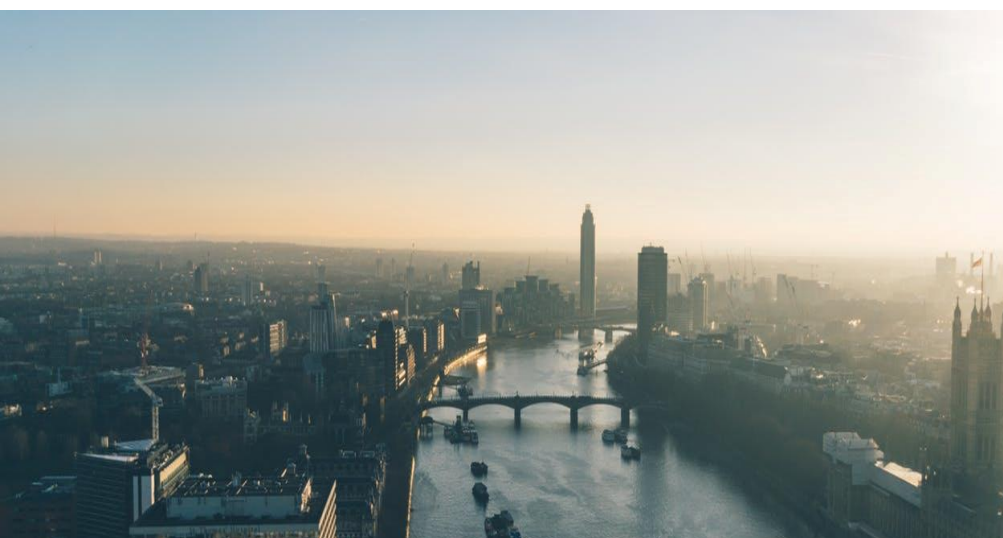




The impact of COVID-19 on Londoners' mental health and wellbeing:

Financial impact and ongoing financial challenges



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Financial impact

Introduction & context

Financial resilience and feelings of control relating to finance have a profound impact on people's wellbeing, and those with pre-existing mental health conditions have been shown to have higher concerns about benefits and finances. Employment and financial security have a bidirectional relationship with overall mental health. Stable, consistent employment and the ability to save money act as protectors of mental health whereas debt, unemployment and financial instability are some of the main barriers to emotional wellbeing.

Life events such as losing one's job, falling into debt, or being placed in high stress, potentially traumatic working environments can all be classified as stress points in a life course. With any traumatic event, these can act as triggers in the development of a wide range of mental health problems. In addition, the perpetual stress of unemployment or precarious employment, poverty or consistent low-income, exacerbated by the pandemic and inflations to the cost of living, have the ability to wear down the emotional resilience of Londoners and therefore pose a significant risk to population mental health.

This briefing will explore the financial impact of the coronavirus pandemic and its resulting mental health consequences, both in the short and the long term, as the UK moves into what has been deemed a cost-of-living crisis. It is important to note that those households most severely impacted by the pandemic on a financial level are those who are least likely to have the means and opportunities to recover economically in a swift, timely manner, and equally are the households with the least financial resilience to weather the storm of the ongoing inflation in the cost of living. As with all other aspects of the pandemic and broader crises, it is clear to see the way in which entrenched inequalities are replicated across the socio-political horizon, giving those facing disadvantage and inequities limited ability to achieve positive mental health outcomes and to live happy, healthy and productive lives.

The financial impact of the pandemic

The financial impact of the pandemic is not to be understated. In March 2020 when the first national lockdown was announced, entire sectors of the economy closed for many months at a time sending the economy into a sharp recession.

As part of this closure, hundreds of thousands of Londoners being placed on furlough as part of the Job Retention Scheme. At its peak in July 2020, 905,800 Londoners were furloughed on a full-time basis, the highest proportion of its overall population of any region in England and Wales. As the Scheme came to an end, 9 of the 10 local authorities in the U.K with the highest take-up rates were some of

London's most deprived boroughs, highlighting how those worse off financially were hardest hit by the financial impacts of the pandemic.¹

Those more likely to be furloughed or lose their jobs in the pandemic were those in social groups and belonging to communities more likely to face financial difficulties prior to the pandemic. These included young people, those from the lowest income quintile households, families with children, and those from racialised and minoritised communities; all of which already faced disparities in terms of rates of employment, job security, financial resilience and economic activity when compared to the general population.

The pandemic was also responsible for vastly increasing the proportion of the population with characteristics of financial vulnerability, as households struggled to rely on reduced incomes and were increasingly forced to rely on savings or take out loans in order to support themselves. In the first year of the pandemic, the number of adults with characteristics of financial vulnerability increased by 15% to 27.7 million, with 3 in 8 adults nationally reporting that their financial situation had worsened due to COVID-19 and 15% (7.7 million) reporting that it had worsened a lot.²

The government's temporary provision of a £20 uplift to the Universal Credit Scheme was a lifeline for countless households during the many difficult months of the pandemic, and when it ended in September 2021 it represented the largest drop since the scheme had begun, the impact of which is still yet to be fully realised. Between March 2020 and March 2021, the number of people relying on Universal Credit doubled from 3 to 6 million, indicating that many of those who had never been forced to rely on government support in the past were now being left with no choice but to do so.³

Upcoming and future economic challenges for Londoners

Whilst there are positive signs that the financial impacts of the pandemic may not materialise to an extent as severe, broad reaching or long-term as was originally forecast, it is clear that for many Londoners the financial impact of coronavirus is just one of a series of crisis events that dents financial resilience and makes the cost of living and supporting themselves and their families more difficult.

The economic legacy of COVID-19 is just one of many challenges that Londoners, and in particular those belonging to lower income households are being forced to

¹ Greater London Authority (2021) Briefing on the latest HMRC Official Statistics on the furlough support scheme: <https://data.gov.uk/dataset/76bb4972-b0ec-4c19-bfdc-0859a24aabe4/gla-economics-covid-19-labour-market-analysis>

² Financial Conduct Authority (2021) Financial Lives 2020 Survey: the impact of coronavirus: <https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus>

³ Universal Credit statistics, 29 April 2013 to 8 July 2021 - GOV.UK (www.gov.uk)

face as we head into the latest stage of pandemic recovery. While economic recovery from the pandemic has increased more broadly across the U.K as a whole in recent months, London has faced the slowest recovery of jobs of any region or country in the U.K thus far, with the number of payrolled employees between February 2020 and November 2021 increasing by only 0.2% in comparison to 1.4% in the U.K overall.⁴

In recent months the global price of energy has skyrocketed, resulting in inflation across nearly all sectors of the economy as businesses are forced to pay more for energy and transport and must therefore raise the price of products to cover costs. This has been exacerbated by unforeseen broader global crises such as the invasion of Ukraine and associated sanctions which have challenged the reliance of the U.K and other European nations on Russian gas pipelines. This has meant a sharp rise in the cost of living, which is not supplemented by a proportionate rise in wages, therefore meaning that households are paying more for the same lifestyle, with less disposable income and reduced capacity to accumulate long term savings. Inflation is at a 30-year high across the UK and it may be even higher in London. National Institute of Economic and Social Research (NIESR) estimates suggest underlying inflation in the capital may be 1 percentage point faster than the UK average, with historic London inflation rates reaching over 7% higher than the UK average⁵.

It is evident that this crisis will be a source of stress and uncertainty for many, inevitably contributing to higher rates of debt, loan applications and reliance on food banks. Low-income families which already make up a large proportion of the 'multi-struggler' group in terms of their financial vulnerability are predicted to be the group which will be most severely hit by this increased cost of living. For those that are already struggling to make ends meet, the predicted rises in costs will make it impossible for them to support themselves and their families without taking out loans, borrowing money from others and ultimately falling further into debt.

The main price rises that will have the greatest impact on the financial situation of households are as follows⁶:

- The fuel price cap is set to increase by 54% from April, meaning that households on average will have to pay £693 extra annually for their gas and electricity⁷. This rise in cost will be even higher for those without a tariff using prepayment meters, typically installed within the lowest income households.

⁴ London Datastore (2022) The rising cost of living and its effects on Londoners: [The rising cost of living and its effects on Londoners - London Datastore](#)

⁵ [The rising cost of living and its effects on Londoners – London Datastore](#)

⁶ BBC News (2022) What is the UK's inflation rate and why is the cost of living going up?: [What is the UK's inflation rate and why is the cost of living going up? - BBC News](#)

⁷ Ofgem (2021) Price cap to increase by £693 from April: <https://www.ofgem.gov.uk/publications/price-cap-increase-ps693-april>

- Fares on TfL services increased by 4.8% on 1st March 2022⁸ in order to ensure financial sustainability of London's transport network, increasing the cost of travel during a time of removal of coronavirus social restrictions and phased return to office working and commuting.
- National regulated rail fares also rose by 3.8% in March⁹, representing the largest overnight increase in fares in nearly a decade and adding several hundreds of pounds to some passengers' annual travel costs.
- Many major broadband networks are set to increase their prices by around 9% from the end of March, with the exact amount varying dependent on network and only made clear in April bills.¹⁰
- National Insurance contributions are set to rise by 1.25% in April 2022.¹¹
- There is set to be an increase in monthly mortgage payments for many as part of an increase in interest rates to borrowers¹².

In the 12 months running up to November 2021, the cost of living surged by a total of 5.1%, its fastest increase in the past decade and a range of increases in taxes, price caps, mortgages and monthly bills will only worsen this situation, with inflation set to peak in Spring 2022 at around 7.25%¹³. With the Ukraine crisis and its knock-on impact upon global gas and energy prices taken into account, the Resolution Foundation predicts that inflation could reach an even higher point of 8.3% in April 2022¹⁴.

The increase in gas and electricity prices is by far the most substantial additional cost that households will have to pay in the coming months, with forecasting predicting that despite the Government's more universal support provided via the Energy Rebate Plan, the number of households experiencing 'fuel stress' (whereby at least 10% of their monthly income is spent on gas and electricity) will double overnight to around 5 million.¹⁵ However, whilst this is the most significant of the rising living costs for most, it is important to recognise that the compounding rises in rent, transport costs, weekly shops and standard Wi-Fi and phone bills will equally have a considerable impact on almost all households to varying extents, and in

⁸ Transport for London (2022) Fares from 1 March 2022: [Fares from 1 March 2022 - Transport for London \(tfl.gov.uk\)](https://tfl.gov.uk/fares-from-1-march-2022)

⁹ Department for Transport (2021) Rail fares capped to prevent high increases for passengers: <https://www.gov.uk/government/news/rail-fares-capped-to-prevent-high-increases-for-passengers>

¹⁰ Forbes Advisor (2022) Broadband Bills To Soar Beyond 9%: <https://www.forbes.com/uk/advisor/broadband/2022/02/25/broadband-bills-to-soar-beyond-9/>

¹¹ GOV.UK (2022) National Insurance contributions: <https://www.gov.uk/national-insurance/how-much-you-pay>

¹² [What does UK interest rate rise mean for savers and borrowers? | Interest rates | The Guardian](#)

¹³ Evening Standard (2022) Bank of England warns inflation will hit 7.25% by April: [Bank of England warns inflation will hit 7.25% by April | Evening Standard](#)

¹⁴ Resolution Foundation (2022) The Living Standards Outlook 2022: [The Living Standards Outlook 2022 • Resolution Foundation](#)

¹⁵ The Resolution Foundation (2022) The price is right: The April 2022 energy price rise and the Government's response: [The price is right? • Resolution Foundation](#)

particular on those in society who are most vulnerable to poor mental health outcomes.

Following the financial stress imposed by the pandemic, the removal of the monthly £20 uplift in Universal Credit which has placed an estimated additional 130,000 Londoners into poverty¹⁶, and the worn-down resilience from repeated crises of those Londoners already facing systemic inequities; this impending cost of living crisis has the potential to significantly worsen people's financial situations and have a detrimental effect on their mental health and wellbeing.

A recent Ipsos MORI poll¹⁷ showed that cost of living is the main issue facing Londoners, with 62% of Londoners highlighting it as the main challenge in the capital. Another more recent poll conducted by London Communications Agency confirmed this sentiment, with cost of living being underlined as the main cause for concern amongst Londoners, with 52% of those polled stating that their main worry was the cost-of-living crisis, even in advance of many of the price hikes listed above taking effect and their real, tangible impact being felt by those living in the capital.¹⁸ This concern is followed by housing availability and affordability in second place at 29% which will also be heavily impacted by rises in the cost of living, which may prevent homeowners from buying, selling and renting properties due to a lack of long terms savings and financial stability.

Whilst various initiatives and policies have been announced in recent months by the Chancellor and in the recent Spring Statement in an effort to offset and reduce the negative impact of inflations in the cost of living for the poorest households, this unprecedented peak in living costs will affect those across society, with taxes set to rise to their highest proportion of national income since the 1940s, as Britain was emerging from World War Two¹⁹. The impact of this latest crisis will fall disproportionately upon those from communities which experience the highest rates of deprivation, and which are faced with the highest rates of poor mental health and wellbeing.

¹⁶ London Datastore (2022) The rising cost of living and its effects on Londoners: [The rising cost of living and its effects on Londoners - London Datastore](#)

¹⁷ London Datastore (2022) The rising cost of living and its effects on Londoners: [The rising cost of living and its effects on Londoners - London Datastore](#)

¹⁸ Evening Standard (2022) Cost of living main concern for Londoners, poll shows: <https://www.standard.co.uk/news/politics/cost-of-living-crisis-london-deltapoll-rishi-sunak-b987918.html>

¹⁹ BBC News (2022) Spring Statement: Rishi Sunak accused of not doing enough for poorest households: [Spring Statement: Rishi Sunak accused of not doing enough for poorest households - BBC News](#)



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