christians against poverty

CAP

The cost of living: call for evidence

CAP's written evidence to the Work and Pension Comittee's inquiry

June 2022

always hope.

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Questions

1. How effectively will the new Cost of Living Payments protect different types of households from increases in the cost of living?

The new Cost of Living Payments provide significant direct financial help to households unable to cope with rising costs UK-wide. It is especially welcome that three quarters of the total spend is targeted at vulnerable households, that people in receipt of legacy benefits will also benefit, and a commitment has been made to full up-rating in April 2023, including the triple lock for pensions.

These emergency measures will help to meet people's needs right now and buys some time, but they do not address the underlying reasons why people's incomes are inadequate, including benefit debt deductions, the benefit cap, the two child limit, and frozen Local Housing Allowance. While technically worth more than benefits uprating, a one-off £650 is less than the amount lost by households when the Universal Credit uplift ended, and will not be received by low paid individuals not eligible for means-tested benefits.

The total package of £1,200 is equivalent to £100 per month. Some of the households accessing support through Christians Against Poverty have much higher deficits, sometimes of several hundred pounds every single month. The simple truth is that while more generous, even these payments will fail to keep many out of destitution. This is especially the case for families or individuals with large energy needs due to health, disability or inefficient housing, as well as carers, low paid working households not entitled to social security help, and lone parents who are not the main caregiver but have shared custody.

Case study - Richard*
Richard previously worked on oil rigs for 26 years but an accident meant he could no longer continue in this work, and instead he became a taxi driver. He then suffered further problems with his spine after a car accident which has meant he is now unable to work. Living on Universal Credit and Personal Independence Payment, it is difficult to make ends meet and debt spiralled due to not having enough money to get by each month.

Even with the Government support package Richard has had to cut back on essentials in order to make ends meet, and is concerned that while the payments will be helpful in the months they are received, that will not solve his ongoing financial issues. Richard has recently sold his car due to rising fuel costs, reduced his meals to one a day, and vastly reduced his energy usage in spite of his health challenges. Even with these drastic cutbacks Richard is set to face extreme difficulty this winter.

He said: 'I'm really frightened about the gas bill coming now. I don't have it on at all now but I still pay about £45 a month. When winter comes everything is going up by another 40% – that will be the end of us.'

*names have been changed

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Case study - Danny*
Danny got into debt after he was discharged from the army due to Post-Traumatic Stress-Disorder (PTSD). His father also died suddenly and Danny's marriage broke down leading to a mental breakdown. He was referred to Christians Against Poverty (CAP) by a veteran's charity and he is now in the process of going through a Debt Relief Order, a form of insolvency for people on low incomes and without assets.

His budget is not sustainable as he is living on basic Universal Credit for a single person, whilst also looking after his two young sons for three or four days a week. Danny does not qualify for child support because he is not the main carer, in spite of his children staying with him on a regular weekly basis. The cost of child care, along with Government debt deductions from his Universal Credit, means that Ricky needs an additional £170 per month in order for his budget to balance.

Rising energy costs mean that Danny is worried about the future and he isn't sure how he will cope. He has been unable to go food shopping in the last couple of months and has relied on support from his CAP Debt Coach and different organisations to feed himself and his children. This has a significant impact on Ricky's mental health, especially in relation to his children. He said: 'I am expected to feed and clothe them but I can't afford to do it. Not being able to treat them wears me down so much. It is one of the main issues with my mental health – they don't understand why daddy can't treat them and it hurts me mentally.'

As a parent of two young children who does not receive child benefit and who experiences benefit deductions, Ricky is not receiving the Government support he needs to weather the cost of living crisis.

*names have been changed

2. What approach should the Government take to the uprating of benefits and state pensions in future years?

The Government should review the approach to uprating of benefits following April 2023 to improve the responsiveness of social security rates to changes in the cost of living. The current six month lag between the inflation figure used and when the uprating is applied should be substantially reduced. The Government should also commit to commissioning the Office for National Statistics to review whether a specific inflation rate should be used to best reflect the true costs faced by low income families, taking into account the larger proportion of their household spend that food and energy constitute.

The full range of social security levels and limits should also be uprated as standard each year, rather than at the discretion of the Secretary of State. This needs to include the benefit cap, as well as Local Housing Allowance rates reflecting inflation in local market rents.

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3. Following the Chancellor's announcement on 26 May, are there other ways in which the Government should increase support for people on legacy benefits and state pensions ahead of the next scheduled benefit uprating in Spring 2023?

Further help should be extended through six month payment holidays on all types of debt owed to Government, and extra funds for debt write-off through the Household Support Fund. The situation is continuing to evolve and over the months ahead, every effort needs to be made to ensure our most vulnerable households have sufficient means to live.

4. What changes should DWP make to their deductions policies and practices to protect those on Universal Credit and legacy benefits from reduced incomes?

It is now well established that deductions from social security payments are a significant cause and contributor to financial difficulties. 43% of the people who access debt advice from CAP have deductions being taken from their social security payments. That is one in every two of all clients who receive support from social security.

In the immediate term the DWP could increase the availability and access to payment holidays. Currently under Universal Credit a claimant is only allowed one three month payment holiday every 12 months, and are required to provide financial hardship for this to be applied. There are many instances where claimants are rejected their request for a payment holiday or exhaust their access to payment holidays despite being in acute financial hardship. In recognition of this crisis situation the DWP should extend payment holidays to six months as standard, provide these to all claimants who request one, and proactively inform claimants on their Universal Credit journals and collection letters that they are available.

The use of arbitrary deduction rates is also problematic, as does not safeguard claimants from having their payments reduced below subsistence levels. The DWP should review this approach and set repayments based on affordability using a tool such as the Standard Financial Statement which is overseen by the Money and Pensions Service, and widely used in debt advice and financial services when setting debt repayment plans. In the immediate term, the DWP could reduce the deduction rates to alleviate pressure on claimants as they work to adopt an affordability approach.

The deduction rates applied are especially problematic where a claimant is also subject to other welfare policies that reduce their social security payment (such as Local Housing Allowance, the benefit cap and the removal of the spare room subsidy), which the deduction policy does not take into account. Frequently CAP clients are required to pay a rent top-up due to Local Housing Allowance rates, and have 25% of their Standard Allowance deducted before this is accounted for. For instance, someone may have to pay £100 a month from their £370 Standard Allowance to top up their Local Housing Allowance, leaving just £270 a month for all other living costs (without deductions). The deduction rate cap is not applied after this, but before. As such, leaving just £177.50 for all other expenses a each month instead of £202.50. Instead, deduction rates should be applied on the net-Standard Allowance after all other welfare policies are accounted for.

The DWP and other Government departments, could also write-off historic debts to proactively reduce the financial strain on claimants. In particular, Tax Credit debts being

transferred to Universal Credit should be written-off in light of frequency of overpayments arising from the design of Tax Credits and allow claimants to have a fresh start on Universal Credit.

5. How can the Government act to increase Pension Credit take up to help pensioners with rising living costs?

Increasing take-up of Pension Credit should be an important priority for government considering the amount of support that is now passported on Pension Credit, including free TV Licences for over 75s and Warm Home Discount. Awareness and accessibility are both challenges that need to be addressed, and the Government should take steps to increase support available to make an application, including face-to-face and home visiting services.

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About Christians Against Poverty (CAP)

Christians Against Poverty (CAP) is a Christian charity tackling poverty in communities across the UK through free debt help and local community groups. CAP provides award-winning free debt help through local churches. Each church's CAP Debt Centre offers emotional and practical support, while our head office team in Bradford provides bespoke debt advice and a plan to help people get out of debt.

CAP also offers community groups dedicated to tackling poverty at the root. These are run through local churches, and cover topics such as interview skills, applying for a job and writing a CV, how to budget, making money go further and key life skills.

Requests for further information

This response has been written by Rachel Gregory, Senior External Affairs Manager for Christians Against Poverty.

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