An uneven recovery?

How Covid-debt and Covid-saving will shape post-pandemic cities

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About Centre for Cities

Centre for Cities is a research and policy institute dedicated to improving the economic success of UK cities and large towns.

We are a charity that works with local authorities, business and Whitehall to develop and implement policy that supports the performance of urban economies. We do this through impartial research and knowledge exchange.

For more information, please visit www.centreforcities.org/about

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About the sponsor

This report is produced in partnership with Clarion Housing Group, which is the largest social landlord in the country and has 350,000 residents.

The vast majority of Clarion residents live in cities and towns in England and have household incomes significantly below the national median level. Clarion has partnered with Centre for Cities on this report to help deepen our understanding of how the pandemic has impacted our residents, with a particular focus on the challenge of indebtedness.

We knew before the pandemic that a disproportionate number of social housing residents were employed part-time, or in vulnerable jobs, and many of them will have lost income or their job in the past year.

Clarion does a lot of work to support residents in financial difficulty, including a national partnership with Leeds Credit Union that was created to help people access affordable credit and avoid sub-prime lending. We also run a national employment training programme that has supported more than 2,500 people back into work in the past 12 months.

This report shines a light on the inequalities that have been deepened by the pandemic, both in terms of geography and income. It reminds us that people in social housing are among the most vulnerable to an economic shock. We are proud to have supported such a timely piece of work from Centre for Cities and hope that its findings and recommendations will help inform critical policy choices in the months to come.

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Executive summary

The Bank of England is predicting a quick bounce back from the pandemic, with UK households having accumulated £150 billion of 'Covid-savings' that will now be re-injected into the economy, fuelling the recovery.[1]

But these savings are not distributed evenly; they are mostly concentrated among affluent neighbourhoods in the South of England.

People have had dramatically different experiences during the pandemic. For those living in richer areas (for whom 'essentials' make up a smaller share of their spend), the guidance to work from home, alongside the closure of non-essential shops and services, has indirectly enabled them to reduce more of their spending. For every £1 decrease in less affluent areas, there has been a £12 cut in richer ones.

But the closure of non-essential shops and services has affected jobs and incomes. Communities where the average net household income is below £28,300 a year, and where more people are likely to live in social housing, are twice as likely to experience a fall in the amount of money coming in.

So, while the first group is likely to have accumulated savings, the second is more likely to be struggling financially.

These trends have affected the UK's largest cities and towns in three ways:

1. **In every urban area, there are pockets of winners and losers from the pandemic:** In Crawley, Luton and Slough, people from both poorer and richer neighbourhoods have been hit hard. Elsewhere, those in more affluent urban areas have experienced the pandemic similarly, regardless of where they live. People in less affluent areas have also been similarly affected up and down the country. Winners and losers often live side by side, even in the same city. This is particularly visible in London – almost 50 per cent of residents were able to work from home and reduce their spending, but the city has seen one of the largest rises in people claiming unemployment-related benefits.

2. **Covid-savings have mostly accumulated in cities and large towns in the South of England**: Rich and poor neighbourhoods are unevenly distributed across the country, so the effects of the crisis have further exacerbated the North/South divide. In Exeter, Aldershot and Reading, for example, at least two-thirds of neighbourhoods are likely to have been saving throughout the pandemic. However, this is true for fewer than 25 per cent of neighbourhoods in Hull, Blackpool and Barnsley.
3. **In cities and large towns in the North and Midlands, including so-called 'red wall' constituencies, more people are likely to have been pushed into debt**: While fewer than 3 per cent of neighbourhoods in Exeter, Southend and Reading may have been pushed into debt, in places such as Liverpool, Hull and Bradford, this is the case for almost one in two neighbourhoods. This is because, in these places, the pandemic has had less effect on spending despite people being far more likely to experience a drop in income.

These differences matter as they are likely to affect the speed at which different places can bounce back. If Covid-savings do lead to a spending spree, it will be mostly cities and large towns in the South of England that are likely to benefit. At least 10 per cent of spending before the pandemic has translated into Covid-savings in places like Reading, Exeter and Cambridge. This will now help fuel the recovery, indirectly creating job opportunities and income for people who have been hit hard in these areas.

But that is not the case elsewhere in the country. Urban areas in the North and Midlands not only have less to bounce back to, they face the additional challenge of increased levels of indebtedness.

Government support initiatives, along with family networks and delays in the Court system, have helped cushion people from the worst effects of the debt crisis. However, the reopening of the economy and the consequent phase-out of these initiatives are likely to lead to bills and debts piling up.

The Government's task as the UK begins its economic recovery is to avoid this and help people who have been significantly affected by the past 15 months to stay afloat. It should carefully time how, and when, the current support is phased out, and introduce new measures. In particular, it should focus on four main areas:

1. **Supporting people with their immediate spending needs**: This includes extending existing support until at least the end of the year so the economy can readjust, and introducing further measures for families, such as free school meals throughout the summer.
2. **Supporting people to repay their debt**: The Government should create a relief scheme specifically for those who have incurred Covid-related debt, and mandate that people's credit scores are not affected by minor debt accrued during the pandemic.
3. **Protecting income**: An immediate priority for the Government should be to make the £20 Universal Credit uplift permanent. It should support a gradual phase-out of the Job Retention Scheme by continuing to protect sectors while they are unable to operate at full capacity. Alongside these more pressing issues, the Government should look at reforming the UK welfare system overall, bringing it in line with other European states.
4. **Level up for the long term**: The first three sets of recommendations will help people with their immediate challenges. However, the Government needs to focus on creating more jobs and opportunities in cities and large towns in the North and Midlands to avoid people falling into debt in the first place, and to truly level up. As the economy reopens, this should be done by encouraging people back into city centres and introducing measures that help individuals to upskill and retrain, so they can re-enter the labour market. The Government should then use the Levelling Up White Paper, which is expected later this year, to introduce a package of measures to improve productivity in cities and large towns that are currently underperforming.

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Introduction

As the vaccine rollout continues, attention has shifted to how quickly the UK's economy can bounce back from the Covid-19 pandemic. According to the Bank of England, this might happen sooner than initially expected – households in the UK have accumulated £150 billion of Covid-savings that will now help fuel the recovery.[2]

However, the pandemic and the measures put in place to fight it have not affected all households in the same way. Lockdowns, the closure of shops and restaurants, plus the guidance to work from home have undoubtedly resulted in accumulated savings for some. But more than a third of the UK's adult population has seen their income negatively impacted – more than 1.4 million people have started claiming unemployment-related benefits while 13 million have received help through the Coronavirus Job Retention Scheme or the Self-employment Income Support Scheme.[3]

And, as previous work by Centre for Cities shows, the pandemic has disproportionately affected some places more than others.[4] Urban areas in particular have been hit hard – they are home to 55 per cent of the population but account for 66 per cent of the increase in people claiming unemployment-related benefits since the pandemic started. Cities are where problem debt concentrates. Before the pandemic, 65 per cent of all County Court Judgements (CCJs) occurred in urban areas.[5]

As such, the £150 billion Covid-savings boom is unlikely to be distributed evenly across the country, with many people now worse off. This will have implications for how quickly different places will be able to recover.

The purpose of this paper is to investigate these trends and analyse how the pandemic has affected spending, savings and debt in the UK's largest cities and towns. It looks at what this means for policymakers, at the national and local level, as the country moves towards economic recovery.

Box 1: Defining cities

Centre for Cities' research focuses on the UK's 63 largest towns and cities, defined as primary urban areas (PUAs). Unless otherwise stated, Centre for Cities uses data for PUAs in its analysis – a measure of the 'built-up' area of a large city or town, rather than individual local authority districts. In this report, PUAs are used in the analysis because they provide a consistent measure with which to compare concentrations of economic activity across the UK. This makes them distinct from city region or combined authority geographies.

You can find the full definitions and methodology at: www.centreforcities.org/puas

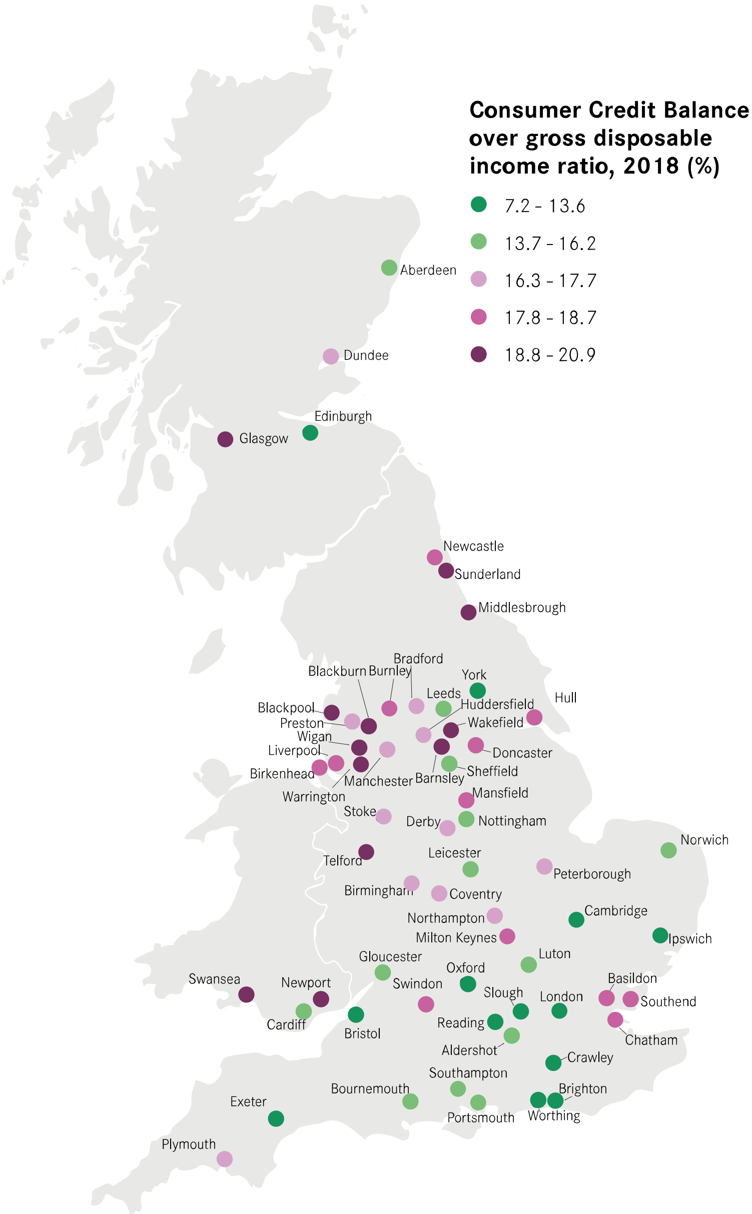
02

What was the financial situation in the UK's largest cities and towns before the pandemic?

People living in cities and large towns in the North and Midlands entered the pandemic with a smaller financial cushion

When the pandemic started, cities and large towns up and down the country were on very different financial footings. As illustrated in previous research by Centre for Cities, households in northern and Welsh cities tended to have a higher debt-to-income ratio (see Figure 1).[6] Places like Swansea, Sunderland and Wigan – traditionally weaker economies – had a debt-to-income ratio almost three times higher than that of places with stronger economies, such as Oxford, Cambridge and Exeter.

Figure 1: Households in northern and Welsh cities tended to have a higher debt-to-income ratio



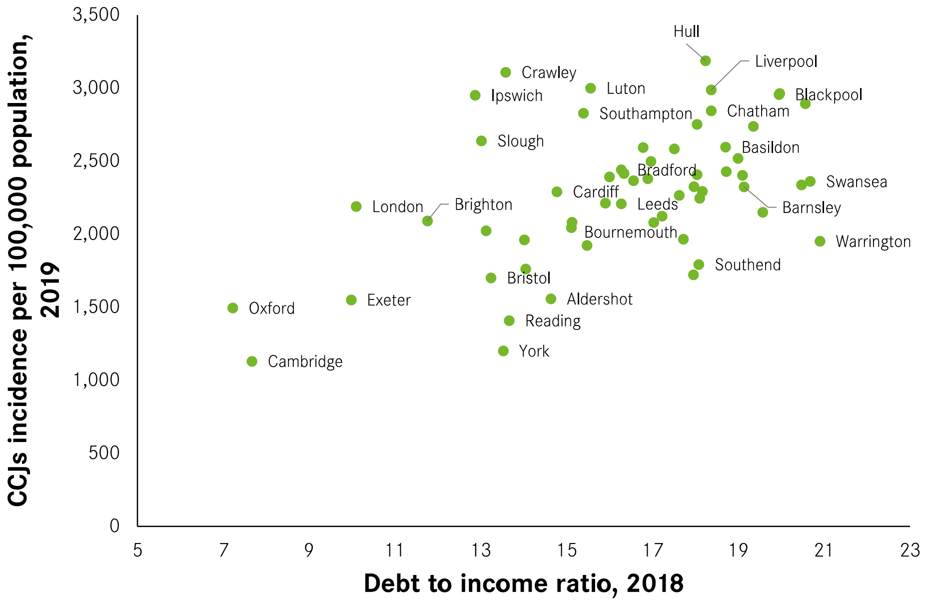
Source: ONS, Breakdown of borrowing using Equifax data (2015 and 2017 lending data); ONS, Regional gross disposable household income (GDHI) local authority reference tables (2019).

Households in places with a higher debt-to-income ratio were more likely to experience 'problem debt' that they were struggling to repay. This can be seen in Figure 2, which shows places such as Hull, Liverpool and Blackpool had the highest number of CCJs per 100,000 population. On top of this, CCJs have a negative effect on credit scores, so impact the quality of future debt available to the people who receive them. This means an area with high CCJ incidence is likely to see more sub-prime lending.

As such, households in cities and large towns in the North and Midlands entered the pandemic in a much weaker financial position, suggesting that even a small shock to their income could have a large negative effect on their financial situation.

Figure 2: Places where households tend to be more indebted struggle with problem debt

The relationship between the debt-to-income ratio and County Court Judgements incidence per 100,000 population



Source: ONS, Breakdown of borrowing using Equifax data (2015 and 2017 lending data); ONS, Regional gross disposable household income (GDHI) local authority reference tables (2019).The Registry Trust, County Court Judgements data for 2019 and 2020, ONS Population estimates 2019.

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How has the pandemic affected household finances?

The pandemic and the measures introduced to fight it have had two different and opposite effects on household finances

1. The pandemic has indirectly enabled people to cut their spending

Restrictions placed on shops and other activities, as well as guidance to work from home, have limited where people can spend their money, resulting in 'forced savings'.

This is reflected in credit and debit card transactions – people in Great Britain have, on average, spent 11 per cent less since the pandemic began in March 2020, with some spending categories particularly hard hit (see Figure 3).

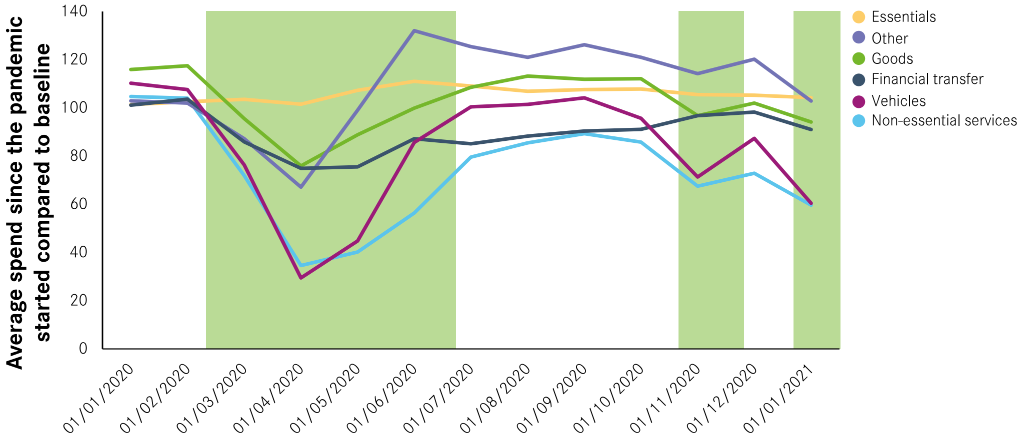
Patterns closely reflect changes in restrictions and, overall, the drop in spending was most acute during the first lockdown. Between March and July 2020, people in Great Britain spent, on average, 22 per cent less than they did before the pandemic. While spending was similar to pre-pandemic levels during the summer reopening, it dipped again during the second and third lockdowns.

Spending on non-essential services – for example, food and drink, health and beauty, travel and accommodation, and entertainment – fell significantly during the first lockdown to 35 per cent of pre-pandemic levels. Vehicle spending saw an even sharper drop to 29 per cent of the total before Covid-19. Although less dramatic, spending on goods – fashion and general retail – fell to 76 per cent of pre-pandemic levels.

In contrast, spending on essentials – groceries plus household bills and services – is more difficult to reduce and has actually increased slightly since the pandemic. This is, in part, due to the shift from cash to card (see Box 2 for the methodology).

Figure 3: The measures put in place to fight the pandemic have had a direct effect on spending

Spending patterns since the pandemic started compared with the baseline for different categories of spend



Source: Beauclair

Box 2: Methodology

All data is sourced from a national data set of debit and credit card transactions from approximately 11 million card accounts. Information on customer origin and demography is available on a subset of customers. All customer data is strictly anonymised and aggregated to comply with GDPR and data protection requirements.

The data does not cover housing costs or cash withdrawals, so any transactions made using cash are not included. Despite this, the data is likely to provide an accurate picture of spending patterns as, throughout the pandemic, cash use has fallen, with weekly withdrawals dropping from around £2 billion per week to around £1 billion at the peak of the pandemic.[7]

These changes are partly down to lockdown restrictions but most likely reflect a broader shift away from cash as retailers promoted contactless card transactions. They are likely to have affected people in poorer areas the most, as they were the least likely to use cards before the pandemic.[8]

Some of the trends for this group presented in the report might be affected by these changes. For example, the research finds that this group has been less likely to cut spending during the pandemic. While part of this is undoubtedly true and related to the fact that more of their spending is on essentials and therefore hard to cut, the shift from cash to card might partially mask the full extent of this.

Box 3: What has happened to financial transfers during the pandemic?

Financial transfers make up a significant proportion of overall credit and debit card transactions, including approximately 20 per cent of all spending pre-pandemic.

Within this category (before Covid-19):

- Forty-two per cent of spending was 'currency exchange'.
- Twenty-two 22 per cent was with 'payment providers'.
- Twelve per cent was on 'charities'.
- Other spending came under 'government', 'university', 'personal finances' and 'insurance'.

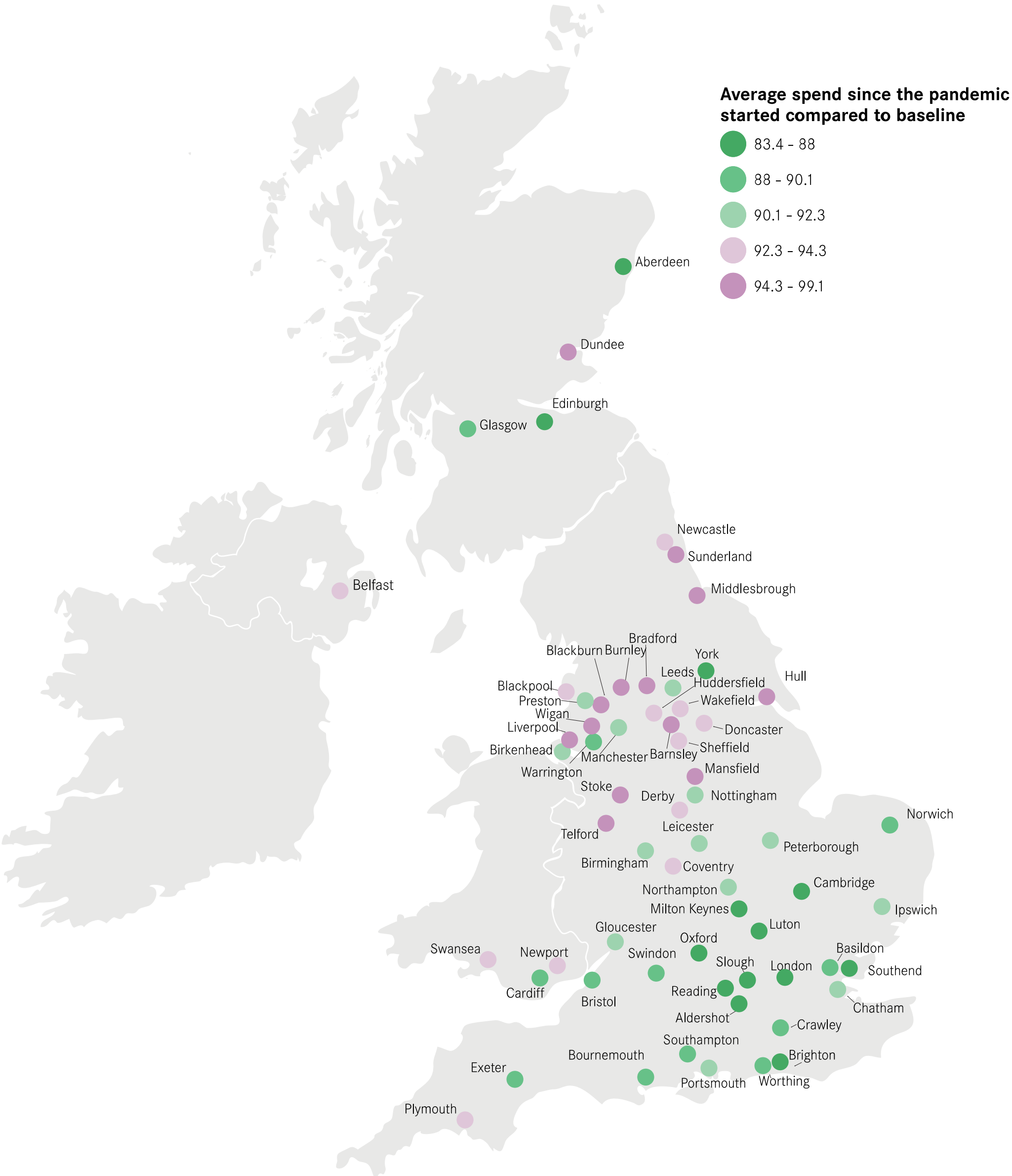
This category saw a significant drop during the first lockdown and, despite gradually picking up, has remained below pre-pandemic levels. This appears to be driven by a sharp fall in currency exchange, which could be partially related to the halt in international travel.

People from different backgrounds and places have all seen some drop in spending during the pandemic. However, the extent varies a great deal between, and within, cities and large towns.

People living in cities and large towns in the South of England have reduced their spending more

The North/South divide is evident in the overall spending reduction (see Figure 4). In Reading, Cambridge and Oxford, for example, people are spending, on average, more than 15 per cent less – equal to more than seven weeks of 'lost' spending between March 2020 and January 2021. In contrast, those living in cities and large towns in the North and Midlands have not cut back as much and in Hull, Sunderland and Middlesbrough, it is pretty much unchanged.

Figure 4: People living in cities and large towns in the Greater South East have cut their spending the most



Source: Beauclair

Within cities, people living in richer neighbourhoods have cut more than those in poorer ones

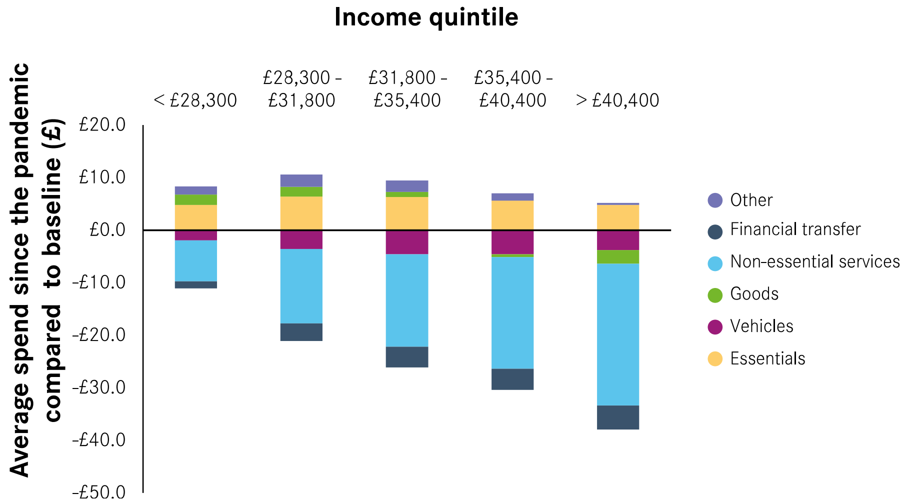
There are significant differences within cities themselves (see Figure 5). In urban areas, pandemic spending for people living in the richest neighbourhoods fell, on average, by more than 17 per cent – equivalent to eight weeks of 'lost' spending between March 2020 and January 2021. However, for those living in the bottom 20 per cent of neighbourhoods for income (people with a net household income below £28,300 and more likely to live in social housing), spending hardly changed, falling by 3 per cent. Those living in neighbourhoods with an average household income between these two extremes behaved in line with these trends.

These differences are down to people's previous spending behaviours and how Covid-19 and lockdown restrictions have affected them. On average, those living in richer neighbourhoods spent twice as much as people in less affluent areas pre-pandemic. In addition, a larger share of their spending was on categories affected by restrictions (57 per cent on non-essential services, goods and vehicles, compared with 50 per cent in poorer areas). In contrast, essentials – a category that is much harder to reduce – accounted for a larger proportion of spending for people in poorer neighbourhoods before the pandemic (25 per cent versus 17 per cent in more affluent urban areas). This has offset a larger portion of reduced spending on other items than for people living in more affluent areas.

As a result, for every £1 of reduced spending in less affluent neighbourhoods, there has been a £12 cut in richer ones.

Figure 5: People living in richer neighbourhoods had more of their spending affected by the pandemic

Average spend since the pandemic compared with the baseline for different spending categories



Source: Beauclair, ONS 2020, Income estimates for small areas, England and Wales

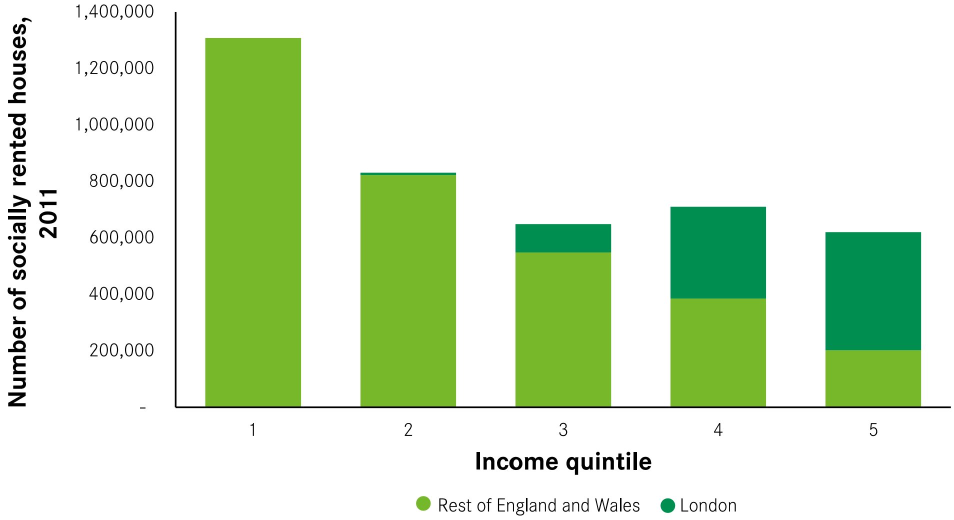
Box 4: Spending patterns for people living in social housing

During the pandemic, areas with higher shares of social housing have been less able to cut spending. In neighbourhoods where most people own their homes or rent privately, it has fallen, on average, by 7 and 9 per cent respectively. In areas outside London with a high prevalence of social housing, spending dropped by less than 1 per cent.

This is similar to the situation in poorer neighbourhoods, as the two often overlap. Approximately a third of all social housing in the country is in the bottom 20 per cent of neighbourhoods for income, rising to 40 per cent when excluding London. While the trends discussed in this report focus mainly on income, findings can be similarly applied to neighbourhoods with a large share of people living in social housing. London is an exception, as many people in social housing live in neighbourhoods that, on a national scale, would be considered richer (see Figure 6).

Figure 6: Most social housing outside of London is in the poorest 20 per cent of neighbourhoods

Distribution of social housing among the different income quintiles



Source: ONS, Census 2011

2. Covid-19 has affected jobs and people's incomes

Despite the many Government measures to support individuals, the closures and restrictions placed on businesses over the past year have meant that more than a third of the UK's adult population has seen at least a partial drop in their income.

The 1.4 million people who have started to claim unemployment-related benefits since the beginning of the pandemic are undoubtedly among those more likely to be struggling financially. This includes people who have lost their jobs and are either in receipt of Job Seekers Allowance or the work-component of Universal Credit, which was equivalent to £75 a week in 2019-20.[9]

Individuals who have received help from the Government, either through the Coronavirus Job Retention Scheme or the Self-employment Income Support Scheme, have seen their incomes drop at some point since March last year. While more generous than unemployment benefits, these schemes only covered 80 per cent of individuals' wages up to £2,500 a month, so those who benefited had less money coming in.

Once again, these people are not distributed evenly across the country, with great variation both between and within cities.

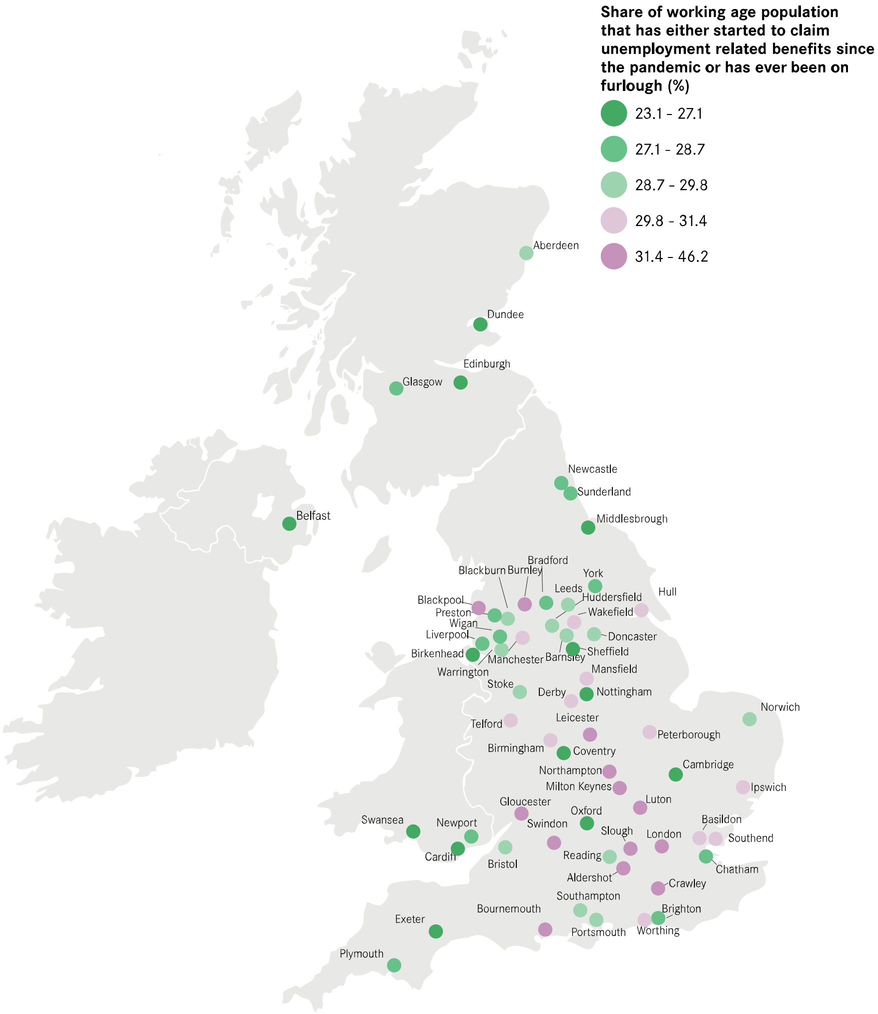
The cities and large towns where household incomes have been hardest hit by the pandemic are a mix of strong and weaker economies

Unlike the cut in spending, which follows a very clear North/South pattern, the pandemic's effect on household incomes has a more complicated geography. Some traditionally strong economies have been hit hard, as have places that were already facing challenges.

Crawley, Slough and Northampton are the three cities and large towns that have been most reliant on Government support since March last year, with more than a third of their working age population either receiving unemployment benefits or on furlough.[10] Other places most affected include Burnley, Blackpool and Leicester.

Similarly, the places that have seen the smallest drops in income are a mix of strong and weaker economies. Cambridge, Exeter and Edinburgh fall into this group, but so do Swansea, Middlesbrough and Cardiff.

Figure 7: There is no clear geography to the drop in household incomes created by the pandemic



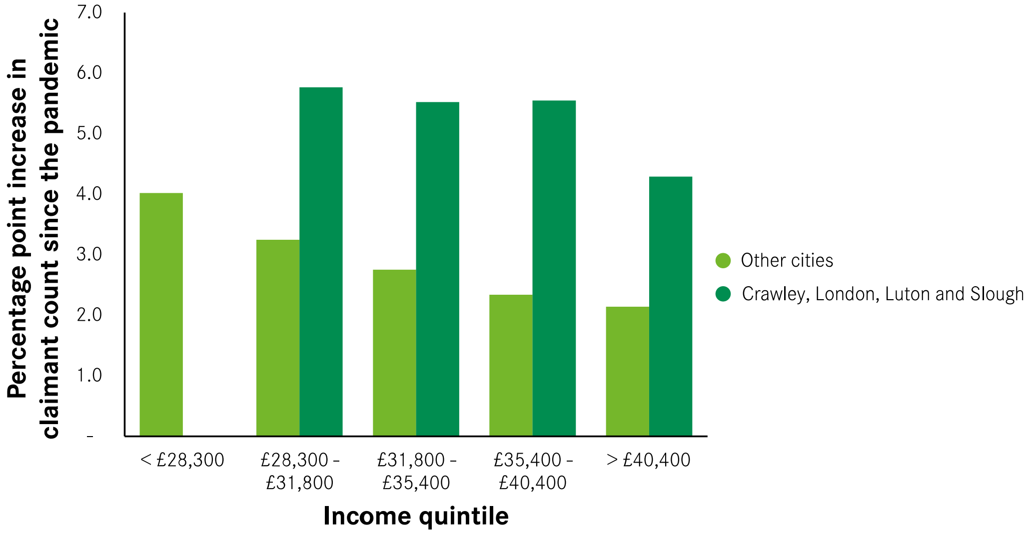
Source: ONS, Claimant count and population estimates. HMRC, Coronavirus Job Retention Scheme statistics

Households in poorer neighbourhoods in most cities were more likely to see a drop in income

People living in poorer neighbourhoods were not only less likely to cut their spending, they were more likely to experience a fall in income (see Figure 8). Although data on the take-up of the Coronavirus Job Retention Scheme is not available at this level, data on claimant count is. This can be helpful in understanding the likelihood of a reduction in income in different neighbourhoods, although it cannot show the extent (see box 5 for more details). It is therefore possible to see that, with the exception of four places, since March last year people living in the bottom quintile for income were twice as likely to have experienced a drop than those in more affluent neighbourhoods.

Figure 8: People living in poorer neighbourhoods were more likely to see a drop in income

Percentage point change in claimant count since the pandemic began (Mar 2020 - Jan 2021)



Source: ONS, Claimant count Mar 2020 and Jan 2021, Population estimates 2019, Income estimates for small areas, England and Wales

Box 5: Using changes in claimant count as a proxy for income drops at the neighbourhood level

There is no official measure that shows how large the drops in income have been at a neighbourhood level since the pandemic began. However, one way to dig deeper into what has happened in urban areas is to use labour market indicators as a proxy. People who have started claiming unemployment-related benefits since March last year, and those who have benefited from the Government's Coronavirus Job Retention Scheme or Self-employment Income Support Scheme, have seen their income reduced to some extent.

Places with a higher percentage point increase in claimant count are more likely to witness a greater take-up of these schemes (see Figure 9). This suggests the variation in claimant count since the pandemic began for people in different neighbourhoods can be used as a proxy to identify which individuals are more likely to have experienced a drop in income.[11]

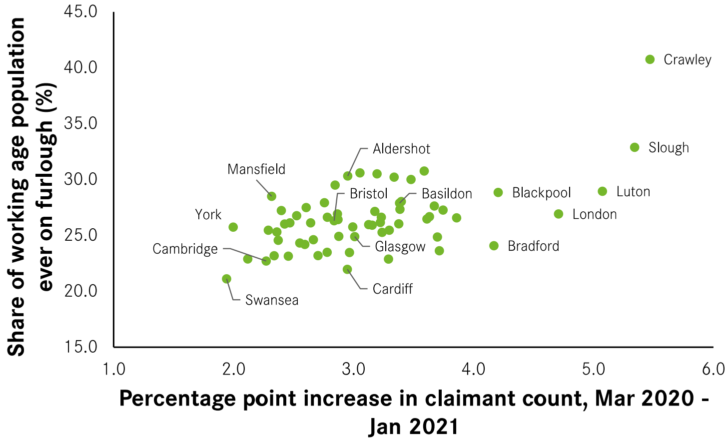
While this approach allows estimates to be made about the number of people whose income has likely been affected, there is no way to capture the extent of the reduction for different people. For those already at the bottom end of the labour market, claiming unemployment-related benefits is likely to mean a smaller income drop than for individuals on a higher salary. Similarly, those earning more will experience a smaller reduction if they are furloughed than if they lose their job and have to rely on Universal Credit.

There are many more people who have seen a sharp drop in income but do not qualify for support. This includes individuals who have lost their jobs but, for example, live with a partner who is still working or have too much in savings.

However, this remains the most accurate way to estimate changes in income at such a granular level.

Figure 9: Places where more people have started claiming unemployment-related benefits since the pandemic have a higher take-up of the furlough scheme

The relationship between the increase in claimant count since the pandemic began and the overall take-up of the Coronavirus Job Retention Scheme



Source: ONS, Claimant count March 2020 and January 2021, ONS Population estimates 2019, HMRC Coronavirus Job Retention Scheme statistics.

The net impact of the pandemic on household finances, and on places overall, depends on which of the two effects outlined so far is stronger, as well as the financial cushion households and places had going into this economic crisis. In this way, it is possible to estimate whether neighbourhoods have been pushed into debt because of the pandemic, or have been able to save.

Three trends are evident for the UK's largest cities and towns.

1. In every urban area, there are pandemic winners and losers

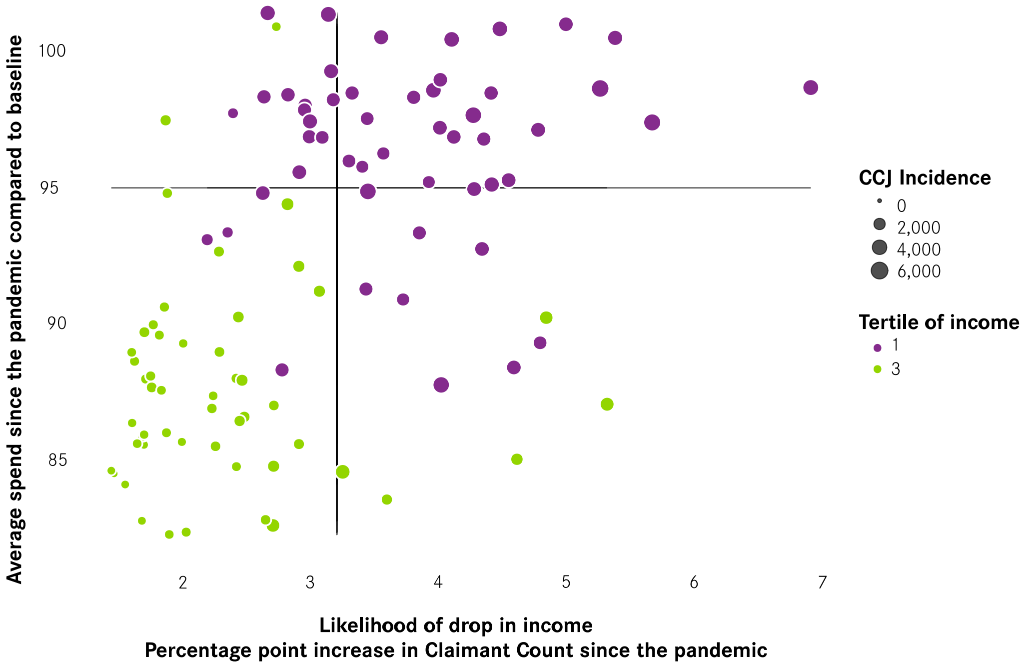
On average, the pandemic has indirectly enabled people living in richer neighbourhoods to save while it has likely pushed people in less affluent areas into debt. These patterns are consistent across urban areas.

Figure 10 illustrates this by displaying two points for each city, one representing the richest neighbourhoods and another showing the poorest. People in richer neighbourhoods are mostly clustered in the bottom left quadrant, suggesting they have been less likely to see a drop in their income while experiencing a large reduction in spending. Those in poor neighbourhoods tend to be in the top right corner – their level of spending has stayed pretty much the same since the start of the pandemic, but they are more likely to have experienced a fall in income. This, coupled with the fact they most likely had a smaller financial cushion beforehand, suggests they may be struggling financially.

A few exceptions can be seen in the top left and bottom right corners of Figure 9. Individuals living in a small number of poorer neighbourhoods, such as Mansfield, Hull and Wigan, are likely to have experienced little financial change in their spending or income. In a handful of places, people from both rich and poor neighbourhoods have seen large decreases in spending plus a high chance of a drop in income. These places are Crawley, Luton and Slough, where the collapse of the international travel industry has likely affected people across the entire income spectrum, and London, where poor and rich people are more likely to live side by side, making it harder to isolate the effects of the pandemic on different groups. Box 7 describes the experience of four different cities and large towns in more detail.

Figure 10: People living in poorer neighbourhoods are more likely to have been pushed into debt, while people in richer neighbourhoods are more likely to have saved

The relationship between the percentage point increase in claimant count since the pandemic, average spending and CCJ incidence before the pandemic, at the neighbourhood level



Source: Beauclair, ONS, Claimant count March 2020 and January 2021, Population estimates 2019, Beauclair, The Registry Trust, County Court Judgements data for 2019 and 2020, ONS, Income estimates for small areas, England and Wales

Box 6: How have people living in social housing been financially impacted by the pandemic?

Urban neighbourhoods with a greater number of people living in social housing are among the places where individuals have been more likely to struggle financially because of the pandemic.

Almost-three quarters of these fall in the top right quadrant of Figure 10. People in these neighbourhoods have maintained their level of spending despite being more likely to experience a drop in income and having a smaller financial cushion going into the pandemic.

This is, once again, consistent across the country. Neighbourhoods with high concentrations of social housing in cities and large towns in the North and the South are likely to have been hit in a similar way.

Box 7: A tale of four cities — the experience in Liverpool, Milton Keynes, Stoke and Slough

The pandemic has been felt very differently between, and within, cities (see Figure 11).

In Liverpool, where more than 70 per cent of neighbourhoods are among the poorest in the country, almost 50 per cent are likely to have been pushed into debt because of the pandemic. Fewer than 30 per cent are estimated to have been saving over the past 15 months.

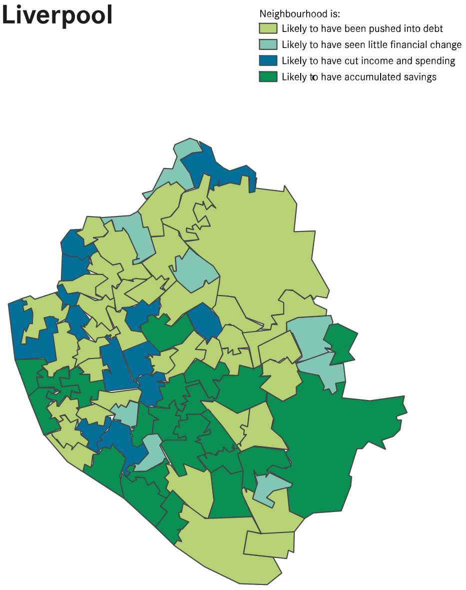
Milton Keynes has had a diametrically opposite experience. Most of its neighbourhoods are affluent and 40 per cent are estimated to have been saving throughout the pandemic, while fewer than 20 per cent are likely being pushed into debt.

In Stoke, households appear to have been less financially affected by the pandemic. Some 40 per cent of neighbourhoods have seen little variation in spending since March 2020, and are less likely to have experienced a change in income.

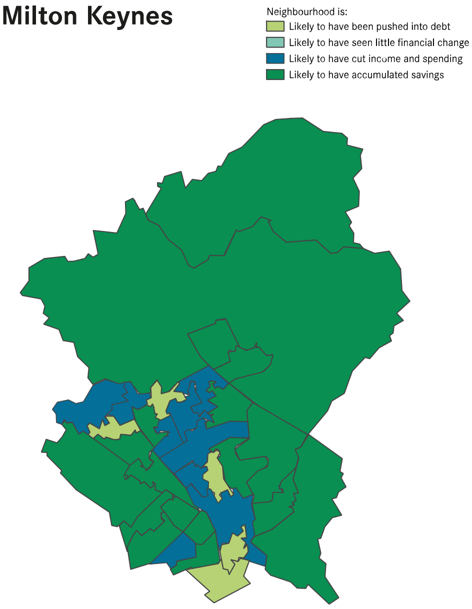
There is a very different situation in Slough. Despite being an affluent place, more than 90 per cent of neighbourhoods are likely to have seen a large drop in both income and spending.

Figure 11: The pandemic has had different effects both between, and within, cities

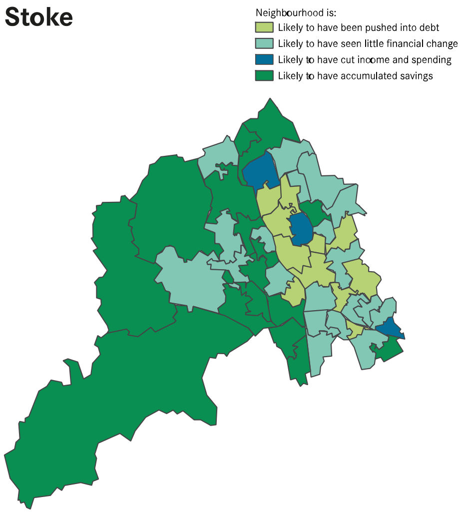
Liverpool



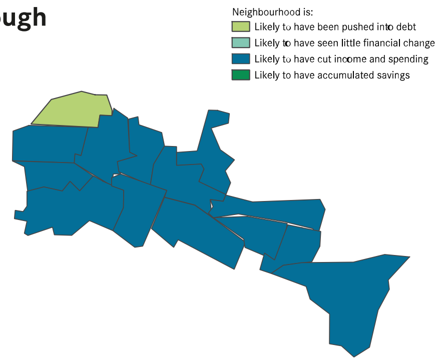
Milton Keynes



Stoke



Slough



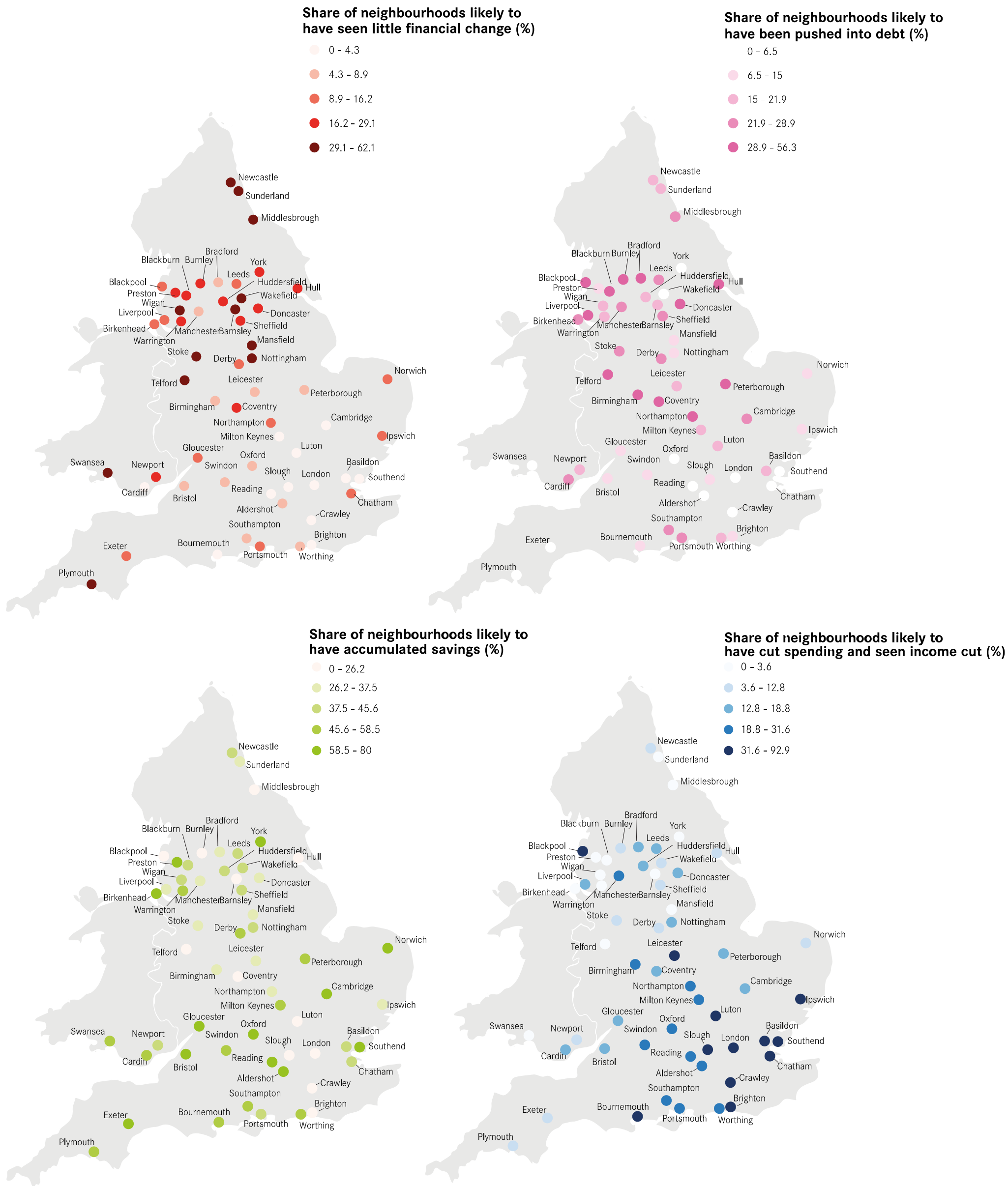
Source: Beauclair, ONS, Claimant count, Population estimates

2. Cities and large towns in the South of England are more likely to have accumulated Covid-savings

The pandemic experience of people from richer neighbourhoods is consistent across urban areas. However, as more neighbourhoods in cities and large towns in the South of England are affluent, the Covid 'wins' of people living in these places have a much greater weight here than anywhere else in the country.

This is shown in Figure 12. The four maps represent the share of all urban neighbourhoods that fall in each of the quadrants in Figure 11. Based on this, more of those likely to have amassed savings are in cities and large towns in the South of England. This includes Exeter, Aldershot and Reading, where at least two in every three neighbourhoods (66 per cent) fall into this category. In Hull, Blackpool and Barnsley, less than one in every four neighbourhoods (24 per cent) are in this group. However, there are exceptions. Almost four-fifths (79 per cent) of neighbourhoods in York are likely to have saved, while less than a fifth (17 per cent) of those in Brighton are likely to have done so.

Figure 12: A greater share of neighbourhoods in the South are likely to have amassed savings while more neighbourhoods in the North and Midlands are likely to have fallen into debt



Source: Beauclair, ONS, Claimant count March 2020 and January 2021, Population estimates 2019, Beauclair, The Registry Trust, County Court Judgements data for 2019 and 2020, ONS, Income estimates for small areas, England and Wales

3. In cities and large towns in the North and Midlands, a greater number of people are more likely to have been pushed into debt

Poorer neighbourhoods are unevenly distributed across the country, meaning more of those that are likely to have been pushed into debt are in cities and large towns in the North of England and the Midlands (see Figure 12). In Hull, Bradford and Liverpool, around one in every two neighbourhoods is likely to have been pushed into debt. However, in the South, this is the case for less than 3 per cent of those in Exeter, Southend and Reading. Again, there are exceptions, with very few neighbourhoods in York likely to have gone into debt.

These differences matter as they are likely to affect the ability of different places to bounce back. This is the focus of the next section.

04

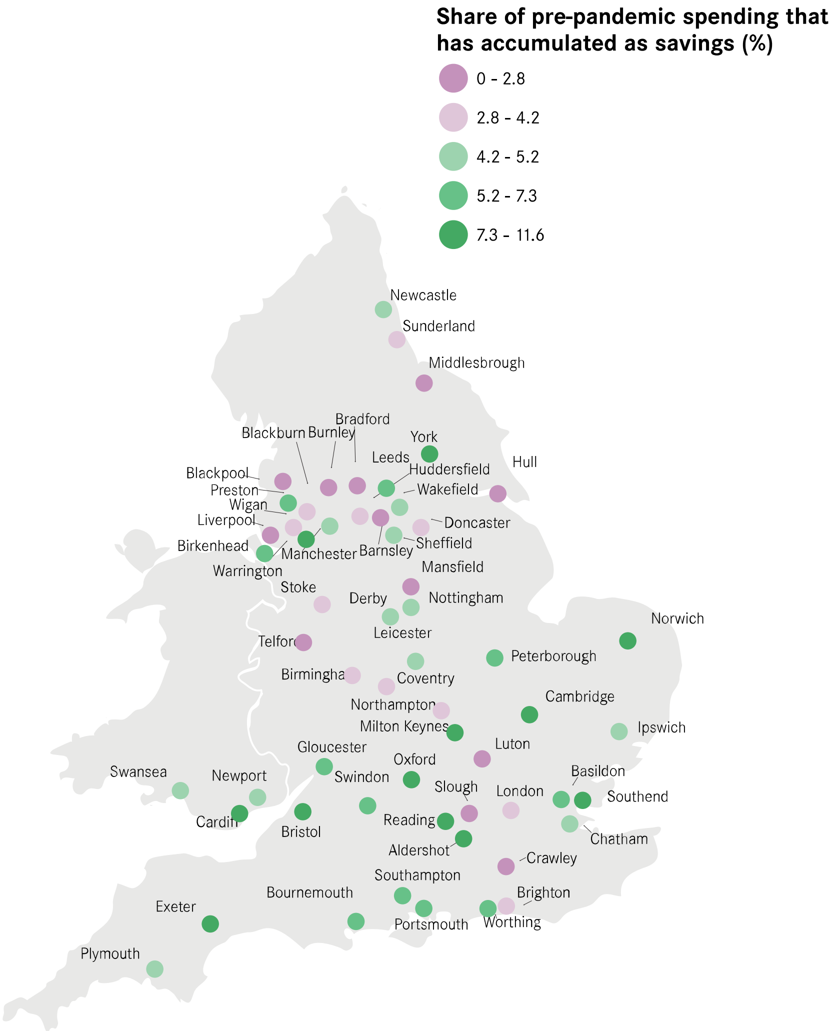
What does this mean for the recovery?

Not all places will be able to rely on Covid-savings to bounce back

The fact that the pandemic winners and losers are unevenly distributed across the country has implications for the ability of different places to recover.

If the Bank of England predictions are correct, cities and large towns in the South of England will benefit the most from the champagne bottle effect of Covid-savings. Assuming that this is translated into savings in neighbourhoods that have seen large cuts in spending and small changes in income, and there are none for all other neighbourhoods, gives an idea of the magnitude of such Covid-savings (see Figure 13). On average, at least 10 per cent of pre-pandemic spending in places like Cambridge, Oxford and Reading is likely to have been translated into Covid-savings. This is five times more than in Hull, Blackpool and Burnley, where it is less than 2 per cent. Once again, reflecting the significant impact the pandemic has had on airport towns, Slough, Luton and Crawley are among places likely to have accumulated little or no Covid-savings.[12]

Figure 13: If Covid-savings fuel the recovery, it will mostly benefit cities and large towns in the South of England



Source: Beauclair, ONS 2020, Income estimates for small areas, England and Wales
Note: these figures are likely to underestimate the full amount of savings as the people who have cut their spending the most since the pandemic are the ones who used to spend the most beforehand.

If these savings are re-injected into the economy and this is done locally, it will create job opportunities and prosperity in these areas. People working in local services businesses in these cities and large towns, for instance restaurants, cafés and theatres, might have suffered financially during the pandemic because of the dramatic cut in spending in the most affluent neighbourhoods. However, they are now likely to benefit from it, meaning poorer people in these areas could enjoy the bounce-back too.

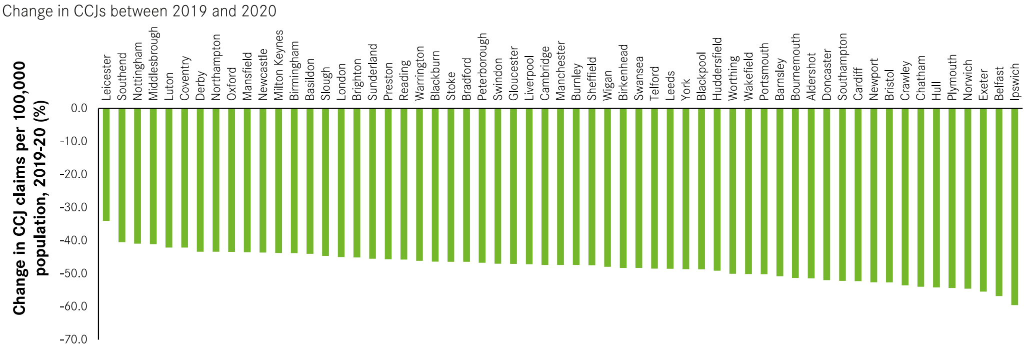
Cities and large towns in the North and Midlands risk experiencing a wave of problem debt

The same cannot be said in cities and large towns elsewhere in the country. In these places, fewer Covid-savings means there is less to be re-injected in the economy. Instead, they face an additional challenge as more people have maintained a similar level of spending throughout the pandemic despite being more likely to see a drop in income. This means it is likely there is less pent-up demand and less money to spend in the recovery. Fewer jobs will, therefore, be created in these places as a result of the bounce back, further exacerbating their pre-existing and pandemic debt challenges.

This is a worrying situation and the full extent is likely to be masked by a number of factors. While this research shows that people are likely to be struggling financially, this is yet to appear in more official measures of problem debt – compared with 2019, the number of CCJs issued in 2020 across the country dropped by 41 per cent. And while Ipswich, Belfast and Exeter experienced the sharpest drops in CCJs, no cities or large towns have seen an increase in claims (see Figure 14).

Figure 14: County Court Judgments have decreased everywhere over the past year

Change in CCJs between 2019 and 2020



Source: The Registry Trust, County Court Judgements data for 2019 and 2020, ONS Population estimates 2019

This is down to a combination of reasons. Firstly, the fall in CCJs is partly due to delays in the system. According to official statistics published by the Ministry of Justice, small claims in particular are taking, on average, three months longer than before the pandemic – an average of 48.8 weeks between being issued and the claim going to trial. This is due to a backlog that has been further exacerbated by lockdown restrictions and an outdated IT system.[13]

Government support initiatives to help people dealing with debt during the pandemic have also prevented some individuals from finding themselves in an even worse situation. Mortgage holidays and the ban on rent evictions have protected people's housing, while the Financial Conduct Authority issued guidance urging lenders to offer payment holidays and avoid enforcing mortgages and consumer credit repossessions in all but exceptional circumstances until the end of April 2021.[14]

On top of the measures to support people dealing with debt, Government initiatives aimed at protecting income throughout the pandemic have played a crucial role in preventing an even worse situation from materialising. The temporary £20 uplift in Universal Credit has relieved those at the bottom end of the income distribution from even stronger financial pressures, while the Job Retention Scheme and the Self-employment Income Support Scheme have protected most people from losing more than 20 per cent of their income.

Lastly, CCJs are one of the most extreme measures of debt, often used as a last resort. According to the Financial Lives Survey produced by the Financial Conduct Authority, while one in five people have used credit since the pandemic, approximately a third used their savings to cover their expenses, with the number going up to four in 10 for people at the bottom end of the labour market. In addition, 10 per cent have borrowed from family and friends.[15] This would suggest that, even if not currently showing in official measures of debt, many are seeing their financial cushion reducing. With each month of continued hardship caused by the pandemic, they are more and more likely to be pushed into debt.

Clearly, as the economy reopens and Government support is phased out, more of these issues are likely to come to light. Both the Job Retention Scheme and the £20 Universal Credit uplift are expected to end after the summer.[16] This could unveil a storm of problem debt, especially if the phase-out of support does not coincide with the economy firing on all cylinders.

As such, the timing and the way in which the Government approaches the next stage of our economic recovery will be equally important in determining how different people and places can bounce back.

05

What needs to change?

While the pandemic has undoubtedly enabled some to save more, this research shows that the financial situation of a significant share of the population, particularly in cities and large towns in the North and Midlands, has deteriorated.

This has important implications for the recovery as the quick bounce-back predicted by the Bank of England, thanks to accumulated Covid-savings, is likely only to occur in some parts of the country. Others will instead have to cope with increased levels of debt and problem debt.

The Government's support initiatives throughout the pandemic – as well as family networks and delays in the Court system – have helped cushion people from the worst effects of the debt crisis. However, the reopening of the economy and the consequent phase-out of Government support is likely to set off a domino effect of bills and debts piling up.

The Government's task as the UK enters the economic recovery phase is to avoid this, supporting people who have been hard hit by the events of the past 15 months so they can stay afloat. It should do this by carefully timing how, and when, current support measures are withdrawn, and by introducing new initiatives. In particular, the Government should focus on four main areas:

1. Support people with their immediate spending needs:

- Extend the ban on rent evictions, mortgage holidays and payment holidays for people who are struggling financially as a direct result of Covid-19. This should last at least until the end of the year to allow the economy to fully readjust after the Coronavirus Job Retention Scheme is phased out.
- Extend the Free School Meal programme to cover eligible children during the summer holidays.

2. Support people dealing with debt:

- Introduce a debt relief programme for specific debts that people have accumulated during, and because of, the pandemic.
- Mandate that small debt accrued during the pandemic does not affect people's credit scores.
- Maintain the increased level of Government investment in debt advice services after the pandemic ends.

3. Protect income:

- Make the £20 uplift for Universal Credit permanent and review the current social security system to bring it in line with that of other European welfare states.
- Extend the Coronavirus Job Retention Scheme to sectors that will continue to be affected by the pandemic after the summer, such as the aviation industry.

4. Level up for the long term:

- Address the underlying causes that make the economies of some places weaker, and mean people are more likely to have smaller financial cushions, by:

1. Encouraging people back into city centres for work and leisure, to create job opportunities for those hit hard by the pandemic in retail and hospitality.
2. Providing free training for people made redundant during the pandemic who wish to retrain, regardless of their existing qualification level.
3. Creating job opportunities and attracting high-value businesses to cities and large towns with weaker economic performance in the North and Midlands.

Endnotes

1 www.bloomberg.com/news/articles/2021-03-24/boe-s-chief-economist-says-rip-roaring-recovery-is-possible

2 www.bloomberg.com/news/articles/2021-03-24/boe-s-chief-economist-says-rip-roaring-recovery-is-possible

3 www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics#self-employment-income-support-scheme

4 Centre for Cities (2021), 'Cities Outlook 2021', London: Centre for Cities

5 CCJs are a type of court order that is made against a person if they fail to repay money they owe, and their incidence is an indicator of problem debt.

6 K. Narayan (2020), 'Household debt and problem debt in British cities', London: Centre for Cities

7 www.bankofengland.co.uk/quarterly-bulletin/2020/2020-q4/cash-in-the-time-of-covid

8 www.which.co.uk/news/2018/10/poorest-to-be-worst-hit-by-a-cashless-society-warns-which/

9 M. Brewer, K. Handscomb & K.Shah (2021), 'In need of support? Lessons from the Covid-19 crisis for our social security system', London: Resolution Foundation

10 Support for people who are self-employed has been excluded from the picture because there is no available data on its cumulative use by local authorities.

11 Magrini E. & H. Overman (2020), 'Which parts of the UK have been hardest hit by the Covid-19 crisis?' London: Economic Observatory

12 These figures are likely to be conservative estimates, as the people who are likely to have saved more during the pandemic used to spend more overall before the crisis hit.

13 www.lawgazette.co.uk/news/small-claims-taking-almost-a-year-to-come-to-trial/5106699.article

14 www.fca.org.uk/news/statements/update-mortgages-consumer-credit-banking-and-payments-during-coronavirus

15 Financial Conduct Authority (2021), 'Financial Lives Survey, 2020', London: Financial Conduct Authority

16 www.bbc.co.uk/news/uk-politics-56268229

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