically. Where families are identified as being eligible for or in receipt of one payment, it also supports automatic enrolment for other payments that are assessed by the same eligibility criteria. This automatic payment should be rolled out across the local level in Scotland in time for the new financial year.

Work

7. The UK government must enhance its job support scheme to prevent needless unemployment in Scotland and across the UK

IPPR has been calling for a short-time working scheme for some time, to encourage employers to reduce hours across their workforce, rather than making whole jobs redundant. By sharing jobs more widely while demand is restricted, we could protect people and the economy from long-term damage caused by Covid-19 restrictions. We therefore welcomed the UK government's job support scheme. However, the design of the scheme has crucial flaws, including that it could, in many circumstances, cost employers more to keep workers on part-time than to make workers redundant. This may significantly limit the impact of the scheme on unemployment levels.

The UK government should reconsider the contribution levels sought from employers and consider what can be done to subsidise hours worked, to ensure keeping employees on reduced hours is cheaper than pursuing redundancies. In addition, the UK government, in consultation with devolved administrations, should develop a reliable framework for delivering targeted support that would provide greater government contribution to certain sectors, geographical areas, and population groups (such as parents and carers, disabled workers, and young workers) to ensure the JSS can be used to protect and support employment among those who face additional barriers to work.

8. The UK government must consider new small-scale furlough schemes for those sectors, areas, and population groups (such as shielders) who will continue to face significant economic restrictions for the foreseeable future.

While significant Covid-19 restrictions are in place for some sectors, areas, and population groups, we must see support to protect viable jobs. The blanket-approach furlough scheme will end at the end of October 2020. The UK government should consider targeted furlough schemes to support those sectors, areas and people who continue to face significant economic restrictions. This could include, for example, people who are shielding who cannot work from home, areas facing local lockdowns, and sectors of the economy still significantly curtailed (such as arts and creative sectors).

9. The Scottish government should ensure that Covid-19 business support is contingent on employers' conducting full-scale equality impact assessment on any decisions on redundancy or hours reductions over the coming time.

As the furlough scheme ends and the economic damage from Covid-19 begins to be felt, employers will have to make decisions over redundancy and hours reductions over the coming weeks and months. We must ensure that businesses' decisions over which employees they keep and which they lose do not disproportionately impact those facing additional pressures during the pandemic – including disabled workers, parents and carers – and do not reinforce existing labour market inequalities across genders or ethnic groups. To aide transparency the Scottish government should ensure that its Covid-19 business support is contingent on employers conducting and publishing full equalities impact assessments of any redundancy or hours reduction decisions they make.

10. Business and the Scottish government should adopt a '100,000 challenge' to fight youth unemployment and deliver 100,000 new opportunities for young people in Scotland across education and employment by the start of 2021.

This report has outlined the potentially unparalleled level of youth unemployment we could face in Scotland over the coming months. This demands urgent action like nothing seen before. With potentially over 100,000 young people unemployed by Christmas – more than one in three of Scotland's young workforce – we need urgent action to deliver at least 100,000 new opportunities for young people in Scotland. This will require a partnership approach across government, colleges and universities, and among employers in Scotland, with a particular focus on the areas (including rural Scotland) and sectors in Scotland hit hardest by youth unemployment.

Crucial elements of the '100,000 challenge' should include:

- significant investment in college January-starts
- urgent national, regional, and local action to organise sectors and individual employers to maximise take-up of the UK government Kickstart scheme
- a substantial 'Scottish youth guarantee' to wrap around the Kickstart scheme in order to deliver:
    - enhanced support for employers to maximise take-up
    - formal learning funding;
    - funding for progression/follow-on opportunities following Kickstart placements
    - placements for population groups most at risk of long-term unemployment and scarring effects
- further increased support for employers and young people who move from Kickstart placements into apprenticeships.

We welcomed the Scottish and UK governments' commitments to tackle youth unemployment, including a range of actions in the Scottish government's recent Programme for Government (Scottish Government 2020i). However, we fear the pace and scale of the response so far does not match the urgency and scale of the challenge.

11. The Scottish government must significantly increase reskilling and upskilling capacity through the jobs crisis.

The Scottish government must build on its Programme for Government recommendations to come forward with a new upskilling and reskilling skills offer. We have previously called for a new Open Institute of Technology in Scotland, based on the Open University model, to provide apprenticeship and further education provision through a mix of online and face-to-face learning. We believe this is an idea whose time has come, offering an opportunity to provide socially distanced learning, aimed at workers in contracting sectors (such as retail and hospitality), workers most at risk of longer-term unemployment, and workers seeking career progression. This new skills offer could be delivered through existing providers, such as colleges and training providers, utilising existing linking services (such as PACE and others). The Scottish government's forthcoming budget should prioritise spend in this area to help to bridge people at risk of long-term unemployment to fair work in expanding sectors.

12. The Scottish government must prioritise keeping schools and childcare open, where it is safe to do so, in any future lockdowns.

Covid-19 has shown us just how far the daily functioning of our lives and wider economy relies on Scotland's social infrastructure, as schools and childcare providers were forced to close, many grandparents were unable to offer childcare support due to shielding, and broader networks of informal care that individuals and families rely on were shut down by the virus and consequent restrictions. The burden of this caring gap fell to those formal routes that remained open, such as key workers in care homes and health care settings, and to unpaid care work disproportionately performed by women and mothers within families. As ongoing local lockdowns look likely, and further national lockdowns remain possible, we must prioritise keeping schools and childcare settings open, even if this means other parts of the economy facing tighter restrictions as a result.

COST-SIDE RECOMMENDATIONS

Problem debt and arrears

13. The Scottish government should introduce a new Covid-19 arrears scheme to offer affordable credit to people who have amassed unaffordable debt and arrears due to the Covid-19 crisis

We must act now to urgently repair the financial health of people and households across Scotland as we look ahead to likely local lockdowns and possible national ones. A Covid-19 arrears scheme, building on the Scottish government's welcome announcement of a new Tenancy Hardship Loan Fund (Scottish Government 2020i), would offer interest-free and low-cost lending to people and households struggling with debt and arrears amassed through the crisis so far – whether in relation to housing, energy, essential bills and other personal debt. People would only be able access the scheme following a full affordability assessment, to ensure affordable debt was the best option for them.

14. The Scottish government should work with housing associations and councils to deliver write-offs for rent and council tax arrears built up by tenants through the Covid-19 crisis.

There is a particular obligation on the public sectors, and social housing providers, to arrears built up due to the Covid-19 crisis do not further threaten peoples' financial security during this time. The Scottish government should work with housing associations and councils across Scotland to develop new guidance to ensure that housing associations and councils in particular are not over-zealous in collecting arrears as we continue through the Covid-19 crisis. In addition, the Scottish government should work with housing associations and councils to develop, fund, and implement a debt write-off scheme to help to reduce housing and council tax arrears caused by Covid-19. Similar schemes could be put in place for arrears for energy and other utilities.

Evictions and housing

15. The Scottish government, landlords, and tenants' groups should work urgently to avoid a potential cliff edge of evictions in March 2021.

The Scottish government has rightly extended time limits on the eviction process, to offer some security to tenants through the Covid-19 crisis, meaning that landlords who require a court order to evict their tenants will not be able to get one before the 31st March 2021. However, this could cause a flood of evictions in April 2021, risking tenants' wellbeing and potentially overwhelming the housing and homelessness system. The Scottish government, working with landlords and tenants, should urgently work to develop guidance to ensure tenants are treated fairly and appropriately, and housing and homelessness services are not overwhelmed, given the likely difficulties in finding new accommodation in the midst of a pandemic. Particular consideration should be given to further extensions and stricter rules around eviction in relation to families with children, given school and exam timetables.

Food

16. The Scottish government, and local authorities, should consider extending eligibility for free school meals.

While children in P1 to P3 receive universal free school meals, older children remain in the mean-tested system. To be eligible, guidance to local authorities states that families need to be in receipt of universal credit (or legacy benefits) and need to be earning below a threshold of £620 per week (or just under £7,000 a year). Given the scale of the Covid-19 crisis, we should urgently consider extending entitlement to greater numbers of families by increasing the earnings limit. Options for a revised threshold include the equivalent of 16 hours at minimum wage, real living wage, or indeed removing the earnings limit altogether.

There are also other changes that could be made to promote financial security for families in relation to food costs. This could include offering a guarantee that once families have qualified for free school meals, their entitlement will continue through to the end of primary or secondary school (as relevant) and changing guidance to take account of income over a longer period in assessing eligibility, so that income volatility does not count against families that need help.

FINANCIAL RESILIENCE/SAFETY NETS

Affordable credit

17. The Scottish government should expand access to affordable credit, including exploring how the developing social security system in Scotland can best link with non-profit affordable credit options

As new low-income benefits, such as the Scottish child payment, are introduced in Scotland there are new opportunities to identify people and families who may need access to affordable forms of credit. We welcome the Scottish government's commitment to exploring, with Carnegie UK Trust, how affordable credit can be expanded (Scottish Government 2020i). We believe by better linking the social security system to non-profit credit providers we could expand access to affordable credit and offer new routes to reducing interest rates further (for example through direct payment of loans at source through social security payments). This could include new pre-crisis loans to provide crisis support to people and families prior to them facing destitution.

Boosting savings

18. The Scottish government should consider how the social security system can best promote new routes to savings for low income families in Scotland

Unless a household has an adequate income and manageable costs, it is not possible for them to build savings. Indeed, many people currently rely on borrowing just to make ends meet. The social security system in Scotland (at both the national and local level) should offer routes for people and households to build savings to build financial resilience for those households able to do so.

Support could take the form of:

- new loans-to-savings routes, allowing social security recipients to opt-in to seeing deductions taken straight from regular social security payments to repay affordable credit and/or to build savings (see recommendation 10)
- new options for lump-sum social security payments (such as the Best Start grant or school clothing grant at the local level) to be paid directly into credit union or CDFI (Community Development Financial Institution) accounts as 'savings payments' – this would allow recipients to build savings, borrow against savings as they are built, and develop a savings habit where possible
- work with employers to offer new routes to savings and loan-to-saving routes.

Crisis funds

19. Before the end of the year, the Scottish government, COSLA and third sector partners, should review how the Scottish Welfare Fund, discretionary housing payments, and other third sector crisis funds have operated through the initial emergency phase of the Covid-19 crisis.

The Scottish government should review how well the Scottish Welfare Funds, Discretionary Housing Payments, and equivalent third sector funds have responded through this initial emergency phase of the Covid-19 crisis. The vast majority of additional funding provided to help families through the crisis has been through local discretionary funds, to help those in crisis and to get funding quickly to those who need it the most. We must now consider the good practice developed by funds and to consider where practice can be improved as we look ahead to winter and potential further lockdowns. For the Scottish Welfare Fund in particular, we must also consider how we can ensure funds can respond to demand in a timely way, in a consistent way, and in a way that treats applicants with dignity and provides reliable help.

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ANNEX A
YOUTH UNEMPLOYMENT MODELLING

This table summarises the assumptions made in our youth unemployment estimates.

Scenario	Overall unemployment forecast	Youth impact relative to general impact	Scotland impact relative to UK impact
Low	OBR – Upside scenario	Proportionate as in previous recessions	Scotland sees 6.5% of additional youth unemployment caseload
Medium	OBR – Central scenario	Proportionate as in previous recessions	Scotland sees 8.5% of additional youth unemployment caseload
High	OBR – Downside scenario	Disproportionate – assume youth unemployment moves to 40% of total caseload.	Scotland sees 10.5% of additional youth unemployment caseload

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