The Perfect Storm

Living on Universal Credit during the Cost of Living Crisis

citizens advice scotland

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Who we are

Citizens Advice Scotland (CAS), our 59-member Citizen Advice Bureaux (CAB) and the Extra Help Unit, form Scotland's largest independent advice network. Scotland's Citizens Advice Network is an essential community service that empowers people through our local bureaux and national services by providing free, confidential and independent advice. We use people's real-life experiences to influence policy and drive positive change. We are on the side of people in Scotland who need help and we change lives for the better.

During 2020-21, the entire Citizens Advice network provided advice and assistance to over 171,000 individuals; this equates to one in every 26 adults living in Scotland. The network put almost £147 million back into people's pockets during this time, with every £1 invested in core advice funding returning £14 in gains for people. Our extensive footprint is important in helping us understand how issues impact locally and nationally across the country and the different impacts that policies can have in different areas.

Executive Summary

The last few years have been extraordinarily tough. The pandemic left 1.8 million people in Scotland financially worse off, and even before the most recent increase in the energy price cap one in three people found their bills unaffordable. Now people are faced with a perfect storm of soaring prices and flat or falling incomes, which risks sweeping tens of thousands of people across the country into poverty, problem debt, and destitution.

Those relying on the social security system are particularly vulnerable to poverty. Just over 447,500 people across Scotland are on UC – equivalent to more than one in ten working age adults in Scotland and almost double the number before the pandemic. Getting social security right is vital to help these people weather the storm.

Previous research conducted by Citizens Advice Scotland (CAS) in early 2021 found that many people on Universal Credit (UC) were already cutting back on food, utilities, and other essentials to make ends meet. The UK Government's decision in October 2021 to then cut UC by £20-per-week, just as energy and food prices began to skyrocket, has only made the situation more difficult.

Recent data from across the Citizens Advice network in Scotland shows the hardship people are facing every day:

- Advice need for food banks has grown by almost a third (31%) since September 2021.
- Advice need for other charitable support, including fuel bank referrals, saw a sharp increase of 23% between September 2021 and December 2021, likely reflecting the additional pressure of winter heating bills.
- Advice on UC sanctions has grown by 53% over 2021-22.
- Advice on UC Budgeting Advances has risen by 25% over 2021-22.
- Advice on UC Overpayments nearly doubled from the average across 2020/21 to Q4 of 2021/22.

Behind each of these statistics are real people. Below we highlight four real Citizens Advice Bureau (CAB) client stories which show the incredible difficulties many people on UC are facing daily. Their names have been changed to protect their anonymity, but their stories demonstrate the reality of the cost of living crisis and the need for further support.

CAS recommends:

- An immediate uprating of UC and all legacy benefits to present inflation rates and a continuous review of the adequacy of social security payments to ensure they meet everyone's needs.
- Suspending the use of sanctions until the cost of living crisis is over.
- Scrapping the benefit cap and the two-child limit.
- Pausing collection of all DWP and HMRC debts and reducing all other deductions to a 5% maximum until the DWP's debt recovery process can be replaced with a revised system based on a robust holistic affordability check, such as the Common Financial Statement.
- Abolishing the five week wait by converting all Advance Payments at the beginning of UC claims into non-repayable assessment period grants.

The impact of the cost of living crisis

Everyone will have felt the pinch over the last nine months. Inflation has hit 9%, with further rises expected over the year. Energy, food, and fuel prices in particular have skyrocketed, and with the energy price cap set to rise again in October, the cost of living crisis looks set to continue for the foreseeable future.

Since the crisis began, CAS has seen an increase in demand for advice on housing, debt, and energy across the network. Most worryingly of all, the network has seen a sharp increase in clients seeking fuel and food bank vouchers – clear evidence that people cannot afford to meet even their basic needs:

- Advice need for food banks has grown by almost a third (31%) since September 2021.
- Advice for other charitable support, including fuel bank referrals, increased by 23% between September 2021 and December 2021, likely reflecting the additional pressure of winter heating bills.
- Both figures remain higher than comparable pre-pandemic figures, with food bank advice 20% higher in January 2022 than it was in February 2020 and non-food bank charitable advice 35% higher.

During times like these, people need to know that the social security system will properly support them. Yet years of below-inflation uprating have left the value of UC trailing far behind the cost of living, with UC only uprated by 3.1% in April 2022. This has left people on UC with with a huge gap between their incomes and their bills.

Since its introduction in 2013, the only time UC has kept pace with its original real terms value was during the pandemic, when the UK Government uplifted UC's basic allowance by £20-a-week. But just as the cost of living began to climb, the UK Government decided to cut this uplift in October 2021, plunging people's incomes back below inflation.

Graeme's story below shows some of the difficulties people faced when the cut went through. While Graeme had been coping during the pandemic, the unexpected cut to his income sent him into real financial difficulties, needing to rely on food and fuel vouchers to make ends meet. But without the ability to take up employment, his income remains stuck below his daily needs.

The impact of the cost of living crisis

Graeme's story

Graeme is aged between 35–44 and lives in the East of Scotland. He lives on his own in social housing and has no local family who he can rely on for support. He also experiences anxiety and depression which stops him from working, meaning he relies on UC for his income.

Graeme first came to CAB in November 2021 looking for a food bank voucher. He explained that his UC was not enough to cover the basics and that he was really feeling the pinch since the removal of the UC uplift. Alongside his request for a food voucher, Graeme reported that he only had around £10 left on his electricity meter.

Graeme contacted his CAB again for food bank referrals in March and April 2022. Graeme told us that the rise in the cost of living and the low rate of UC had left him without enough money to make ends meet and he had really been struggling since the £20 uplift was removed. While he had tried to access a Crisis Grant from the Scottish Welfare Fund, the local authority refused his application as he was not deemed to be in crisis.

In June, Graeme contacted us again seeking a referral for his local food bank. He had no food in the house and only £7 left on his electricity prepayment meter. While Graeme still had a week until his next UC payment, his local authority told him that he was unable to access a Crisis Grant as his next payment would come through before his application could be processed. This left him without any access to financial support.

Without adequate social security and access to other emergency support, people like Graeme are forced to turn to food banks and other forms of charitable support to survive. Not only is this evidence that our social security system is too low for people to make ends meet, but it also pushes the pressure of the cost of living crisis onto local authorities and the already-stretched charity sector, reducing the range of support that can be offered to everyone.

Fundamental investment in the social security system is the only way to respond to the crisis.

CAS recommends:

- An immediate uprating of UC and all legacy benefits to present inflation rates and a continuous review of the adequacy of social security payments to ensure they meet everyone's needs.

Emergency support

Living on a perpetually low income is extremely stressful. Having to manage on the barest finances means continually weighing up any expenditure, facing trade-offs between essentials like heating and eating. But perpetually low incomes also mean that people have no financial buffer when an unexpected cost occurs. CAB across Scotland report of clients facing hardship as a result of necessary car repairs, replacement of fridges or ovens, travel and clothing costs for a job interview or a trial shift – even people struggling to afford to attend a family funeral.

When someone finds themselves facing an unexpected hit to their income, emergency support should be available to ensure they do not fall into poverty. But in reality, there are real gaps in the support offered. While emergency Crisis Grants are available as part of the Scottish Welfare Fund, local authorities will not normally give more than three in a year to the same person. CAB frequently report of clients who have already hit this limit because their basic UC allowance fails to cover their day-to-day bills, meaning they have claimed Crisis Grants just to be able to pay for essentials. And while the DWP offers Budgeting Advances to help pay for emergencies, these are loans which a person repays through deductions from their future UC payments, further lowering their income going forward.

A perpetually low income can also have knock-on effects on a person's ability to engage with the work search requirements of UC. Because UC is a digitally delivered benefit, people on UC need internet access to search for work and update their UC journal. Yet a YouGov survey commissioned by CAS found that:

- More than 1 in 7 people who run out of money before pay day go without internet access as a result.
- 1 in 5 go without mobile phone access.

Without access to the internet, people risk having their UC sanctioned, which can plunge them into real crisis. CAB often see clients who were sanctioned because they could not afford internet access to update their UC journal or could not afford to pay to travel to their Jobcentre for an interview with their work coach. This leaves them with next to no income for the duration of the sanction, pushing them into poverty, debt, and mounting arrears.

While sanctions were paused during the early stages of the pandemic, analysis of recent DWP statistics show that the percentage of UC claimants under sanction has risen well above pre-pandemic levels. The CAS network has seen a 53% increase in the need for advice on sanctions across 2021-22. While a sanction would have a detrimental impact at any point in time, the risk of falling into unescapable debt and poverty is particularly acute in the present cost of living crisis, where people are already struggling to make ends meet.

Mitchell's story below demonstrates these problems. Because his UC does not pay enough to consistently make ends meet, he had already applied for three Crisis Grants to buy food and pay his bills. When an unexpected accident then left him with a repair bill he couldn't afford, he found he had nowhere else to turn for support.

Emergency support

Mitchell's story

Mitchell is 45–59 and lives on his own in the East of Scotland. He was made redundant in February 2020, just before the pandemic.

Since March 2020, Mitchell has contacted his CAB eight times to request food bank and fuel bank vouchers. Deductions from his UC for Budgeting Advances and rent arrears mean his already low income is reduced further each month and the removal of the £20-a-week uplift in October 2021 only made his situation harder.

Because his income frequently does not cover the entire month, Mitchell has had to claim Crisis Grants from the Scottish Welfare Fund to make ends meet. But because local authorities only provide these grants for a person three times in one year, Mitchell has found himself left without recourse to emergency support when he needs it.

This was a particular problem in November 2021, when Mitchell's phone was damaged in an accident. Mitchell prioritised repairing his phone because he feared that his benefits would be sanctioned if he could not access his UC journal via his phone. Because Mitchell had already claimed three Crisis Grants in the previous year, he was unable to seek further emergency support and had to request a food bank referral just to have something to eat. Mitchell was reluctant to seek another Budgeting Advance from the DWP as he knows this will be deducted from his future payments, trapping him on a low income for longer.

Two things stand out in Mitchell's story. The first is the long-term impact of inadequate UC. Mitchell sought eight food bank referrals, on top of various Crisis Grant payments, just to be able to make ends meet. When an accident then left him with an unexpected repair bill for his phone, there was simply no way for him to be able to cover the additional costs from his basic allowance. He had to turn to a food bank to compensate for these repairs. This highlights how a weak social security system not only causes hardship for individuals but also pushes additional financial pressure onto local authorities and the charity sector.

The second thing that stands out is Mitchell's fear of being sanctioned, to the point where he prioritised repairing his phone over buying food. This may seem difficult to understand, but within UC's conditionality rules it makes sense. If Mitchell was already struggling to get by on the basic allowance of UC, having that money stripped away would be disastrous.

Uprating UC would help relieve some of this financial pressure, giving people more financial resilience to deal with unexpected costs. But particularly now, with the cost of living skyrocketing, sanctions should not be implemented. People cannot afford to lose their income for the length of a sanction and the stress of managing during the cost of living crisis is only compounded by the fear that a disconnected phone or a lack of bus money might lead to a dramatic loss of income.

Suspending the use of sanctions would give people the peace of mind to keep their heads above water.

CAS recommends:

> Suspending the use of sanctions until the cost of living crisis is over.

Families

People with children make up 43% of all households on UC in Scotland. This means that proper support from UC is critical for fighting child poverty. Yet two aspects of the social security system greatly limit the support available to families with children.

The first is the benefit cap. The benefit cap is set differently according to the characteristics of the household:

- £384.62 per week (£20,000 a year) if you're in a couple.
- £384.62 per week (£20,000 a year) if you're a single parent and your children live with you.
- £257.69 per week (£13,400 a year) if you're a single adult.

Because families are entitled to additional UC payments such as the Child Element and the Childcare Costs Element, their UC incomes are likely to come closer to meeting the threshold of the benefit cap. The unequal impact of this policy on families is clear when you look at the national statistics for households subject to the benefit cap across Scotland:

- While only accounting for 11% of all households on UC in Scotland, joint parent households account for 29% of all households subject to the benefit cap.
- While only accounting for 32% of all households on UC in Scotland, single parent households account for 69% of all households subject to the benefit cap.
- Together, households with children make up 98% of all households subject to the benefit cap in Scotland - more than twice their proportion of all UC claims.

Because the benefit cap level has not been reassessed since 2016, it has continued to cap income levels at the same level even as the price of living has skyrocketed. This directly reduces the support available to families, leaving parents cutting back on essentials just to ensure their children can eat.

These problems are exacerbated if the family is subject to the two-child limit. The two-child limit means that any third or subsequent child born on or after 6 April 2017 receives no Child Element payment, meaning families on already low incomes receive no additional support for their younger children. This can cause real hardship for those families and reduces their ability to fully support each child equally.

Liz's story below illustrates these problems. Previously in employment, she was made redundant during the pandemic. It was at this point that she discovered she would not receive an additional Child Element for her two youngest children – something she had not previously had to consider while in work. She is now frequently having to borrow from family and seek food bank vouchers just to get by.

Families

Liz's story

Liz is a single parent in the East of Scotland, aged 25–34. She has four children.

In September 2020, Liz was made redundant from her job. She had just had a new baby and was requesting a food bank voucher. Our adviser helped her apply for Child Element for her children, as well as maternity allowance, but explained that she would not receive Child Element for her two youngest children.

In December 2020, Liz got in contact asking for a food bank referral. Her ex-partner's maintenance payments were late and after paying her bills and loans she has only £7 left from her UC. She would get in touch again for a further food bank referral in July 2021 and January 2022, noting that the removal of the £20 uplift had made a larger difference than she expected.

In March and May 2022, Liz requested further food bank referrals. She had no food in the house but felt nervous to contact the food bank as she fears she is overusing the service. Her gas and electric bills have got on top of her recently – she topped up her prepayment meter with £10 yesterday and now has only £4 left – and she is having to borrow from her mother to make it through. Liz said that two-child limit is really impacting her ability to provide for her children.

Removing the two-child limit and ensuring any additional income is not consequently limited by the benefit cap would restore support to people with three or more children and ensure they have the income necessary to give their children a good start in life. The New Economics Foundation reported in October 2021 that removing the two-child limit and the benefit cap, alongside a modest uplift of £12 a week to UC's basic allowance, would lift almost a million (910,000) people out of relative poverty across the UK, including 530,000 children.

Scrapping these policies would be a targeted income boost to families who need it most.

CAS recommends:

> Scrapping the benefit cap and the two-child limit.

Deductions

UC has a deductions system which allows for a person's UC to be reduced in order to make repayments for their debts. These deductions can be made for third party debts, such as for rent arrears, energy bills, or court fines, but they can also be used to recover Government debts such as benefit overpayments (including overpayments as a result of DWP error), Budgeting Advances, and Advance Payments to cover the five week wait for the first payment of UC. Up to 25% of a person's UC can be deducted each month to make these repayments – a significant reduction to UC's already-low basic allowance.

Deductions impact a huge number of people across the country. According to recent DWP statistics, over 165,000 people on UC in Scotland are subject to deductions for overpayments or advances – around a third of all people on UC in Scotland – with the average deduction being £52 a month. This shows not only the scale of the deductions system but also shows that many people impacted by deductions are repaying the maximum 25% amount.

Advice on deductions consistently account for between 7% and 8% of all UC advice given by the Citizens Advice network, with deductions for DWP and HMRC debt showing marked increases in the past year:

- Advice on Advance Payments to cover the five week wait for the first UC payment consistently make up between 4% and 5% of all UC advice.
- Advice on Budgeting Advances has risen by 25% across 2021-22.
- Advice on Overpayments nearly doubled from the average across 2020/21 to Q4 of 2021/22.

The impact of this debt can be significant. CAS analysis of 1,928 of our complex debt clients[1] showed that the 131 clients with benefit overpayment debt were more likely to have a negative monthly income than for other kinds of debt.[2] This shows the unaffordable nature of the current deductions scheme and the need for a system which takes into account people's ability to repay them safely.

Sean's story below illustrates the impact deductions can have on a person's income. While Sean is in full-time work as a modern apprentice, he is still repaying his Advance Payment, lowering his monthly income to the point where he cannot afford his essential bills. As he is under 25, he is also receiving a lower amount of UC, meaning these deductions have a greater impact on his monthly income.

[1] Complex debt refers to the level of support someone needs, whether that is due to the size of their debts in comparison to their income, or the number of separate debts they have.

[2] A negative budget is where a client's debt repayments and essential living costs add up to more than their income. A positive budget is where a client's income is sufficient to meet their debt repayments and cover essential living costs.

Deductions

Sean's story

Sean is 18–24 and lives in the West of Scotland on his own. He is in full-time work as a modern apprentice and has his income topped up by UC. Because he is under 25, Sean receives a lower basic allowance from UC as well as a shared accommodation cap on his Local Housing Allowance.

In November 2021, Sean contacted his CAB as his payment had been reduced and he was now struggling to pay his rent, his bills, and buy food. Sean was unaware that the £20-a-week uplift had been removed. This explained why he was suddenly struggling to make ends meet.

Sean is repaying his Advance Payment for the five week wait through deductions to his UC, leaving him with less money each month. The adviser recommended he speak with his work coach to seek a reduction in his deductions.

CAS has previously called for replacement of the DWP debt recovery process with a revised system based on a robust holistic affordability check. Affordability checks should account for an individual's outgoings based on their individual circumstances and safeguard against people being left without enough to cover essentials. Under a system of robust affordability checks, it is likely that very few recipients would be considered able to make any repayments and none would have 25% available income to spare for repayments.

With the cost of living crisis set to continue, people need every penny to keep their head above water. Pausing collection of Government debt would be a good place to start. Similar to its freeze on Fuel Direct deductions, the DWP should pause collection of all DWP and HMRC debt until a more robust affordability check can be introduced to ensure people have the means to pay. CAS would further recommend that the DWP lower its deductions for third party deductions to a 5% maximum, giving people the breathing space necessary to get through the cost of living crisis, and total suspensions of deductions for those most in need.

With the cost of living crisis set to continue for the foreseeable future, the DWP should also take steps to ensure people do not accrue new deductions. One policy change that would have a significant impact would be to remove the five week wait for first payment under UC and convert all existing Advance Payments to non-repayable grants. A non-repayable grant would mean that UC is able to function as an immediate social security safety net for people new to the system, rather than saddling them with debt and reduced income from their first payment. Further extending this non-repayable grant scheme to existing claims would remove that pressure from people across the country, giving them more income each month to make ends meet.

CAS recommends:

- Pausing collection of all DWP and HMRC debts and reducing all other deductions to a 5% maximum until the DWP's debt recovery process can be replaced with a revised system based on a robust holistic affordability check, such as the Common Financial Statement.
- Abolishing the five week wait by converting all Advance Payments at the beginning of UC claims into non-repayable assessment period grants.

Conclusion

With food prices still rising and the energy price cap set to increase again in October, the cost of living crisis will be with us for many more months. But for those who fall into debt and hardship during this time, the effect can be much more long-lasting.

Low social security payments place people at risk of housing arrears and the devastating effects of homelessness, not to mention the health impacts of starvation, poor or insufficient diets, and cold, unheated homes. The marks of that hardship can hold people back for years.

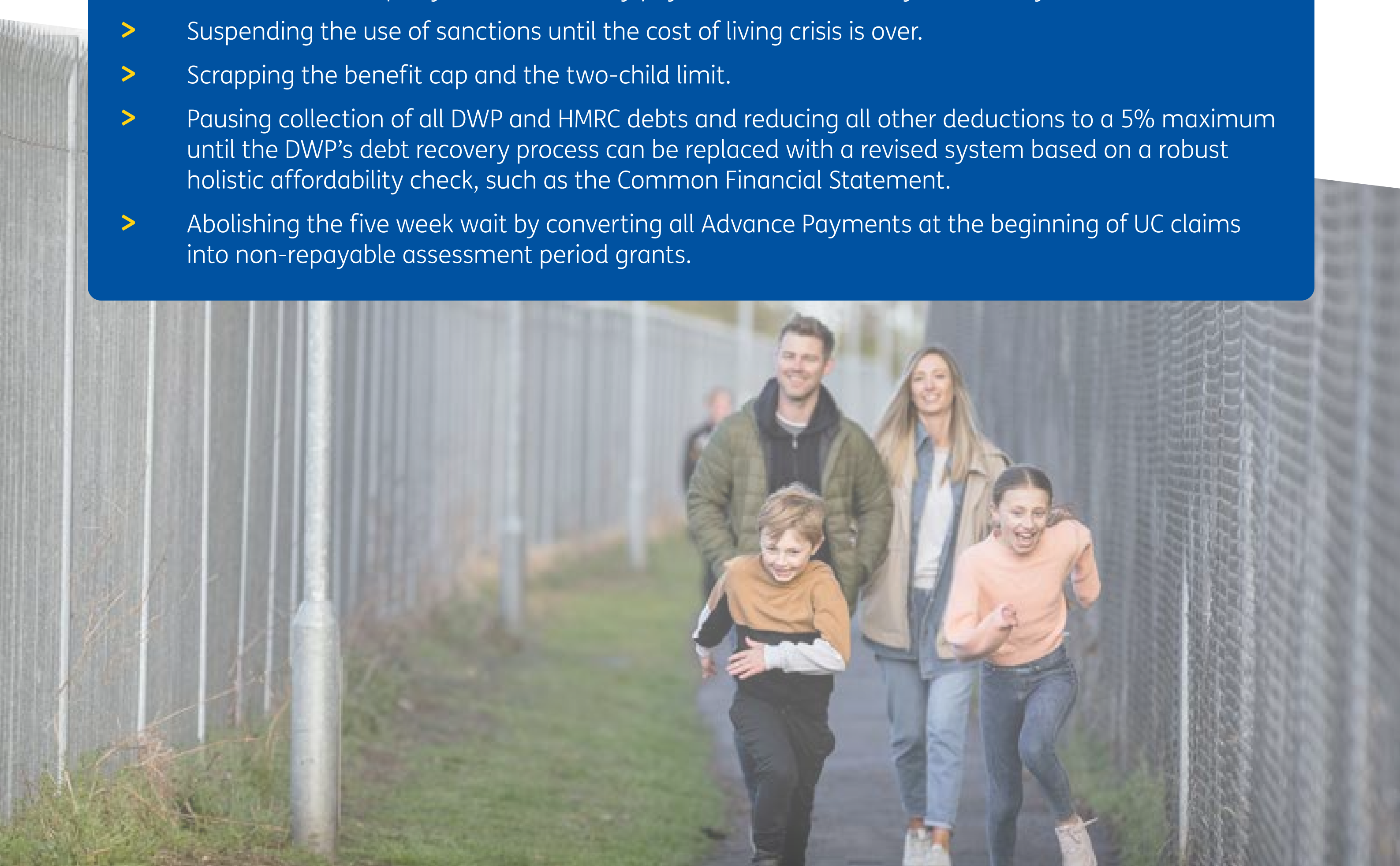
Investment in adequate social security support will lift people out of poverty. It will prevent huge and unnecessary public spending by reducing demand on other services, as well as providing an economic stimulus to the most deprived local communities. And it will also help stop people falling into debt, meaning they will emerge from the cost of living crisis without arrears hanging over their heads.

As we've shown above, people have been struggling for months – not only from the cost of living crisis, but also from the impact of the pandemic and the £20-a-week cut to UC. They need to know that UC will support them better in the months to come.

A wider review of the adequacy of our social security system is urgently needed to ensure everyone can make ends meet, no matter the cost of living.

CAS recommends:

- An immediate uprating of UC and all legacy benefits to present inflation rates and a continuous review of the adequacy of social security payments to ensure they meet everyone's needs.
- Suspending the use of sanctions until the cost of living crisis is over.
- Scrapping the benefit cap and the two-child limit.
- Pausing collection of all DWP and HMRC debts and reducing all other deductions to a 5% maximum until the DWP's debt recovery process can be replaced with a revised system based on a robust holistic affordability check, such as the Common Financial Statement.
- Abolishing the five week wait by converting all Advance Payments at the beginning of UC claims into non-repayable assessment period grants.



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